Whale
Surg

L.5.2
CONFIDENTIAL

RFD. 98

Board of Governors of the Federal Reserve System
Division of Research and Statistics
International Sections

REVIEW OF FOREIGN DEVELOPMENTS

October 19, 1948

U.S. BALANCE OF PAYMENTS PROSPECTS FOR 1948-49

F. Jaffy and F. M. Tamagna

A review of prospective funds available to foreign countries for financing imports of goods and services from the United States suggests that utilization of such funds may reach $9.0 billion in the last half of 1948, and $9.9 billion in the first half of 1949. On this basis, the total utilization by foreign countries of such funds would amount to $18.4 billion for the calendar year 1948, and to about $19.0 billion for the fiscal year 1949, compared with $20.7 billion in the calendar year 1947. 1/

The following summary table shows the composition of the estimates for the calendar year 1948 and the fiscal year 1949 and compares them with actual figures for 1947:

1/ This study revises and extends the estimates which appeared in this *Review* for June 15, 1948. That earlier article included an estimated figure for the calendar year 1948 of $20.2 billion. The reduction of this estimate to $18.4 billion (as suggested in this article) is due chiefly to lower rates of disbursement by ECA and the Export-Import Bank, and net repayment by foreign governments of U.S. Government short-term advances.

Summary Table

Sources of Financing of United States Exports, 1947-49
(In billions of dollars)

	Calendar 1947 (Actual)	Calendar 1948 (Estimated)	Fiscal 1948-49 (Estimated)
Proceeds from exports to U.S.	8.5	10.0	10.0
U.S. Government aid and loans	5.7	4.9	6.2
U.S. private aid and loans	1.3	1.5	1.6
Lending by International Bank and Fund	.8	.4	.3
Liquidation of gold and dollar assets	4.5	1.6	.9
Total financing available	20.7 1/	18.4	19.0
Adjustment for errors and omissions	- 1.0		
U.S. exports of goods and services	19.7		
Deduct: U.S. imports	8.5		
Surplus on current account	11.3 1/		

1/ Figures do not add to totals because of rounding.

The sum of financing facilities available through the various sources listed provides a basis for estimating the level which U.S. exports may reach during the periods indicated. However, other factors are involved, such as possible changes in prices, availabilities of supplies, and application of export restrictions in the United States, which have not here been taken into account. Furthermore, allowance should be made for "errors and omissions" in the estimates, which have generally, in recent years, kept total exports of goods and services below the total recorded utilization of financing facilities.

Such "errors and omissions" are due to incomplete coverage of various balance of payments items, and may be presumed to include a considerable amount of unrecorded capital inflow from abroad. On the basis of an "errors and omissions" adjustment of $.6 billion in the first half of 1948, it is possible that the allowance for the calendar year 1948 will exceed that for 1947. Making such a rough adjustment for "errors and omissions" in both the latter half of 1948 and the first half of 1949, exports of goods and services from the United States may be estimated to run, in the calendar year 1948, at a rate of between $17 and $17.5 billion, and in the fiscal year 1949 between $17.5 and $18 billion. Exports at these levels would represent a decline from 1947 (a record year) of around $2.5 billion in calendar 1948 and around $2 billion in fiscal 1949.* The contraction would be even greater in the United States export surplus, because of the more rapid increase in U.S. imports; such a surplus would be reduced from $11.3 billion in 1947 to $7.0 - $7.5 billion in calendar 1948 and to $7.5 - $8.0 billion in fiscal 1948-49.

* For discussion of the composition of U.S. export trade, see p. 11 of this *Review*.

It will be noted that the export estimates for the calendar year 1948 imply no substantial change from the first half rate of $17.4 billion. The fiscal year estimates imply some increase in the first half of 1949 above the $17.4 billion rate - an increase which will depend largely on the speeding up of the rate of ECA shipments, to which reference is made below.

Detailed breakdowns are given in the attached tables, which show actual figures for 1947 and the first half of 1948, and estimates for the last half of 1948 and the first half of 1949. Table I lists the various sources of export financing by category; Table II gives details of the items included in "United States Government Aid and Loans."

A. Proceeds from U.S. Imports of Goods and Services

U.S. imports of goods from foreign countries in the first half of this year were at a record level,* although well below the prewar relationship to national income. Despite a slight decline from the first to the second quarter of 1948, it may be anticipated that imports will continue at a high rate throughout the fiscal year 1948-49. While there is little basis for estimating payments for services, it may be assumed that payments on account of income on investments will continue at present rates, and that other service payments may show a slight increase due to seasonal foreign travel and possibly rising shipping expenditures. On this basis, U.S. payments for imports of goods have been estimated at $7.5 billion in both 1948 and 1948-49, payments for investment service at $.3 billion in each period, and payments for other services at $2.3 billion in each period.

B. U.S. Private Aid, Loans and Investments

It is estimated that private remittances will run in the second half of 1948 and the first half of 1949 at an annual rate of around $.6 billion. This figure would represent a decline from the rate prevailing in the first half of 1948, though it would be higher than the figure for 1947. It is expected that a contraction in private aid to Europe will be partially offset by increases in private aid to other areas.

Long and short-term private capital export in the second half of 1948 may be expected to be higher than in the first half, due largely to the inclusion of $150 million of Canadian bonds sold to U.S. insurance companies. U.S. direct investments will probably continue at high levels, although they may not reach the record levels of 1947. Short-term private lending will probably contract in the second half of 1948 from the high figure of the first half, but may still run throughout the year at a higher rate than in 1947. This item consists of advances by U.S. commercial banks and others, as well as of loans on gold by the Federal Reserve Bank of New York. In the first half of 1949 it is assumed that the flow of long and short-term private capital will continue at the same rate as in the second half of 1948 ($.5 billion).

---

* For discussion of the composition of U.S. import trade, see p. 11 of this Review.

C. International Fund and Bank Lending

Sales of dollars by the International Monetary Fund in the first half of 1948 amounted to $154 million, most of which took place in the first quarter. As a result of the policy decisions announced by the Fund in April limiting dollar drawings by ERP countries, no such drawings have been effected since that time. However, countries not participating in the European Recovery Program are likely to make larger use than heretofore of the Fund's dollar resources in the first half of next year. Prospective dollar drawings are estimated at $45 million for July-December 1948 (or about $200 million for the calendar year) and at $180 million for the period January-June 1949.

