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Fiscal Policy in France
Elinor Harris

16 pages

United States-Sterling Area Trade, 1952-1953
Thomas E. Summers

10 pages

NOT FOR PUBLICATION

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Summary

Contrary to popular belief the French pay very heavy taxes relative to incomes. While the per-capita gross national product in France is one-third of that in the United States, the overall fiscal burden (including receipts for social benefits) represents a somewhat greater proportion of the gross national product in France than in this country. Moreover, this comparatively heavy fiscal burden is distributed inequitably among occupational groups and income classes; French farmers, artisans, and small shopkeepers are able to evade taxes to a considerable extent, while the wage-earner and the large corporation are far less able to do so. The French fiscal system is noted also for its complexity, for the numerous duplication of tax levies, and for its inflexibility. Finally, the French tax structure is characterized by the great preponderance of sales and other indirect taxes, which tend to dampen investment incentives and to impair the French competitive position through raising production costs and prices.

French financial experts in the Ministry of Finance and elsewhere are agreed upon the urgent desirability of tax reform; nevertheless the relative weakness of French Governments and the comparative strength of farmers, small retail traders, and other groups who are "protected" under the present tax regime, present powerful and apparently insuperable barriers to such reform.

The aggregate burden of French taxation

Aggregate figures indicate that the French tax structure as a whole yields substantial revenue. In 1952, French tax revenues amounted to 4,200 billion francs (\$12 billion at the official, about \$10 billion at the free-market rate of exchange), or about 32 per cent of gross national product. In contrast, United States tax revenues in 1952 totalled \$92 billion or only about 27 per cent of gross national product (see Appendix, Tables 1 and 2).

If governmental social expenditures were excluded from the measure in both countries, the fiscal burden in France and the United States would be more nearly equalized. The tax burden would be reduced to about 21 per cent of gross national product in France and to about 23 per cent of gross national product in the United States.

French social benefits -- Transfer payments from Government to private citizens for social welfare, retirement, and other purposes are much higher in France than in the United States, chiefly because of great differences in economic life and institutions in the two

countries. For one thing, the composition of the French national income is much less favorable to the wage-earner than in this country, partly because French wage payments have been subject to greater governmental control, and because the "middleman" occupies a relatively stronger position in France. ^{1/} For another thing, substantial retirement and other social benefits in this country are paid for privately from private insurance and voluntary industrial retirement funds, a practice relatively less common in France.

Thus, the French Government "social budget" alone in 1952 amounted to about 40 per cent of total expenditures, and included extensive family allowances, accident and unemployment insurance, and retirement benefits. In contrast, social security and assistance payments of U. S. central and local government authorities in 1950 (latest date available) amounted to only about 20 per cent of all government expenditure; in 1952 the percentage was much smaller on account of the rise in our military expenditures.

Government investments and subsidies -- Similarly, net subsidies and payments to government enterprises were a negligible part of United States government expenditures as against 1 1/4 per cent in France, also largely because of institutional differences (see Appendix, Table 2). In 1952, subsidy payments by the U. S. Federal Government were virtually offset by surpluses realized by public service enterprises (power or water systems, toll turnpikes, etc) owned and operated by the states and municipalities. In contrast, a very large item in France has been expenditure of the Modernization and Equipment Fund, which finances the so-called Monnet Plan for the reconstruction of basic French industries, including primarily the large nationalized industries (coal, gas, electricity, and railroads).

Comparison with national account figures in the United States would seem misleading, however, since there are no significant nationalized industries, except for the atomic energy development the costs of which

^{1/} Wages and salaries in 1952 formed only 56 per cent of the national income in France in contrast to 66 per cent in the United States; property and entrepreneurial income were a correspondingly larger part of the national income in France than in the United States, mainly because of the greater predominance in France of retailers and other types of "middlemen". On the other hand, consumers' expenditures on goods and services represented 69 per cent of GNP in France, as compared with only 62 per cent in the United States; gross private investment and government expenditures on goods and services were each smaller fractions of GNP in France than in the United States (see Appendix, Table 2).

should be considered part of the national security expenditures. Moreover, aid to agriculture, housing construction, and development of natural resources (other than atomic energy) required net expenditures of only about 5 per cent of all federal government expenditures in 1952. If expenditures of local authorities and especially the private expenditures of those industries that have been nationalized in France are added to this sum, the total outlay would certainly be a greater percentage of the gross national product in the United States than in France.

