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RFD. 121

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

REVIEW OF FOREIGN DEVELOPMENTS

September 13, 1949

- British Export Performance in the Dollar Area and the U. S. Tariff
By Randall Hinshaw and Gretchen H. Fowler. 5 pages
- Foreign Exchange Problems in Austria
By J. Herbert Furth. 5 pages

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BRITISH EXPORT PERFORMANCE IN THE DOLLAR AREA AND THE U.S. TARIFF

Randall Hinshaw and Gretchen H. Fowler

Since 1930, British exports to Canada, a country which in 1948 had a population of only 12.9 million, have been at approximately the same level, year by year, as British exports to the United States.^{1/} For the period 1930-48, the average annual figure has been almost exactly the same for the two countries --£27.6 million in the case of British exports to the United States and £27.9 million in the case of British exports to Canada. While it is not surprising that Canada, for various historical and economic reasons, should rely more heavily than the United States on the United Kingdom as a source of supply, it is surely noteworthy that the Canadians, whose tastes in so many respects are similar to those of Americans, should import from Britain 12 times as much per capita. In the appendix table, which lists the major British exports to Canada and the United States in 1948, it will be noted that in the case of a number of important products, Canadian per capita purchases from the United Kingdom were much more than 12 times U. S. per capita purchases.

Part of the explanation lies, of course, in the much greater dependence of the Canadian economy on foreign sources of supply. In 1948, Canadian imports amounted to 17.1 per cent of the Canadian gross national product, while the corresponding figure for the United States was only 2.7 per cent. In this sense, Canada in 1948 was more than 6 times as dependent on imports as the United States. Figures for all recent years tell a similar story. Yet this is clearly only a partial explanation. If the greater magnitude (per capita) of Canadian imports from the United Kingdom were solely attributable to a greater dependence on foreign sources of supply, there would be no reason to expect the percentage of total imports obtained from Britain to be any higher in the case of Canada than in the case of the United States. Actually, however, this percentage has been much greater for Canada than for the United States, as the following table shows:

Imports from the United Kingdom
as a Percentage of Total Imports

	<u>Canada</u>	<u>United States</u>
1929	15.0%	7.5%
1933	24.6	7.6
1937	18.2	6.6
1938	17.6	6.0
1946	10.5	3.2
1947	7.4	3.6
1948	11.4	4.0

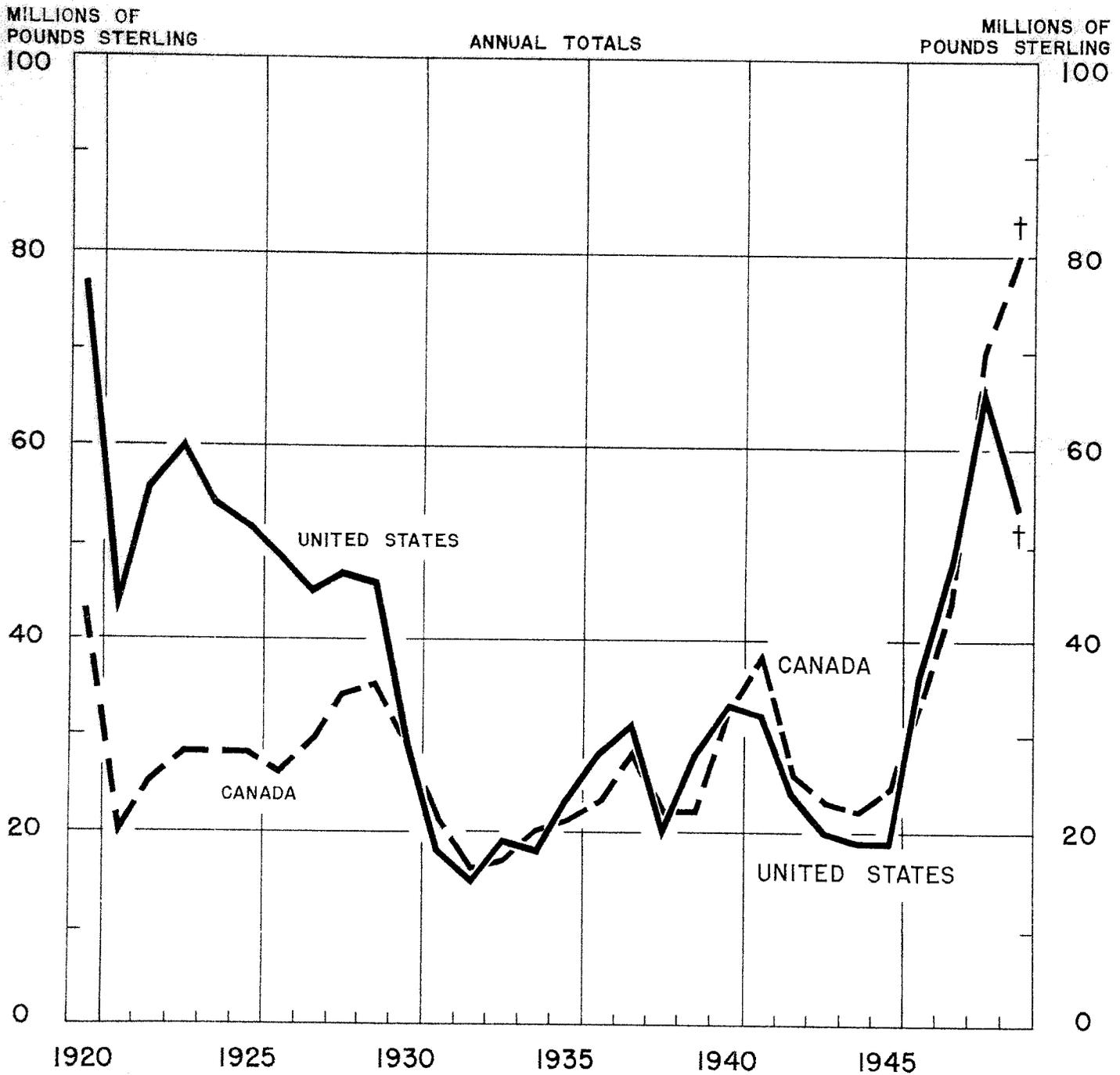
^{1/} The only year which appears to be an exception to this statement is 1949, during which British exports to Canada have been running at a level well above British exports to the United States. This apparent change in trend is partly explained by recent Canadian efforts (notably in the form of import restrictions directed particularly against the United States) to deal with diminishing reserves of U.S. dollars. These measures have had the effect, in some degree, of shifting Canadian purchases from the United States to the United Kingdom.