The International Bank disbursed $164 million in dollars during the first half of 1948. As of June 30, 1948, undisbursed commitments amounted to $43 million and dollar resources to $520 million. Since that time, loan commitments were entered into for $12 million to the Netherlands.1/ Further loan discussions are now in progress, but it is anticipated that disbursements under both old and new loans will be slow, amounting to no more than perhaps $20 million in the second half of 1948 and $60 million in the first half of 1949.

D. Liquidation of Foreign Assets

Total liquidation of foreign gold and dollar assets (both long and short-term) in 1948 may be estimated at $1.6 billion, and in fiscal 1949 at about $.9 billion, both of which amounts fall far short of the 1947 figure of $4.5 billion.

It is estimated that gold sales to the United States by foreign countries may amount to about $.5 billion from July to December, 1948, and to about $.4 billion from January to June, 1948; and that dollar bank balances may be accumulated by foreign countries to the extent of around $100 million in the last half of this year, and of $130 million in the first half of next. These estimates are the result of a country-by-country analysis based on the need, ability, and probable willingness of foreign countries to use or accumulate monetary reserves. It will be noted that the estimated rate of gold sales represents a substantial decline from the first to the second half of 1948, and a further decline in the first half of 1949; and that the rise in foreign dollar balances with U.S. banks which began in the first half of the year is assumed to continue, though at a slower pace, through the current fiscal year.

Liquidation by foreigners of securities and other long-term assets held in the United States may also be expected to decline sharply from the levels of the first half of 1948. The large liquidation which occurred in the first half was due to the announced U.S. Government program of vesting private dollar assets which remained blocked as of June 1, 1948.

1/ The International Bank sold to U.S. banks $8 million of bonds purchased in connection with this loan.

E. U.S. Government Aid and Loans

The estimates given in Table II are based on anticipated expenditures from existing appropriations, unused credit balances, or new credits likely to be extended under existing lending authority. (No allowance has been made for additional deficiency appropriations which may be passed by Congress before the end of the current fiscal year.)

1. European Recovery Program

It is estimated that expenditure of funds under the European Recovery Program may amount to $1,425 million in July-December, 1948, and to $2,400 million in January-June, 1949. This results in a total of $1,630 million for calendar 1948 and of $3,825 million for fiscal 1949.

These estimates are based on an examination of the available data in regard to allocations, procurement authorizations, shipments, and payments, under this program. These data, together with projections, are shown in Table III.

Quarterly allocation figures represent the cumulative amount of the funds allotted by ECA to all participating countries (in the form of both grants and loans) from the beginning of the program (April 3, 1948) to the end of the quarter indicated. Procurement authorization figures indicate the total value of goods whose purchase has been authorized by ECA as of the indicated date. The "shipments" series is compiled by ECA from figures of (a) approved payments to ERP countries for reimbursement of programmed imports, which the country concerned had financed with its own funds; (b) approved payments to American commercial banks, which had extended credits to ERP countries under letters of commitment issued by ECA; and (c) shipments made by U.S. Government agencies to ERP countries on ECA account. The "payments" column represents expenditures reported in the daily statement of the United States Treasury, made for the account of ECA. There is, of course, a lag from each series to the next. For estimating the balance of payments, the ECA "shipments" series appears to be the most appropriate, since it comes closest to representing U.S. exports directly or indirectly financed by ECA.

It will be noted that an increasing rate of shipments is assumed for the remaining months of this year and the first half of next year. This increase over the rate prevailing thus far is in line with the gradual expansion and increasing efficiency of ECA operations. In this connection, importance may be attached to changes in programming procedure, announced on September 10, whereby allocations and authorizations issued in a given quarter may cover shipments extending into the two succeeding quarters, and broader authority to use ECA funds is given to ERP countries. In accordance with these new rules, the allocation for the fourth quarter of 1948 is considerably larger than previous allocations.

It may be pointed out that shipment figures cover procurement not only in the United States but also "offshore." This should not result in an overstatement of the total amount of financing of U.S. exports: To the extent that "offshore" purchases financed by ECA are not currently reflected in purchases by the "offshore" countries from the United States, the ECA payments would add to the dollar balances of such countries, and hence either reduce the overall utilization or increase the overall accumulation of dollar balances held by foreign countries.

2. U.S. Grants (excluding those under the European Recovery Program)

It may be estimated that net extension of grants by the U.S. Government (excluding the European Recovery Program) during the remainder of 1948 may amount to around $1.2 billion, or around $2.7 billion for the calendar year; and to about $1.0 billion for the first half of 1949, or $2.2 billion for the fiscal year.

The unused balances of UNRRA, post-UNRRA and Interim Aid funds are small and will be exhausted during the remainder of 1948.

On the basis of the rate of past utilization of funds made available by the United States Government for Government and Relief in Occupied Areas, it is estimated that funds now available under this item will be exhausted by June 1949; the rate of expenditures is estimated at $700 million in the last half of 1948 and $600 million in the first half of 1949.

Unilateral transfers to the Philippines, including payments under the Philippine War Damage and Rehabilitation Act, payments on account of U.S. Army claims, and veterans' pension payments, are estimated at $155 million for July-December, 1948 and $100 million for January-June, 1949.

Greek-Turkish aid funds appropriated under the original Greek-Turkish aid bill of 1947 were disbursed slowly at first, but at an accelerated rate in the first half of 1948. It is assumed that both the 1947-48 and the 1948-49 funds will be exhausted by June 1949 by the expenditure of $200 million in the second half of this year and about $120 million in the first half of next.

The Chinese aid appropriation is divided into two parts: $275 million is being expended for goods of a non-military nature, under ECA supervision; and $125 million is being disbursed to China for other purchases, both for reconstruction and military purposes. Shipments reported by ECA reached the figure of $84 million on September 30, and disbursements of other funds by the United States Government is also proceeding rapidly, $88 million having been spent as of October 3, suggesting that the full $400 million of the Chinese aid will be spent by (or before) June 1949.

The item of net "receipts" by the United States consisted in 1947 largely of receipts from lend-lease settlements and "purchases" of goods abroad by the Army, paid for through the issuance of special local currency.