In addition, a large part of the U. S. Government aid to business or individuals takes the form of loan guarantees (which become an actual expenditure only if the loan should fail to be repaid at some future date) or direct lending on the part of long-established government corporations (such as REA). Since these corporations, on balance, earn profits or realize only very small losses, such aid does not appear either as an expenditure of the U. S. Government in the national accounting sense or as a burden to the taxpayer.

Thus it may be concluded that the aggregate tax burden in France is higher than in this country mainly because of the more extensive French public welfare and investment programs. The per capita gross national product in France is only about one-third as great as in this country; even the same percentage burden of taxation would therefore involve much greater hardship on the individual French taxpayer. The burden is further enhanced by the fact that the French tax system, in view of its reliance on indirect taxes, bears more heavily than the U. S. system on the low-income groups and relatively less heavily on the high-income groups.

Tax evasion

The burden of taxation in France, as compared to that in the United States, is further aggravated for many sectors of the population because some groups in the French economy are better able than others to escape their share of payment. For instance, most medium and large corporations and all wage and salary earners have great difficulty evading tax payments because their incomes, are, in general, known to the tax authorities, and actual payments can be closely checked. On the other hand, income taxes on unincorporated business firms, farmers, and the professional classes, who can most easily conceal incomes, are very difficult to identify and to collect. Widespread evasion in these cases tends to protect the most protected and probably least efficient economic units -- the small artisan and retailer -- and, at the same time, to penalize the business corporation, whose efficiency and ability to reduce costs and prices of domestically produced goods is probably greatest. The French Ministry of Finance has developed a sampling technique in connection

with tax verifications, which indicates the problem of tax evasion on business and consumer income could best be met by effective tax enforcement on small retail and artisan shops. 1/

The great numbers of these individual economic units would make tax collection difficult under any tax system or administration, but particularly so in France where tax morality even in prewar years was unusually weak. During World War II it became the patriotic duty of every Frenchman to escape tax payment which would benefit the occupation authorities while successive postwar increases of tax rates to a very high level encouraged continued tax fraud and evasion. Enforcement of business income and transactions taxation at the retail level was recently tightened, but attempts to obtain new legislation on taxation of agricultural income have been largely unsuccessful. Present taxable land valuations still have been set at only 15 or 20 times the 1908 values, whereas wholesale agricultural prices have increased by about 170 times over the same period.

The structure of taxation

The bulk of French Central Government tax revenues in 1952 (75 per cent) were derived from production, sales, and other indirect taxes, which generally constitute an element of cost and price and are levied irrespective of income level or ability to pay; while only a small fraction of U. S. Federal Government revenues (16 per cent) were derived from such taxes. Moreover, although the share of indirect taxes has lately been decreasing in the United States it is increasing in France (see Appendix, Table 4). 2/

Although there is little resemblance in the tax structure at the central government level of the two countries, the tax structure of the French municipalities is very similar to that of U. S. state and local governments. In both cases, there is a heavy dependence upon property, sales, and miscellaneous license taxes, although U. S. state governments

1/ See, "La Systeme Fiscal Francais Avant et Apres Sa Reforme", Notes et Etudes Documentaires, August 26 and August 27, 1949. These particular "protected" groups who can best evade or escape tax payment play a far more important role in French economic life than they do in the United States, and result in an added element of cost and price; thus in 1951 the farmers, professional classes, and unincorporated business firms produced an estimated 25.5 per cent of the gross national product in France, as compared to only 12.4 per cent in the United States.