It will be noted that in recent years the percentage of total Canadian imports obtained from the United Kingdom has been from 2 to 3 times the percentage for the United States. This disparity is partly explained by the character of British exports, which are almost exclusively in the category labelled "articles wholly or mainly manufactured." An examination of Canadian imports in recent years shows that about 60 per cent of the total consists of manufactured and semi-manufactured goods. For the United States, the corresponding figure has for many years been close to 40 per cent. Thus, in 1948, Canadian imports of manufactures amounted to 10.5 per cent of the Canadian gross national product, while in the case of the United States the figure was only 1.1 per cent. From this point of view, the Canadian economy, on the basis of figures for 1948 and other years, appears to be about 9 times as dependent on imports of manufactures as the American economy. Since British exports consist almost entirely of manufactures, it might therefore be expected that Canadian imports from the United Kingdom would be about 9 times as great, per capita, as American imports from the United Kingdom. Actually, however, the ratio in recent years has usually run considerably higher than this, and in some years has been as high as 14 to 1. Thus, for a complete explanation of the disparity between Canadian and American per capita imports from Britain, it appears necessary to probe still further.

It does not, however, seem necessary to probe very far. In the residual area thus far unexplained, there are strong reasons for believing that the American tariff may be the most important single factor. The first piece of evidence in this connection is provided in the chart on the following page. It will be noted that, as previously pointed out, British exports to Canada in almost every year since 1930 have been of approximately the same magnitude as British exports to the United States. Indeed, in 12 of the 20 years since 1929, British exports to Canada have actually been higher than to the United States, and the average annual figure for the period has also been slightly higher. This situation is in marked contrast to the state of affairs prevailing prior to 1930. In every year of the decade 1920-29, British exports to the United States were much higher than to Canada. In three of the years, British exports to the United States were more than twice as high as to Canada, and for the decade as a whole, they averaged 79 per cent higher.