This latter item represents most of the January-June 1948 figure of $157 million; figures of $150 million have been projected for the two half-year periods to June 1949.

3. U.S. Loans (other than under the European Recovery Program)

Net United States Government lending in the second half of 1948 has been estimated at $24 million, making about $580 million in the calendar year; and in the first half of 1949 it has been placed at about $190 million, making about $215 million for the fiscal year.

The Export-Import Bank as of June 30, 1948, had undisbursed commitments of $643 million and an uncommitted lending authority of $628 million. Gross disbursements during the coming fiscal year are expected to be considerably below recent levels. Moreover, repayments will be exceptionally large in the second half of 1948 due to the repayment by Canada of $140 million, making the net disbursement figure negative in that period. Net disbursements in the first half of 1949 will probably amount to about $130 million.

The utilization of surplus property credits may be expected to be small in the current fiscal year, in view of the small remaining inventory of such property. The estimate for the remainder of the year for utilization of credits extended by both War Assets Administration and Office of the Foreign Liquidation Commissioner is $30 million, with a similar amount for the first half of next year.

While it is difficult to estimate the possible rate of use of the $150 million Revolving Fund for financing the import of raw materials into Germany and Japan, a possible figure might be in the neighborhood of $75 million for the remainder of the fiscal year.

Other United States Government lending (mostly on short-term) includes loans made by the United States Stabilization Fund, commodity advances to occupied areas, and the accumulation (or liquidation) of foreign currency balances. These items are difficult to estimate, and a nominal total of $10 million net has been used for each half of the current fiscal year.

United States Government receipts (other than Export-Import Bank and short-term receipts) will consist chiefly of repayment of surplus property credits.

Table I

Sources of Financing of United States Exports
(In billions of dollars)

	1947 Actual	Jan.-June 1948 Actual	July-Dec. 1948 Estimated	Calendar 1948 Estimated	Jan.-June 1949 Estimated	Fiscal 1949 Estimated
Imports of Goods and Services						
Goods (recorded and unrecorded)	6.1	3.7	3.7	7.5	3.7	7.5
Income on investments	.2	.1	.1	.3	.1	.3
Other services by foreigners	2.2	1.1	1.2	2.3	1.2	2.3
Total goods and services	8.5	5.0*	5.0	10.0*	5.0	10.0*
U.S. Private Aid, Loans, and Investments						
Remittances	.6	.3	.3	.6	.3	.6
Loans and investments, long-term	.5 1/	.2	.5	.9	.5	1.0
Loans, short-term	.2	.2				
Total	1.3	.8*	.8	1.5	.8	1.6
U.S. Gov't Aid and Loans (from Table II)						
European Recovery Program	–	.2	1.4	1.6	2.4	3.8
Other grants	1.8	1.5	1.2	2.7	1.0	2.2
Other loans (long and short-term)	3.9	.6	– 2/	.6	.2	.2
Total	5.7	2.2*	2.7*	4.9	3.5*	6.2
International Lending						
International Monetary Fund	.5	.2	– 2/	.2	.2	.2
International Bank	.3	.2	– 2/	.2	.1	.1
Total	.8	.3*	.1*	.4	.2*	.3
Liquidation of Foreign Accounts						
Gold	2.8	.9	.5	1.4	.4	.9
Dollar bank balances 3/	1.2	–.2	–.1	–.3	–.1	–.2
Short-term claims on U.S. Government	.3	.2	– 2/	.2	– 2/	.1
Long-term investments	.2 4/	.2	.1	.2	.1	.1
Total	4.5	1.0*	.5	1.6*	.4	.9
Total Financing Available	20.7*	9.3	9.0	18.4	9.9	19.0
Exports of Goods and Services						
Goods (recorded and unrecorded)	16.1	7.0				
Income from investments	1.1	.5				
Other services to foreigners	2.6	1.2				
Total goods and services	19.7*	8.7				
Errors and omissions	1.0	.6				
Export surplus	11.3*	3.7				

* Figures do not add to totals because of rounding.
1/ Excluding sale in U.S. market of International Bank debentures.
2/ Under $50 million.
3/ Excluding changes in balances of international institutions.
4/ Excluding purchase of domestic securities by international institutions.

Table II

United States Government Aid and Loans
Actual and Estimated Expenditure 1/
(In millions of dollars)

	1947 Actual	Jan.-June 1948 Actual	July-Dec. 1948 Estimated	Calendar 1948 Estimated	Jan.-June 1949 Estimated	Fiscal 1949 Estimated
U. S. Grants						
UNRRA and post-UNRRA	788	95	10	105	-	10
Relief in occupied areas	980	641	700	1,341	600	1,300
Philippine war damage and rehabilitation	96	45	155	200	100	255
Greek-Turkish aid	74	211	200	411	119	319
Interim aid	12	496	14	510	-	14
International Refugee Organization	17	58	50	108	15	65
International Children's Fund	-	18	-	18	17	17
Aid to China	-	1	199	200	200	399
Other	305	53	50	103	50	100
Total	2,272	1,618	1,378	2,996	1,101	2,479
Receipts	460	157	150	307	150	300
Net Total	1,812	1,461	1,228	2,689	951	2,179
European Recovery Program	-	205	1,425	1,630	2,400	3,825
U. S. Loans						
U. K. loan	2,850	300	-	300	-	-
Surplus property credits	120	177	30	207	30	60
Ship sale credits	154	43	-	43	-	-
Export-Import Bank 2/						
Gross	(796)	(315)	(188)	(503)	(188)	(376)
Repayments	(73)	(44)	(194)	(238)	(54)	(248)
Net	723	271	-6	265	134	128
Revolving Fund for imports of raw materials into occupied areas	-	-	25	25	50	75
Other long-term	80	8	) 10	) -189	) 10	) 20
Other short-term 3/ (net)	72	-207	)	)	)	)
Total	3,999	592	59	651	224	283
Other receipts	101	37	35	72	35	70
Net Total	3,898	555	24	579	189	213

1/ The seeming exactness of some of the estimates in this table is due to the addition of actual figures and approximate estimates, or to the assumption in some cases that the amount of funds available will be fully used.

2/ Does not include disbursements by commercial banks at Export-Import Bank risk.