2/ For a thorough discussion of the French tax system, see Ministere des Finances, Note Sur Le Systeme Fiscal Francais (Paris, May 1, 1952).

make somewhat greater use of direct corporate and personal income taxes. Similarly, both French and U. S. municipalities have been forced in the postwar period to seek new revenue sources, most of them indirect (and therefore regressive) in nature. Receipts from the French property ("centimes additionnels") tax, a major but inflexible source of local government revenue, have not kept pace with rising government costs in the postwar years. French municipalities, in general, have found the bulk of new tax resources in new business transactions taxes ("taxe locale additionnelle aux taxes sur le chiffre d'affaires") or increased rates on existing business, license, service, or contract taxes, just as several U. S. state governments have turned to new sales taxes.

Impact of the tax structure on income distribution

At the local government level, these particular new tax sources tend to be passed on to the consumer in the form of higher prices. At the central government level, the indirect taxes and the great postwar increases in taxes on business transactions ("chiffre d'affaires") usually also must have raised the prices of the finished products. Statistical data on the incidence of taxation are extremely meager, however. Some attempts have been made since 1948 to shift the burden of consumers' taxes somewhat from the lowest-income groups through exempting certain types of necessities and food products from the transaction tax (normally levied at the rate of 1 per cent on all services, imports, and retail sales); a similar procedure has frequently been adopted also by U. S. state governments to reduce the regressive impact of new sales taxes. These measures in France -- in conjunction with the expanding social budget and the transfer of the 18 per cent proportional personal income tax on wages and salaries to the employer -- have probably helped to reduce the heavy fiscal burden upon the low- and middle-income groups; at the same time, the liberal French family allowance system has tended to shift somewhat the remaining burden onto the unmarried and childless.

In 1952, social security payments were equal to about 30 per cent of total payrolls. Although employees' contributions are largely regressive (i.e., constitute a larger proportion of the income of low than of high-income groups), the net effect of the program as a whole is to make the French fiscal system somewhat more progressive. Employers make the major contribution to its costs, while recipients tend to be in the lower-or middle-income groups. 1/

Direct corporate and individual income tax receipts, which should introduce progression into the tax structure, increased between 1938 and 1950 from 15 to 22 per cent of total central government receipts. Postwar increase in these taxes have resulted from successive sharp increases in the

1/ See, "Taxes on Wages or Employment and Family Allowances in European Countries," Economic Bulletin for Europe, First Quarter 1952, pp. 25-55.

tax rates, particularly those on corporate income. To judge from the actual effective rate schedules, the rate structure of the French personal income tax itself would appear to be as steeply progressive as that of the United States in the case of married men with two children, although the same man in France would receive, in addition, a family allowance from the Government; and it is probably more progressive in the case of a single French wage earner with no dependents. Nevertheless, in actual practice the French income tax structure is probably less progressive than the American one because of the widespread tax evasion in the upper-income brackets.

The effect of taxation on saving and investment

Another aspect of the heavy French tax burden is the manner in which it affects saving and investment incentives. Although postwar public investments in France have been fairly large, private investment has lagged. In the case of France, tax policy appears actively to discourage private business investment, although introduction of new techniques would be essential in order to lower the French cost-price structure, improve the standard of living, and strengthen the country's ability to compete abroad and thus her external balance. Fiscal policy does little if anything to encourage corporate and personal savings although the country is plagued by under-saving; or to encourage channeling savings from gold or other hoards into productive investment.

Saving -- Since French taxes on the whole bear down heavily upon consumption, one might assume that saving was accorded favorable treatment; the relatively heavier burden of taxation upon lower- and middle-income groups (who tend to save relatively less of their incomes) and the lighter burden upon the higher-income groups (who ordinarily tend to save relatively more) would seem to suggest, too, that saving might be stimulated while consumption was penalized. The facts do not appear to bear out this hypothesis, however. Saving in a form which can be utilized for investment purposes has been extremely low in post-war France. The Government could best encourage personal and corporate saving by establishing confidence in the maintenance of currency stability through fiscal and monetary policies. Actually, these policies have dampened incentives to save because they have failed to avoid periodic inflations, which destroy the value of bonds and savings accounts.