This clearly suggests that some major development (quite apart from the world depression) occurred about 1930 which sharply altered, from the British point of view, the relative attractiveness of the Canadian and U.S. markets. Even without further analysis, it would be difficult to avoid the conclusion that this change was related to the enactment of the Smoot-Hawley Tariff, which went into effect in June 1930. The latter tariff, which was the highest in American history, sharply raised duties on a wide range of items, principally manufactures, and the new rates in many cases were clearly intended to be prohibitive. A comparison of the composition of U.S. imports from Britain in 1929 and in 1931 confirms the conclusion that the Tariff Act of 1930 was chiefly responsible for the abrupt change in the relative importance, to Britain, of the Canadian and American markets. As the table below shows, changes in the composition of U.S. imports from the United Kingdom appear to have been closely related to changes in the tariff. The share in total imports of the few categories of commodities for which the average rate of duty was reduced either increased or remained unchanged. On the other hand, for those categories which were characterized by an increase in the average rate of duty, the proportion in most cases went down. In the few cases where this negative correlation did not hold, the average rate of duty was low both before and after 1930.

BRITISH MERCHANDISE EXPORTS TO CANADA AND THE UNITED STATES *



* Excluding re-exports.

† Figures for 1949 are annual rates based on first 7 months.

Average Rates of Duty and Percentage Composition of U.S. Imports
from the United Kingdom for 1929 and 1931

	1929		1931	
	Average rate of duty <u>a/</u>	Percentage of total imports	Average rate of duty <u>a/</u>	Percentage of total imports
Animal products, edible	19.9%	1.2%	17.0%	1.9%
Animal products, inedible	2.4	14.0	5.8	17.0
Vegetable food products	4.9	4.6	6.7	10.4
Vegetable products, inedible <u>b/</u>	5.4	3.1	4.9	4.4
Textiles	36.6	33.5	44.3	27.3
Wood and paper	12.8	2.5	19.3	1.9
Nonmetallic minerals	21.6	7.5	22.1	6.0
Metals and manufactures <u>c/</u>	11.0	11.0	13.6	8.1
Machinery and vehicles	28.2	1.9	24.8	1.9
Chemicals	8.9	3.2	14.2	2.7
Miscellaneous	3.4	<u>17.5</u>	5.4	<u>18.4</u>
		100.0		100.0

a/ Derived by expressing computed duties as a percentage of total imports (free and dutiable).

b/ Excluding fibers and wood.

c/ Excluding machinery and vehicles.

Since many of the duties in the Tariff Act of 1930 were of the specific type, the sharp decline in commodity prices accompanying the world depression added greatly to the degree of protection originally provided. Under the Ottawa Agreements of 1932, which resulted in reductions in Canadian duties on Empire products, the disparity between U. S. and Canadian import restrictions on British exports was still further widened. Since 1934, U. S. tariffs have been sharply lowered, both as a result of price developments and as a result of the Trade Agreements Program, but an examination of present U. S. and Canadian duties shows that a number of major British exports receive much less favorable treatment in the U. S. market. Thus it appears likely that the tariff is the most important factor accounting for the marked shift, after 1929, in the relative importance, to Britain, of the American and Canadian markets. This does not, of course, mean that equalization of U. S. and Canadian duties at the lower Canadian level would necessarily restore the pattern of the Twenties.

APPENDIX TABLE

Principal British Exports of Merchandise
to Canada and the United States in 1948

Commodity ^{1/}	A	B	C	D	E	F
	U.K. exports to Canada (In millions of dollars)	U.K. exports to the U.S. (In millions of dollars)	Ratio of A to B	U.K. exports to Canada per capita (In dollars)	U.K. exports to the U.S. per capita (In dollars)	Ratio of D to E
1. Wool manufactures	73.6	19.4	3.8	5.71	.13	43.9
2. Vehicles	34.3	30.8	1.1	2.66	.21	12.7
3. Cotton manufactures	27.6	12.9	2.1	2.14	.09	23.8
4. Machinery	20.6	25.6	.8	1.60	.17	9.4
5. Pottery and earthenware	19.1	7.3	2.6	1.48	.05	29.6
6. Silk and artificial silk manufactures	13.7	2.1	6.4	1.06	.01	106.0
7. Beverages	8.9	41.3	.2	.69	.28	2.5
8. Apparel (chiefly of wool)	8.9	6.5	1.4	.69	.04	17.3
9. Nonferrous metals and manufactures	8.0	19.8	.4	.62	.14	4.4
10. Other textile manufactures (chiefly linen)	7.4	17.5	.4	.57	.12	4.8
Total exports, excluding re-exports	280.4	266.6	1.1	21.77	1.82	12.0

^{1/} Listed in order of importance for Canada. The principal British exports to the United States in 1948 were, in order of importance: (1) beverages, (2) vehicles, (3) machinery, (4) nonferrous metals and manufactures, (5) wool manufactures, (6) other textile manufactures (excluding cotton, silk, and synthetics), and (7) cotton textile manufactures. In different order, these items all appear in the list of principal British exports to Canada.