3/ Including short-term dollar and foreign currency operations of Government agencies.

CONFIDENTIAL

Table III

EUROPEAN RECOVERY PROGRAM

Allocations, Procurement Authorizations, Shipments and Payments
(Cumulative figures, in millions of dollars)

		Allocations 1/	Procurement authorizations			Shipments	Payments (As reported in Treasury Daily Statement)
			Total	United States	Offshore		
1948:	April	)	57.6	*	*	-	
	May	) 1,316.7	238.4	*	*	*	.8
	June	)	738.5	*	*	203.6	134.3
	July	)	2/ 882.4	453.7	334.5	365.5	317.0
	August	) 2,540.6	2/ 1,292.0	620.8	503.4	530.5	509.4
	September	)	2/ 1,930.3	957.2	749.6	767.1	705.8
	October	)				Est. 1,000.0	
	November	) 4,309.6				" 1,275.0	
	December	)				" 1,630.0	
1949:	January						
	February						
	March					" 2,780.0	
	April						
	May						
	June					" 4,030.0	

* Not available.

1/ Excluding $55 million of Interim Aid funds whose expenditure will not be handled by the ECA.

2/ Total exceeds sum of U.S. and offshore procurement authorizations due to lack of information on allocation of ocean and inland freight.

U. S. EXPORTS AND IMPORTS IN FIRST HALF OF 1948

Gretchen H. Fowler

U. S. merchandise trade during the first half of 1948 resulted in an export surplus 40 per cent less than that recorded in the first six months of 1947. A decline in the value of exports by $1,400 million (about 18 per cent) and an increase in imports by $600 million (22 per cent) were responsible for the sharp cut in the trade surplus. 1/ The decline in exports was general for all areas. Since export prices were 10 per cent higher in 1948 than in 1947, the drop in export volume amounted to about 25 per cent. On the import side, the record import value was due in the main to rising prices although the 1948 volume index was 9 per cent above the 1946 and 1947 levels.

Merchandise exports for the January-June period amounted to $6,557 million in 1948 compared with the record of $7,960 million in 1947 and with $4,769 million in 1946. 2/ Imports were valued at $3,486 million in the first half of 1948 compared with $2,861 million in 1947 and $2,286 million in 1946. Exports thus exceeded goods imports by $3,071 million in 1948 compared with $5,099 million in 1947 and $2,483 million in 1946.

While the declining trend in U. S. exports which occurred in the first half of 1948 is expected to be halted in the second half, as heavier shipments are made under the ECA program, export values in the second half seem unlikely to approach the monthly average of $1,230 million reached in the last half of 1947. The fact that the July value of exports amounted to $1,022 million and August shipments to $988 million supports this suggestion. On the import side, prospects for the rest of the current year are for a continuation of the level reported during the first six months of 1948. The monthly average of $580 million for the January-June period compares with July imports of $559 million and the August total of $598 million.

Trade by Areas

The decline in U. S. exports from 1947 to 1948 was general and not limited to certain countries or areas. The drop, which ranged by area between 2 and 60 per cent, reflects in the main growing dollar difficulties of virtually all countries. The main exception is the decline of 60 per cent in exports to non-ECA European countries; this drop is due primarily to the ending of UNRRA shipments and to export controls. The decline in shipments to ECA countries was about 21 per cent compared with a drop of 12 per cent for areas outside of Europe. The severe curtailment in exports to Australasia is the result of the considerable efforts made by these British Commonwealth countries to reduce the dollar drain on Britain from the "sterling area." The South American reduction reflects the fact that war-accumulated dollar balances had been virtually absorbed by the heavy 1946 and 1947 purchases. These changes are summarized in Table I, and individual figures for some leading countries appear in the appended Table V.

1/ An earlier article on the reduction in U. S. exports and the increase in imports, based on data for January and February 1948, appeared in the May 4, 1948 issue of this *Review*.
2/ All export figures in this paper for 1947 and 1948 include shipments under the Department of the Army's Civilian Supply Program.

Table I
United States Exports, by Area,
January-June, 1947 and 1948

Area	1947	1948	Per cent change
	(In millions of dollars)		
ECA countries (including Turkey)	2,808	2,206	-21
Other Europe	295	118	-60
Total Europe (excluding Turkey)	3,055	2,271	-26
North and Central America	1,919	1,687	-12
South America	1,219	1,046	-14
Asia	1,216	1,073	-12
Australasia	138	76	-45
Africa	413	405	-2
Total	7,960	6,557	-18

The distribution of export trade in 1948 resembled, in general, the pattern of the previous year. The 4 per cent drop in Europe's proportion of the total is mainly due to reduced exports to non-ECA European countries. Compared with the distribution in the first six months of 1938, however, significant changes are apparent. The substantial reduction in the importance of European export markets is accounted for by reduced movements to both ECA and non-ECA countries. The 6 per cent rise in Latin America's share in total exports reflects in part continued heavy demand for finished manufactures, especially machinery and automotive equipment.

There were even greater changes in the distribution of American imports in 1948 compared with 1938. Many Latin American commodities which are now at unusually high prices contributed to the increased importance of South America as a U. S. supplier in the postwar period. The reduced importance of Europe is attributable mainly to the fact that the volume has not recovered to prewar levels. The sharp increase in the North and Central American share reflects the success of Canada's dollar export drive and heavier U. S. imports of petroleum from the Caribbean area. The substantial decline in shipments from Asia reflects mainly curtailed imports from Japan and the Netherlands East Indies. Import figures for individual countries appear in Table VI.

Table II

United States: Distribution of Exports and Imports by Area, January-June, 1938, 1947, and 1948
(In per cent)

	Exports			Imports		
	1938	1947	1948	1938	1947	1948
ECA countries (incl. Turkey)	38	35	34	22	12	13
Other Europe	5	4	2	5	3	3
Total Europe (excl. Turkey)	42	39	35	27	13	15
North and Central America	24	24	26	25	37	35
South America	10	15	16	14	21	23
Asia	17	15	16	30	20	19
Australasia	3	2	1	1	4	2
Africa	4	5	6	3	5	6
Total	100	100	100	100	100	100

Trade by Commodities

The sharp increase in the relative importance of finished manufactures among United States exports, reflected in a comparison of 1947 with 1946 figures, continued further in 1948. Exports during 1948 of machinery and equipment and other durable goods were well above amounts shipped during the first half of 1946, as is emphasized by the detailed data in Table VII. At the same time there was a continuing decline in the relative importance of exports of manufactured foodstuffs and of crude materials. This trend reflects progress from the immediate post-war requirements for relief goods to the current emphasis on rehabilitation needs, as well as the stringent restrictions put in effect in 1947 and 1948 in many countries against imports of consumers goods. Despite this trend, however, exports of crude foodstuffs maintained their relative position due mainly to large wheat shipments to relieve the world grain shortage.