At present there is a strong desire to keep savings in gold, land, or other assets, the value of which will not depreciate with further declines in the purchasing power of the French franc. The interest rate, in France, must not only provide a return upon investment and compensate for the risk of loss on the capital venture itself; it must also cover the risk of capital

losses on fixed-interest assets due to a decline in the purchasing power of the currency. High interest rates have not been sufficient to induce purchases of government or private bonds; during the past year and one-half it has been necessary, in addition, to link the value of bonds to a commodity of constant purchasing power, such as the gold Napoleon, kilowatt hours of electricity, or railroad passes. Still, as shown by a recent study, public enthusiasm for "indexed" loans is not very great, and investors continue to prefer gold and real estate. 1/

It is somewhat more difficult to explain the lack of investor interest in equities of business corporations, the monetary value of which may well rise with an increase in the price level and the monetary value of corporate profits. Dividend income in France, as in the United States, is taxed twice -- once at the corporate level and, when profits are distributed to stockholders, at the personal level. 2/ It has been alleged that this double taxation tends to discourage the supply of investment funds flowing into business equities. This feature of the tax structure appears less significant in explaining the relatively low demand for equities, however, than do other economic factors and psychological attitudes. These include the low recent level of corporate dividend payments; the fear of further nationalization of industry; and, finally, the greater familiarity of most individuals with gold hoarding than with stock investment as a hedge against inflation.

Investment -- The problem of reducing the heavy impact of French taxation upon investment seems, first of all, to be dependent upon redistributing more equitably the tax load between corporate and unincorporated business. The large business corporation appears to bear a triple undue burden. First, the French production tax tends to discriminate against the use of productive capital equipment as against the use of man-power.

1/ La Vie Francaise, June 5 and 12.

2/ The progressive surtax on dividend income is payable by the recipient. The 18 per cent proportional individual income tax is payable by the company, however, which is responsible for withholding the amount from the sums paid to the recipients. Thus, the proportional tax acquires a special character when applied to dividend income. Because it is deducted at the source, the sliding scale rebates and family allowances provided for by the normal system of proportional taxation cannot operate in the case of dividends; however, since stock holdings are probably concentrated in the upper-income groups anyway, it is doubtful that the discrimination is significant in deterring stock ownership.

Second, the operation of the production tax discriminates against production of goods the fabrication of which requires many production stages. Third, the tax system is alleged to discriminate against the efficient, large-scale corporate producer (who cannot feasibly escape payment either of the $\frac{3}{4}$ per cent corporate income tax or the 5 per cent payroll tax) as against the self-employed artisan (who may manage to evade payment of part of the individual income tax or part of the transactions tax).

The production tax is levied at rates varying between 5.5 per cent (for services and certain "essential" products) and 18 per cent (on most capital or other goods), according to the classification of the product, on each sale or transaction and at each level of production. The taxpayer may deduct from the total tax the amount of production tax paid by him to his suppliers, according to their invoices, during the preceding month; the tax in effect, therefore, virtually amounts to one on "value added" at each stage of production. No deduction for the purchase or the depreciation of capital equipment outlays is permitted, however, and, as a result, investment expenditures are penalized. The penalty may well prevent the economy from utilizing new techniques which might have been profitable if, for instance, purchases of capital goods were treated for tax purposes like purchases of raw materials. Moreover, the production tax on investment outlays tends to impair the competitive position of French products in international trade because the tax is an element of cost and is generally included in the price of the finished product. 1/

1/ See the report of the commission "Productivite et Fiscalite", published by the Ministere des Finances, Statistiques & Etudes Financieres, June 1952, which points out in detail the damaging effects upon investments and upon the competitive export position of the French producer of a production tax, which permits no deduction for depreciation.