FOREIGN EXCHANGE PROBLEMS IN AUSTRIA

J. Herbert Furth

The foreign exchange situation in Austria is extremely confused. Ever since the reestablishment of an independent Austrian currency in 1945, the official rate of exchange has been 10 schillings per dollar. For many months, however, only a small fraction of all foreign exchange transactions has taken place at that rate. Deviations have been both legal and illegal: virtually all exporters have been permitted by the Austrian National Bank to retain varying parts of their foreign exchange receipts and to use them either for their own imports or to sell them at a premium to other importers. Moreover, tourists have been permitted to take foreign exchange into Austria and to dispose of it as they see fit. Actual exchange transactions between exporters and importers, however, take place at rates considerably higher than the official premia, most of them probably at rates close to the black market quotation of approximately 25 schillings per dollar, or 150 per cent above the official rate.

It seems that the main function of the official rate today is to act as a conversion factor for translating the dollar value of ECA-financed imports into schilling prices. This means that these imports are subsidized to the extent of 150 per cent of their schilling price, or 60 per cent of their dollar value. Since ECA-financed imports represent about 40 per cent of all Austrian imports, and about 8 per cent of all goods and services available to the Austrian consumer, this subsidy plays an important role within the framework of the Austrian national income.

The present system is generally considered unsatisfactory; however, the question remains whether the continuation of those conditions or a change in the exchange rate practices -- which would probably mean a substantial devaluation of the schilling -- would be the lesser evil.

Arguments for Devaluation

1. The present official rate does not represent the true rate at which the bulk of the foreign exchange transactions actually take place. A change in that rate would therefore not necessarily have the inflationary consequences usually connected with devaluation. If the new rate, for instance, were set so that it equalled the average import rate actually used at present, the change would probably have no perceptible influence on domestic prices. On the other hand, such an adjustment of the official to the actual rate would not only bring again truth into official statistics and business accounting, but would also provide Austrian entrepreneurs with a more reliable standard of value.

2. The present system actually is a conglomeration of multiple exchange rates without guiding principle. While the authorities try to determine "priorities" for calculating the "free quota" of export proceeds, which they permit exporters to retain, not even the vaguest principles are applied to black-market transactions, and the system has to be abandoned completely in

the case of most bilateral clearing and barter arrangements. It has been reported that in many instances luxury items are imported at lower, and exported at higher rates than necessities. Thus, the multiple rate system leads to a serious misdirection of scarce resources and especially to an uneconomic use of foreign exchange receipts.

3. Since the size of the "free quota", and thereby the actual receipts from exports, depends upon a rather arbitrary decision of some official, the system inevitably leads to public and private corruption. Premia are frequently determined on the basis of political or personal influence, and any concession granted to one group is likely to result in increased pressure exercised by other groups. The system is therefore inherently unstable.

4. Members of the occupation forces are in theory supposed to abide by existing regulations and to acquire Austrian currency at the legal rate. If they did so, however, they would pay for their schilling purchases about 150 per cent more than tourists or visitors. In consequence, all members of the occupation forces quite openly buy all schillings in the tolerated, but illegal, black market. This situation is not only detrimental to "morals and morale" of the occupation troops, but also leads to friction within the Austrian population, which increasingly regards the members of the occupation forces as mere black marketers.

5. The subsidy granted to the purchasers of those goods that are imported at the official rate, distorts the domestic price system as well as the relation between domestic Austrian and world market prices. It also imposes a hidden, but none the less real burden upon the Austrian budget by reducing revenue from customs duties and excise taxes. Finally, it reduces the amount of funds to be paid into counterpart accounts and available for investment purposes; it leads therefore to overconsumption and underinvestment and retards the rehabilitation of the Austrian economic system.

Arguments Against Devaluation

1. The following table compares the balance of payments for the second half of 1948 with that for the first half of 1949; the figures are based upon Austrian data, but are slightly rearranged.

Austria's Balance of Payments, 1948/II and 1949/I
(Millions of Dollars)

	<u>1948/II</u>	<u>1949/I</u>
Payments: Commercial imports <u>1/</u>	128	177
Services	7	8
ECA imports <u>1/</u>	107	110
Increase in foreign exchange holdings	<u>10</u>	<u>3</u>
Total	<u>252</u>	<u>298</u>
Receipts: Exports	118	155
Services	13	17
ECA grants <u>1/</u>	107	110
Capital transactions (net) <u>1/</u> <u>2/</u>	<u>14</u>	<u>16</u>
Total	<u>252</u>	<u>298</u>

Notes:

1/ Austrian statistics include ECA-financed imports from participating countries and Poland among "commercial imports" and the corresponding payments among "capital transactions" (\$19 million in 1948/II and \$16 million in 1949/I).