On the import side, sharp changes in the import pattern between 1946 and 1948 were confined to an increase in semi-manufactures and a decrease in the relative importance of crude materials. The main increases in the semi-manufactures group were in wood pulp, copper, lumber, gas and fuel oil, and tin. In the crude materials group, increases were reported in most lines but sharp drops occurred in silk, undressed furs, unmanufactured cotton and tobacco imports, as shown in Table VIII.

Table III

United States: Distribution of Exports and Imports by Economic Classes
January-June, 1946 to 1948
(In per cent)

Economic class	Exports 1946	Exports 1947	Exports 1948	Imports 1946	Imports 1947	Imports 1948
Crude materials	14	11	10	36	33	31
Crude foodstuffs	8	8	9	18	18	18
Manufactured foodstuffs	19	12	11	10	11	10
Semi-manufactures	9	11	11	19	21	23
Finished manufactures	50	58	59	17	17	18
Total	100	100	100	100	100	100

Price and Volume Changes

The rise in the price of American exports continued in 1948 but there was a sharp reduction in volume compared with the previous year. The sharpest price rises, as measured by the unit value index, were in crude materials and crude foodstuffs. All categories showed significant drops in volume compared with 1947. For crude materials and for manufactured foodstuffs, 1948 volume was also below 1946. The breakdown by classes is shown in Table IV.

Table IV

United States: Indices for Unit Value and Physical Volume of Exports and Imports, by Economic Classes, January-June, 1947 and 1948 1/
(January-June, 1946=100)

Economic class	Exports Volume 1947	Exports Volume 1948	Exports Unit Value 1947	Exports Unit Value 1948	Imports Volume 1947	Imports Volume 1948	Imports Unit Value 1947	Imports Unit Value 1948
Crude materials	104	70	128	146	101	108	111	122
Crude foodstuffs	167	118	111	137	86	94	149	168
Manufactured foodstuffs	83	61	132	137	107	113	127	131
Semi-manufactures	152	115	129	146	109	126	131	150
Finished manufactures	165	128	118	128	95	110	129	145
Total	140	105	122	134	99	109	126	140

1/ Calculated from Department of Commerce indices published in Monthly Summary of Foreign Commerce.

By contrast, both rising prices and heavier volume contributed to the record 1948 value of imports. The volume and the unit-value index each rose by about 10 per cent between 1947 and 1948. This relation sharply differs from the 1947 position where import volume declined 1 per cent below 1946 and the increase in dollar value was due entirely to a 26 per cent price rise. In fact, price has been much more important than quantity in achieving the record post-war U.S. import totals. While import value in the first half of 1948 was almost four times that of the first half of 1938, this resulted from increases of 135 per cent in prices and 56 per cent in quantity. The quantity of imports in the first half of 1948 in the major import categories, expressed as percentages of the import volume in the first half of 1938, were as follows:

Crude materials	193
Crude foodstuffs	136
Manufactured foodstuffs	97
Semi-manufactures	203
Finished manufactures	122
Total	156

Commodity and Country Data

The following four tables present selected U.S. exports and imports by country and by commodity for the first six months of 1948, showing changes in value from the first half of 1947 and 1946. In each table, the countries or commodities for which individual figures are shown are those for which the 1948 figures show the largest changes from 1947 or 1946.

Table V

United States Exports to Selected Countries
January through June
(In millions of dollars)

Continent and country	1948		Increase or decrease (-) as compared with: 1947		1946	
1. North America	1,686.9		-232.1		607.9	
Canada		918.1		-124.8		328.1
Cuba		233.3		-11.7		105.8
Mexico		265.8		-58.9		48.9
2. South America	1,045.9		-173.2		535.2	
Argentina		260.4		-52.8		194.1
Venezuela		254.1		39.3		153.6
Brazil		263.7		-90.5		105.7
Colombia		116.8		-1.3		46.1
3. Asia	1,073.2		-142.8		439.1	
Japan		133.6		-42.2		105.6
Republic of the Philippines		246.0		25.6		98.1
India and Pakistan		155.8		-75.7		82.3
British Malaya		51.5		23.5		44.4
China		153.0		-83.0		-96.4
4. Africa	404.6		-8.5		135.5	
Union of South Africa		243.0		33.2		135.0
5. Europe	2,271.1		-784.3		55.8	
Germany		454.4		168.2		432.5
Netherlands		153.0		-39.9		68.5
Austria		74.6		29.8		54.9
Switzerland		88.5		-4.1		40.1
Italy (including Trieste)		242.6		-50.0		32.1
Norway		39.5		-41.5		4.1
Belgium and Luxembourg		152.8		-83.8		3.5
Sweden		70.5		-153.7		-18.5
Czechoslovakia		14.4		-21.3		-47.9
France		369.4		-89.2		-72.4
Yugoslavia		3.5		-22.5		-90.2
Poland and Danzig		32.4		-34.4		-90.6
United Kingdom		313.8		-298.0		-108.4
U.S.S.R.		25.1		-66.7		-198.2
6. Australia and Oceania	75.6		-62.0		14.7	
Australia		55.0		-48.7		11.7
16 ECA countries and Germany	2,206.3		-601.9		522.2	
Total	6,557.3		-1,402.8		1,788.2	

Table VI

United States Imports from Selected Countries
January through June
(In millions of dollars)