They cite the following example to show the penalty imposed upon capital expenditure. Let us suppose that an investment (net of the production tax) costs 2 million francs; then with the production tax included (amounting to 360,000 francs), the total cost of the investment goods would amount to 2,360,000 francs.

The amount of the tax paid by the corporation (360,000 francs) is not deductible from the production tax paid on the final manufactured product, because the machine is neither "incorporated" in the final product nor "destroyed upon first usage". Nor is amortization on this machine deductible for tax purposes. Let us assume that at the end of one year the machine is amortized at $\frac{1}{10}$ of its value, or 236,000 francs, and that this sum is included in the sale price of the finished product. Like all other elements in the sale price, the amortization allowance is subject

(continued on page 9)

Problems of tax reform

The Pinay Cabinet fell in December 1952 largely on the issue of tax reform. His program did not envisage new taxes, but included chiefly consolidation of existing local taxes and the substitution of a single tax on "value added" for the existing production and transactions taxes. M. Pinay's successor, M. Mayer, abandoned specific reform suggestions which had antagonized the "protected" retail and farm groups, and proposed to increase gasoline, alcohol, and trucking taxes and to cut state subsidies (as well as the military budget). Although this modest financial program was merely designed to keep the French budget deficit within the wide range of 750 billion French francs (about \$2 billion), it provoked the downfall of the Mayer Cabinet in May 1953.

In order to avoid for the time being another government crisis, the French Parliament has recently granted the Laniel Government certain new financial powers. Under the finance bill approved by the National Assembly on July 11, the Cabinet received authority to conclude a convention with the Bank of France, raising the ceiling on Bank of France advances to the Treasury by 240 billion French francs. The Government agreed to refund this advance in 12 quarterly installments of 20 billion francs each, beginning in December 1953. The Treasury's repayments will be largely covered by increases in certain taxes (gasoline tax, alcohol tax, and some stamp duties). Proceeds from these tax increases, put at 30 billion French francs for the second half of 1953 and thereafter at 60 billion francs annually, will be administered by the Autonomous Amortization Fund and transferred by it directly to the Bank of France without passing at all through the general budget.

At the same time, permanent powers have been granted the Government to carry out by decree administrative reforms of the Government as well as of nationalized or semi-public enterprises. Even more important, the Government has been authorized to redistribute budgetary appropriations from less to more productive sectors, such as, for example, from military and civilian current expenditures to housing. A special "Fund for Economic Expansion" is to be created from the proceeds of budget economies resulting from the exercise of these special powers; the Fund is to be used, in part, to finance construction and agricultural investments.

(continued from page 8)

to the production tax, which amounts to 236,000 x 18 per cent, or 42,500 francs. In effect, therefore, utilization of the machine is taxed twice, and the total tax amounts to 78,500 francs (36,000 plus the additional 42,500 francs). If, on the other hand, the fabricated goods had been produced solely through labor or handwork, the same tranche of 236,000 francs of sale price would have required payment of only 42,500 francs of production tax. Thus, use of the machine, as compared with use of manpower alone, resulted in a penalty of 36,000 francs.

Finally, the 1954 budget is to be held at or below the level of the 1953 appropriations. This measure will help the Ministry of Finance to refuse requests of other Ministries for increased expenditures and to oppose suggestions of the Deputies for increases in politically expedient outlays such as veterans' benefits.

Paradoxically, these provisions closely resemble those which caused the defeat of the Mayer Cabinet. The Laniel program (like the Mayer program) included some minor tax increases but did not contain any provision which could properly be characterized as "tax reform"; indeed, in his program speech Laniel assured the Assembly that he would not use his special powers to infringe upon Parliamentary prerogatives in the field of taxation. In fact, the Laniel budget envisages a deficit for 1953 of 900 billion francs (see Appendix, Table 6), an amount 20 per cent greater than that foreseen by M. Mayer.