2/ Including errors and omissions (net).

A change in the present system might interfere with the expansion of foreign trade indicated by the table; in view of the heavy dependence of Austria upon its imports and exports, stagnation in foreign trade would damage the progress of the Austrian economy more seriously than a continuation of the present exchange practices.

This argument, however, overlooks the difficulty of assessing the true value of Austrian commercial imports and exports. Less than half of the commercial imports, and only one-third of the exports are cash transactions, the dollar value of which can be calculated with reasonable certainty. The remainder are clearing and barter transactions, frequently based upon domestic rather than world market prices, and the conversion of domestic prices into dollars at the official exchange rate exaggerates their dollar value. A substantial part of the apparent increase in foreign trade between the second half of 1948 and the first half of 1949 may actually be due to the increasing gap between statistical and actual dollar valuation of clearing and barter deals.

2. Unless Austrian exports are to be seriously hampered, a new uniform exchange rate for the schilling would have to be established in the neighborhood of the highest export rate actually used at present; such a rate would be higher than the present average import rate -- kept low by the importance of ECA imports calculated at the legal rate -- and even higher than the present average export rate. The devaluation would therefore result in an appreciable rise in prices and the cost of living. In view of the unstable financial situation in Austria and the great susceptibility of the Austrian economy to inflationary pressures, such a rise could easily lead to a renewed inflationary spiral. Moreover, the last stabilization of wages and prices, embodied in a formal agreement between the Government and representatives of industry, agriculture, and labor, took place as recently as in May 1949. The change in the exchange rate would upset that agreement and destroy the confidence in the permanency of future agreements of that kind.

This argument presents the most serious reason against devaluation. However, the impact of devaluation could easily be reduced to tolerable proportions by temporary open subsidies for ECA imports, which include the main cost-of-living items. These subsidies could later be gradually abolished, conforming to the progress in restoring the productivity of the Austrian economy.

3. The Austrian exchange rate is only one of many European exchange rates that need readjustment. If the Austrian currency is devalued before other European rates are adjusted, it might become necessary to engage in further devaluation at the time of a general change in the dollar value of European currencies.

This argument overlooks the fact that the Austrian exchange rate situation is more chaotic than that of any other European nation. If it is felt that the future stability of the Austrian rate should not be jeopardized, a system of generalized private compensations ("private clearing") such as existed

in Austria in the 'thirties, could be established as an interim measure. From such a system a fluctuating, but uniform free market rate would emerge until such a time as the European exchange rate problem as a whole would be solved.

4. The establishment of uniform exchange rates would mean unjustified windfall profits for some exporters of goods with inelastic supply (magnesianite), who are able at present to conduct business at a lower rate, and for those importers that will have paid less than the new rate for their stocks in hand. This argument can be weakened by the enactment of special taxes on windfall profits of that kind.

5. No exchange rate could bring about a complete equilibrium of Austrian foreign trade. Further U. S. assistance would be needed for a number of years in any case. Moreover, the "hole in the East", caused by the uncontrolled trade transactions of the Soviet occupation authorities, could not be blocked before the Austrian treaty goes into effect.

It is true that the devaluation of the Austrian schilling could not aim at making U. S. assistance unnecessary; it could, however, prevent that assistance from being dissipated. It is also true that Soviet activities will continue to sustain some black-market transactions. However, the inevitability of that evil is no reason for refraining from combatting black markets in other, even more vital fields.

Conclusions

While the need for readjustment of the Austrian exchange rate thus can hardly be denied, the determination of a future uniform rate remains an open question. In the absence of exact knowledge as to the equilibrium rate, it is preferable to devalue too much rather than too little so as to avoid the expectation of further devaluation. If a new fixed rate is chosen, it must therefore not be set too far below the present black market rate. At the same time a new wage-price agreement must be drawn up and provisions must be made for financing domestic sales of ECA imports at reasonable prices. In this way, a further drop in the real earnings of workers, which even at present are too low for economic and social stability, may be avoided, and emerging windfall profits may be detected and used for balancing the Government budget and for increasing investment rather than luxury consumption. If these precautions are observed, devaluation may help to restore the viability of Austria.