Continent and country	1948		Increase or decrease (-) as compared with: 1947		1946	
1. North America	1,219.3		155.1		460.5	
Canada		682.8		171.3		290.6
Cuba		197.5		-63.6		42.1
Curacao		62.3		24.9		40.8
El Salvador		26.8		4.7		21.2
2. Asia	665.2		93.5		270.8	
Republic of the Philippines		124.7		38.8		117.3
British Malaya		134.9		-37.6		97.1
India and Pakistan		164.5		40.2		36.2
Siam		23.5		19.2		23.0
Netherlands Indies		23.4		2.2		18.3
China		56.5		-14.2		15.5
Afghanistan		24.4		22.6		8.1
Turkey		24.4		-11.3		-15.2
Japan		25.5		9.8		-15.6
French Indo-China		1.1		-2.0		-18.0
3. South America	786.9		186.7		258.0	
Venezuela		137.4		52.8		82.2
Chile		95.1		40.2		50.3
Brazil		247.1		42.4		47.4
Colombia		106.2		3.5		39.7
Argentina		111.1		21.6		19.4
Uruguay		44.2		27.8		13.5
4. Europe	522.9		142.2		145.0	
United Kingdom		138.5		37.4		63.2
Sweden		56.2		21.6		32.7
Finland		23.1		12.1		20.2
Italy (including Trieste)		43.6		22.1		15.2
U.S.S.R.		36.0		3.5		-21.2
5. Africa	210.2		66.6		61.0	
Gold Coast		47.3		23.1		32.9
Nigeria		23.5		-1.6		15.3
Union of South Africa		65.9		28.2		-6.5
6. Australia and Oceania	81.8		-19.0		4.8	
Australia		65.8		-16.8		3.2
16 ECA countries and Germany	453.8		115.2		137.2	
Total	3,486.1		624.9		1,199.9	

Table VII

United States Exports of Selected Commodities
January through June
(In millions of dollars)

Class and commodity	1948		Increase or decrease (-) as compared with: 1947		1946	
1. Finished manufactures	3,816.8		-709.1		1,484.1	
Equipment:						
Industrial machinery		675.2		6.5		260.6
Merchant vessels		202.7		-192.7		185.5
Electrical machinery and apparatus		273.2		-6.1		144.3
Agricultural machinery and implements		196.8		46.0		129.1
Passenger cars (new)		143.5		-22.8		115.5
Motor trucks and busses (new)		178.5		-53.2		82.2
Steel mill manufactures		180.3		-4.3		76.3
Iron and steel advanced mfrs.		117.0		-14.9		44.8
Auto. parts for replacement		76.7		-4.5		34.5
Office appliances		48.3		-1.8		27.2
Consumer goods:						
Cotton manufactures		254.5		-148.6		87.3
Rayon, nylon, and other synthetic textile mfrs.		109.9		-49.5		49.8
Wool manufactures		16.3		-28.4		-42.9
Other goods:						
Lubricating oil		104.3		5.5		48.0
Rubber manufactures		67.4		-46.2		4.7
Synthetic rubber		1.8		-3.0		-25.5
2. Semi-manufactures	737.9		-130.6		297.0	
Iron and steel semi-manufactures		171.8		-44.7		63.3
Copper (ingots, billets, plates and rods)		38.5		12.4		30.4
Industrial chemicals		74.2		3.0		30.2
Coal tar products		58.8		.2		26.9
3. Crude foodstuffs	568.0		-85.6		214.8	
Wheat		412.9		175.9		194.4
Corn		10.2		-201.0		-7.9
4. Crude materials	657.0		-204.2		17.2	
Coal		218.2		-40.7		111.4
Crude petroleum		55.3		12.5		26.3
Cotton, unmanufactured		220.3		-85.9		-29.2
Tobacco, unmanufactured		80.9		-65.0		-90.8
5. Manufactured foodstuffs	715.1		-229.5		-145.6	
Wheat flour		259.9		-101.3		162.3
Dairy products		87.1		-26.8		-87.1
Meat products		30.0		-67.8		-213.3
Total	6,494.8		-1.359.0		1,867.5	

Table VIII

United States Imports of Selected Commodities
January through June
(In millions of dollars)

Class and commodity	1948	Increase or decrease (-) as compared with: 1947	1946
1. Semi-manufactures	780.9	187.8	367.6
Wood pulp	149.4	41.8	87.8
Copper	86.5	29.6	52.8
Sawed boards, planks, deals, etc.	70.8	26.8	41.9
Gas and fuel oil	66.4	24.8	41.8
Tin	45.0	41.7	39.4
Expressed oils, inedible	33.8	-35.6	26.0
Diamonds, cut but not set	27.5	9.0	-40.3
2. Crude materials	1,064.2	150.7	256.1
Mineral products:			
Crude petroleum	125.1	48.3	78.5
Nonferrous ores	49.6	6.0	20.2
Agricultural products (except fibers)			
Oilseeds	88.8	9.1	69.7
Crude rubber	145.8	-59.3	52.4
Hides and skins	67.8	27.0	40.6
Tobacco, unmanufactured	39.2	-20.7	-11.7
Undressed furs	83.7	29.5	-34.7
Fibers:			
Other vegetable fibers	37.3	7.5	24.5
Wool, unmanufactured	178.6	55.6	23.1
Raw silk	5.9	-4.0	-55.6
3. Crude foodstuffs	632.6	117.5	232.0
Coffee	353.8	56.2	125.8
Cocoa or cacao beans	116.0	38.1	84.7
4. Finished manufactures	614.2	147.1	231.5
Newsprint	196.3	39.3	93.4
Machinery and vehicles	71.8	38.1	51.8
Non-commercial imports	40.8	14.9	28.9
Burlaps	63.3	20.8	15.9
5. Manufactured foodstuffs	341.3	24.9	108.6
Cane sugar	155.1	-52.5	54.3
Meat products	27.3	19.9	20.8
Total	3,433.2	628.0	1,195.8

SOME RECENT DEVELOPMENTS IN FRENCH FINANCE AND CREDIT POLICY

Robert V. Rosa and
Albert O. Hirschman

(This is a preliminary note based on observations and discussions of Mr. Hirschman and Mr. Rosa during their recent stay in Paris. In particular, the section dealing with the operation of the new French credit policy reflects extensive conversations at the Bank of France and the National Credit Council.)