Thus the Laniel proposals at best may be considered to be stop-gap remedies. The political obstacles to genuine tax reform still seem insuperable; nevertheless, the problem will have to be faced again later this year by whatever French Cabinet happens to be in power. Strengthened individual savings incentives and a greater willingness to invest in government bonds would help to alleviate the chronic budgetary problem, and it is rumored that Finance Minister Edgar Faure plans to issue another public loan in the fall with an index clause. It is doubtful, however, whether the Government could obtain the required non-inflationary amount of financing out of genuine savings of non-bank investors unless it persuaded Parliament to approve a genuine tax revision, which would strengthen confidence in the stability of the currency and help restore private savings to an adequate level.

APPENDIX

Fiscal Policy in FranceTable 1National Product Account, 1952

	<u>A. France</u>		<u>B. United States</u>	
	<u>Billions of francs</u>	<u>Per cent distribution</u>	<u>Billions of dollars</u>	<u>Per cent distribution</u>
Personal consumption expenditures	8,959	69	218.1	63
Gross private domestic investment	1,650	13	52.5	15
Net foreign investment	- 95	- 1	- 0.2	0
Government purchases of goods and services	<u>2,483</u>	<u>19</u>	<u>77.5</u>	<u>22</u>
Gross National Product	12,997	100	348.0	100

Source: — France: National Accounts Unit of Ministry of Finance.
 United States: U. S. Department of Commerce, Survey of Current Business,
 (July 1952 and May 1953).

Note: — For United States data, see "National Income and Product -- A Review of the First Quarter", Survey of Current Business, May 1953, pp. 2-7. French data have been adjusted to conform to the Ruggles framework of national accounts. (See Richard and Nancy Ruggles, European National Accounts, Economic Cooperation Administration: Washington, D. C., 1951.) The Ruggles System was devised to arrange the various diverse systems of European national accounts on a uniform basis similar to the United States system; in the case of France, the principal difficulty has been the lack of adequate data on business upkeep and repair which, in the French national accounts data, have been included broadly in the concept of "gross investment". Ruggles has attempted to subtract such allowances from the French gross national product, considering them to be used up in the creation of current output.

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Table 2

Government Revenue and Expenditure Account, 1952

	<u>France</u>		<u>United States</u>	
	<u>Billions of francs</u>	<u>Per cent distribution</u>	<u>Billions of dollars</u>	<u>Per cent distribution</u>
<u>Government expenditures</u>				
Purchases of goods and services	2,338	52	77.5	82
Interest on the public debt	145	3	4.8	5
Subsidies and net capital grants to enterprises	623	14	0.1	0
Transfer payments	<u>1,385</u> <u>1/</u>	<u>31</u>	<u>12.0</u>	<u>13</u>
Total	4,491	100	94.4	100
<u>Government revenues</u>				
Tax and income payments by producers to government	2,859	69	48.7	53
a. Direct taxes (647)	(647)	(16)	(20.6)	(22)
b. Indirect taxes (2,212)	(2,212)	(53)	(28.1)	(31)
Personal tax payments	274	6	34.7	38
Contributions for social insurance				
a. Employer contributions	861)		4.8	
b. Employee contributions	172)	25	3.8	9
Total	4,166	100	92.0	100
Government surplus (-) or deficit (+)	+ 325		+ 2.4	

1/ Includes Social Security, family allowance, retirement, unemployment and other welfare payments less administrative expenses and payments to Central or other government employees. The latter items are not considered to be transfer payments but are included, instead, under purchases of goods and services.

Source: — France: National Accounts Unit of Ministry of Finance.
 United States: U. S. Department of Commerce, Survey of Current Business, (July 1953).

Table 3French Tax Burden

Ratio of all French Governmental Collections

to French National Income

(In per cent)

	<u>Including social insurance contri- butions</u>	<u>Excluding social insurance contri- butions</u>
1938	21.1	19.2
1946	19.1	14.8
1950	37.3	27.1
1951	37.1	27.4
1952 p/	36.7	26.9

p/ Preliminary

Source: — Tax and social insurance data for all years from National Accounts Unit of Ministry of Finance. National income data, 1938-1951: International Monetary Fund (International Financial Statistics, May 1953), — 1952: National Accounts Unit of Ministry of Finance. Tax collections include those of states, para-statal (separately managed state budgetary accounts), and local governments; government subsidies have been deducted from the total (yielding a measure of net tax burden) before computing ratios in each case between tax receipts and the French national income. Social insurance contributions include those both of employer (including the Government) and employee. National income has been computed at factor cost.

Table 4Yields of French Central Government Taxes, 1938 and 1952

(In billions of French francs)

	<u>1938</u>	<u>1952 p/</u>	<u>1952 per cent</u>
<u>Direct taxes</u>			
Personal income tax)		334	14
Corporate income tax)	9	208	9
Inheritance, gift, and other direct taxes	<u>8</u>	<u>69</u>	<u>2</u>
Total	17	611	25
<u>Indirect taxes</u>			
Production tax	10	890	37
Transaction tax	--	220	9
Excise taxes	10	248	10
Payroll taxes	--	210	9
Customs duties	9	70	3
Other indirect taxes	<u>15</u>	<u>178</u>	<u>7</u>
Total	44	1,816	75
Total tax receipts of Central Government	61	2,427	100

p/ Preliminary

Source: -- 1938, Ministere des Finances, du Budget et des Affaires Economiques, Inventaire de la Situation Financiere.
1952, Ministere des Finances, Statistiques et Etudes Financieres.

Table 5Comparative Growth of Central and Local Government Expenditures

A. France

(In billions of francs) 1/

<u>Year</u>	<u>Department and Communes</u>	<u>Republic</u>	<u>Total</u>
1938	21.5	82.3	103.8
1945	51.0	424.0	475.0
1946	99.1	530.0	629.1
1947	159.9	718.0	877.9
1948	264.9	1,052.0	1,316.9
1949	387.3	1,282.0	1,669.3
1950	502.0	1,629.0	2,131.0

Source: -- Ministere des Finances, du Budget et des Affaires Economiques, Inventaire de la Situation Financiere, Paris, 1951.

1/ 350 French francs = 1 U. S. dollar at official rate of exchange.

B. U. S. Government Expenditures

(In billions of dollars)

<u>Year</u>	<u>State and local</u>	<u>Federal</u>	<u>Federal grants-in-aid to state and local</u>	<u>Total</u>
1938	8.9	8.5	0.9	16.5
1945	9.0	84.8	0.8	93.0
1946	11.2	36.9	1.2	46.9
1947	14.9	31.0	1.7	44.2
1948	18.4	35.4	2.0	51.8
1949	20.6	41.5	2.2	59.9
1950	22.7	41.0	2.4	61.3
1951	24.1	57.8	2.4	79.5

Source: -- Department of Commerce, Survey of Current Business, (July 1947, July 1949, July 1952).

Table 6National Government Budget, 1953

	<u>France</u>		<u>United States</u> b/
	(In billions of French francs) 1/		(In billions of dollars)
	<u>Mayer budget</u>	<u>Laniel budget</u>	
<u>Expenditures</u>			
Civilian operating	1,393	1,454	13.7
Military and national security	1,379	1,376	52.5
Civilian investments	<u>979</u>	<u>984</u>	<u>7.5</u>
Total	3,751	3,814	73.7
<u>Revenues</u>	3,009	2,908	66.4
<u>Deficit</u> -- Financing by:	<u>742</u>	<u>906</u>	<u>7.3</u>
U. S. aid	173 a/	173 a/	0
Borrowing	569	733	5.3
Reduction in Treasury cash balances	0	0	2.0

a/ French franc counterpart of U. S. dollar aid

b/ Fiscal year beginning July 1, 1952

Source: -- United States: Federal Reserve Board and Joint Committee on Internal Revenue (Direct taxes include individual and corporate income taxes and estate and gift taxes; indirect taxes include chiefly excises and customs. Receipts on account of Old Age and Survivors' Insurance are excluded).

France: French press and Bank for International Settlements Press Review, July 15, 1953.