I. Favorable Developments in the first half of 1948

During the past months there has been a striking contrast in France between physical recovery, on the one hand, and political and financial instability, on the other. Industrial production has shown remarkable increases during the first half of 1948. For the six-month period it exceeded the average 1938 level by about 10 per cent. The advance in steel production from an average monthly output of 470 thousand tons in 1947 to an average of 600 thousand tons during the first 7 months of 1948 was particularly encouraging. At the same time, excellent weather conditions had assured a good harvest, in contrast with the catastrophe of the previous year.

The uncertainty as to essential foreign exchange resources, which beset the economy during much of 1947, had largely been removed through the aid forthcoming under the Interim Aid and European Recovery Programs. Furthermore, the series of financial and monetary measures taken by Finance Minister Mayer in December 1947-January 1948 undeniably had a measure of success. He instituted a compulsory loan, levied on an income tax basis, which yielded about 85 billion francs during the first 6 months of 1948 and resulted, in conjunction with other measures, in a Treasury cash surplus during that period. The temporary blocking of 5,000-franc notes, and the accumulation of the local currency counterpart of American aid, also exerted a deflationary influence during this period. Most prices remained relatively stable from February through June. The seasonal rise in food prices, which usually takes place in the spring, was much less than in the three preceding years when it had regularly started a new upward turn of the wage-price spiral.

II. Renewed outbreak of inflation in the Summer

Despite these favorable developments, inflation had apparently resumed its course by midsummer 1948. Wholesale food prices rose by 10 per cent from July to August and the retail price index for the Paris region rose 9 per cent in August and a further 7 per cent in September. There are several reasons why why the spring lull was not sustained. The most important one is possibly the political crisis itself which dragged on for two months and produced a grave feeling of insecurity among all groups in the country. But several more narrowly economic factors were also significant. With the exhaustion of the impact of the loan levy and with the unblocking of accounts created by the call-in of large denomination bank notes, public finance once more exerted an inflationary influence. A new program intended to balance public accounts in the second half of 1948 became imperative but could not be formulated without a

Government. As a result the Treasury, which had been able to reduce its advances from the Bank of France by 27 billion francs from December 1947 to June 1948, was forced to resume direct borrowing operations. From June 10 to September 9 these advances had risen 45 billion francs, and the total outstanding was uncomfortably close to the present legal ceiling of 200 billion.

Bank credit to the private sector had continued to expand throughout the first half of 1948, compensating at first for the deflationary influence exerted by public finance, but adding to the inflation when the influence of the public sector again became inflationary. Other specific factors in the situation include the effect of the January devaluation on import prices and, perhaps even more important, the exceptionally good fodder situation which slowed slaughtering substantially and had the effect of increasing the price of meat, widely regarded among French consumers as a barometer of the price level as a whole. Finally the official increase in the price of wheat, from 1,850 francs per quintal in 1947 to 2,300 francs for the current harvest, combined with the plentiful harvest to place a considerable mass of purchasing power in the hands of the farmers. In considerable part, the steep rise in prices paid for gold in the free market can be attributed to the farmers who were eager to place part of their harvest proceeds in gold coins.

III. The Fiscal Measures adopted by the Queuille Government

The main problem facing the French Government in the last half of 1948 was to close a prospective budgetary gap of from 150 to 200 billion francs, not including the investment expenditures which are to be financed by releases from the local currency counterpart of Interim and ERP aid. Although this problem may not appear insoluble with total budgeted expenditures amounting to approximately 1,500 billion francs in 1948, and with national income running at a rate of about 6,000 billion francs in August prices, the French taxation system has been so overstrained in recent years by exceptional measures of all kinds that even a small additional effort presents extreme difficulties. It is hoped that by the end of the year the Ministry of Finance will have prepared a thoroughgoing fiscal reform, which may make it unnecessary to contrive exceptional new measures every six months. The principal purpose of this reform will be (1) to simplify the tax system and thereby release personnel for carrying out adequate controls over the taxpayer's declarations and (2) to lay the basis for the taxation of those classes of French citizens who are at present virtually exempt from taxation, i.e. farmers and small businessmen.

In the meantime the Queuille Government, after the failure of its three predecessors between June and September, has adopted a program which contains a number of different devices. Among the more constructive steps is a reform of the turnover tax which henceforth will not be paid in toto by the final seller of the finished product, but by producers at each stage of production. The turnover tax will thus be placed on a pay-as-you-go basis, making it in effect a tax on value added by manufacture. The tax on income from business is to be raised as well, with rates up 20 per cent over present schedules. In the present inflationary situation such an increase is justified by the fact that business income is not taxed on a pay-as-you-go basis while the tax on wage and salary income is deducted currently at the source.

The gross yield of these and other changes in the basis of taxation, including increased prices for tobacco, gasoline, postal services, railway rates, and other utilities, will be about 120 billion francs during the last three months of 1948. To the extent that the result will be a reduction in the deficit of nationalized concerns, increased prices might perhaps better be regarded as reductions in expenditure for the general fund of the Treasury rather than as new sources of revenue.

In addition to these measures genuine economies are decreed for certain nationalized industries (mines, electricity, gas) where the administrative personnel has expanded beyond justification. In view, however, of the 15 per cent wage and salary increase granted by the Government on September 23 there can be no actual reduction in payroll disbursements. There may, however, be an accidental reduction of disbursements as a result of procedural delays in the payment of war damages, which have been programmed at roughly 140 billion francs, as compared with expenditures of only 37 billion in the first half. In spite of the seasonal nature of these payments, which follow the activity of the building industry with a short lag, it appears unlikely that the full amount appropriated can be spent during the period contemplated.

IV. The New Credit Policy

Possibly the most important and potentially effective measures have been taken in the field of bank credit. To understand these measures it is necessary to recall briefly the preceding attempts at credit control.

The principal obstacle to a consistent credit policy has been the privileged and dominating position of the commercial bill which still today represents two-thirds of all bank financing of business. For inasmuch as bills run for a stated period of a few months, usually less than 90 days, and normally represent the physical movement of goods, the French banking community has considered them as self-liquidating paper, wholly "neutral" in monetary effect. It has only recently been recognized in France--and it is still not realized widely--that bills are also bank credit; and that a continually expanding volume of bills can nourish a monetary inflation quite as easily as can the money which is created through advances or through the use of overdraft facilities.

Consequently, when the National Credit Council was considering new methods for restricting the growth of bank credit to absolutely essential uses, it did not see any necessity to place restrictions upon discounts. The measures adopted on October 10, 1947--which directed banks to refuse credits to all businesses unless their function was essential, and unless the funds requested could not be obtained through reduction of stocks or of operating expenses, or through additional contributions by the owners--were actually applied only to advances and overdraft facilities. The decree was strengthened by a requirement that all advances or overdraft commitments in excess of 30 million francs (later altered to 50 million) must be approved in advance by the Bank of France.

When these apparently severe restrictions were considered necessary, in order to prevent the growth of an aggregate of bank credit which would itself feed the inflation, the French made two implicit assumptions. In addition to the assumption that discounts were not credit, they also assumed that advances could be held in check by selective or qualitative standards without setting quantitative maxima. The actual result was that discounts continued to increase steadily, and that the limitation upon advances was negligible. During 1947, roughly 10 per cent of the franc volume of advances subject to prior approval at the Bank of France were refused, and another 5 per cent were reduced in amount. Thus far in 1948, refusals and reductions combined have been less than 7 per cent of all applications submitted. Interviews with commercial bankers indicate that the low rate of refusals at the Bank of France is not attributable to advance rejection by the bankers themselves, before applications are passed along. Most bankers profess their inability to apply the broad standards of "national interest" which the Bank of France is presumably superimposing upon the normal standards of credit judgment.

There seem to be several understandable reasons for the limited success of the prior approval program. First, when taken singly, each loan applicant appears to be in real need of funds as a result of the inflation going on about him. It is difficult for the reviewer to relate each single case to the overall problem of an expanding volume of credit. The reviewers at the Bank of France are really credit specialists of the Discount Department and therefore tend to judge each credit request in its own limited context. Second, the need for speed leads to perfunctory examination. Third, and most important, without a quantitative limit upon the total of credit to be extended, it has proved impossible to reject those less deserving borrowers who nonetheless present strong arguments for special consideration. Such an overall maximum is necessary to curb the examiner's tendency to approve the doubtful cases--a tendency which is understandable, since the banks submitting the applications are certain to protest vigorously in behalf of any old and valued customers.

Apart from the new machinery for curbing bank advances, the Bank of France has exerted another type of influence which has not been publicly announced. It has entered into "gentlemen's agreements" with all of the principal banks concerning their holdings of Government securities. These agreements broadly result in each bank continuing to hold the volume of its Government securities portfolio constant--increases are welcomed when the State has need for borrowing, but the agreements tend to prevent the reduction of bank holdings, except when there is a net withdrawal of deposits. Thus by exerting an informal pressure, strengthened by its right to withdraw rediscounting facilities from uncooperative banks, the Bank of France has recently been able to prevent the repetition of the 1946 and 1947 experience, i.e. wholesale unloading of Government securities by the banks in their effort to obtain funds for expanding private credits.

The utility of this approach has been offset to a large extent, however, by the willingness of the Bank of France to supply additional bank reserves through the rediscount of commercial paper. Total rediscounts, including Government paper not frozen by agreement, have in fact risen from 118 billion francs at the end of 1947 to 183 billion francs on September 9, 1948. True, the Bank of France has imposed a limitation upon this source of banking funds by placing quantitative ceilings on the volume of rediscounting that can be done by the smaller banks. But the motive for this limitation has been to protect the depositors of smaller banks against a top-heavy expansion in these banks, and thus little influence has been exerted upon the overall volume of rediscount operations for the economy as a whole. Banks covered by these informal ceilings, as of last June, accounted for less than 10 per cent of all banking assets in France.

Most of these weaknesses in the control over credit granted to the private sector have been removed, in principle, by the new measures announced at the end of September by the National Credit Council, the Bank of France, and the Government. For the first time in the history of French banking there is to be a quantitative approach to credit control. This is to be accomplished through a system of ceilings:

(a) In lending out new deposits, banks will be restrained by imposition of a special reserve requirement on all increases in deposits after October 1 (up to now no formal reserve requirements have existed in France; the reserves against new deposits are to be held in cash or in short-term Government paper).

(b) In lending out old deposits, the banks cannot exceed the present proportion of loans to those deposits, and as a result bank portfolios of Government paper will be no less than present volume (barring a decrease in deposits).

(c) In adding to reserves by using the rediscount facilities at the Bank of France, banks will be forced to remain below a maximum, to be fixed for each bank on detailed study of its present position.

(d) Finally, the prior approval procedure is to be extended to cover discounts of commercial paper exceeding a certain figure.

The new regulations, once implemented by the detailed directives which they require, should greatly strengthen the French effort to prevent private credits from again contributing to the inflation. Coming at a time when most of the business community expected a loosening of credit, to ease the burden of paying new taxes and wage increases, the credit restrictions may administer a significant shock to the economy. It is quite unlikely that the Bank of France will administer its new powers so ruthlessly as to produce a slump; but there is ground for hoping that the new measures might prevent total bank credit from expanding much further.

Historically, the most significant feature of the new regulations is the fact that they mark the end of the privileged position of the commercial bill as "self-liquidating" paper. By placing a ceiling on rediscount facilities, and by bringing discounts within the prior approval machinery of the Bank of France, the National Credit Council will have closed the widest breach in the new system of central banking controls which it is creating for France.

In practical relation to the current inflation, the measures are important because they give the banks a precise framework within which they can act. The banks will have a limited volume of deposits and, provided the Government does not add to the money supply by new drawings on the Bank of France, the commercial banks will no longer have an expandable supply of reserve funds at their disposal. If the ceiling on rediscounts is low, perhaps only a few percentage points above the present volume of rediscounts for each bank, many credit applicants will be rejected on the initiative of the banks themselves. The screening carried out by the Bank of France should also become a more meaningful function since it will now embrace the allocation of all bank funds among the various sectors of the business community.

Credit expansion still remains possible if there should be a substantial increase in deposits, particularly if the reserve requirement against new deposits should be set very low. It will therefore be essential that the Bank of France follow closely the behavior of deposits in order to raise reserve requirements should an unduly large volume of lending appear likely on the basis of substantial deposit increases. The success of the new measures must, therefore, still depend on the skill and the vigor with which they are applied by the Bank of France.