1/ 350 French francs = 1 U. S. dollar at official rate of exchange.

United States-Sterling Area Trade, 1952-1953

August 11, 1953
Thomas E. Summers

Summary

After being in substantial surplus on trade account with the Sterling Area from mid-1951 through March 1952, the United States again shifted into trade deficit with this area, and imports have continued to exceed exports through the first quarter 1953.

This shift in the trade balance was brought about primarily by the sharp decline in the value of exports relative to that of imports. An important element in this decline was the drop in grain exports to India, largely financed by a U. S. Government loan. However, tighter monetary policies and import restrictions imposed by Sterling Area countries to counter payments deficits with the Dollar Area also contributed considerably to the reduction of U. S. exports. The relatively smaller decline in U. S. imports was due entirely to a decline in the value of imports from the Overseas Sterling Area. Downward price adjustments of major raw materials imported from that Area accounted for much of the decline in value, although the sharp drop in volume of rubber imports undoubtedly played an important part in addition to the price decline. On the other hand, the value of U. S. imports from the European Sterling Area rose somewhat during the period under review. This upward movement was a reflection of continued high-level industrial activity in the U. S. as well as the increased ability of British exporters to enter the U. S. market.

With the possible exception of tin and rubber, it does not appear likely that prices of Overseas Sterling Area raw materials will fall much further, and, therefore, additional declines in the value of imports on this account for the remainder of 1953 will be limited. The volume of both tin and rubber imports may continue to fall somewhat as the U. S. stockpiling program slackens. Given continued prosperous business conditions in the United States, imports from the European Sterling Area are likely to remain at a high level.

The growth of exports to the Sterling Area will depend largely upon relaxation of import controls and tight monetary policies now imposed by member countries. The amount of foreign aid granted to the Sterling Area, as well as the maintenance of a high value of imports from the member countries, will also be important in this respect. U. S. exports of agricultural products will be aided by grain exports to Pakistan, but the prospect of increased exports of other agricultural commodities is not bright because of increased competition from foreign producers as well as the previously mentioned restrictions imposed on Dollar Area products.

NOT FOR PUBLICATION

Imports

The sharp decline in the value of imports from the Sterling Area from a peak of about \$670 million in the second quarter of 1951 was interrupted in the first quarter of 1952. Imports rose from about \$390 million in the fourth quarter 1951 to about \$520 million in the first quarter of 1952.^{1/} This brief interruption can be explained to a large extent by special United States Government purchases of rubber and tin and the seasonal rise of cocoa imports. Of the total rise in the value of imports between these two periods, rubber accounted for about \$65 million, tin about \$19 million, while the seasonal rise in cocoa imports amounted to about \$25 million.^{2/}

After this interruption, imports declined again in the second and third quarters of 1952, and in the latter quarter they were about \$120 million below those in the first quarter. The decline in rubber imports accounted for about \$100 million of the total drop. Other raw material imports from the Sterling Area such as wool, burlap, jute, tea, sisal and henequin and manganese ore also declined in these two periods.

Imports rose in the fourth quarter of 1952 and again to a lesser extent in the first quarter of 1953. The upward movement in the value of imports from the third to fourth quarters 1952 was due to a rise in the value of a large number of commodities; for example, whiskey, diamonds, machinery, vehicles, from the European Area; manganese ore, lead products, jute, sisal and henequin from the Overseas Area. The slight rise in the first quarter of 1953 appears to be due largely to the seasonal rise in cocoa imports.

Movements in both the prices and volumes of principal raw materials imported from the Overseas Sterling Area were varied.^{3/} Between January 1952 and January 1953, both the import volume and the U. S. spot price of rubber fell about 45 per cent, and the unit value of imports by about 40 per cent.^{4/} The average volume of rubber imported in 1952 was about 90 per cent that imported in 1951. The spot price and unit value for tin, on the other hand, remained virtually constant during the year, and in contrast to rubber, the

^{1/} For details see Table I and Chart I.

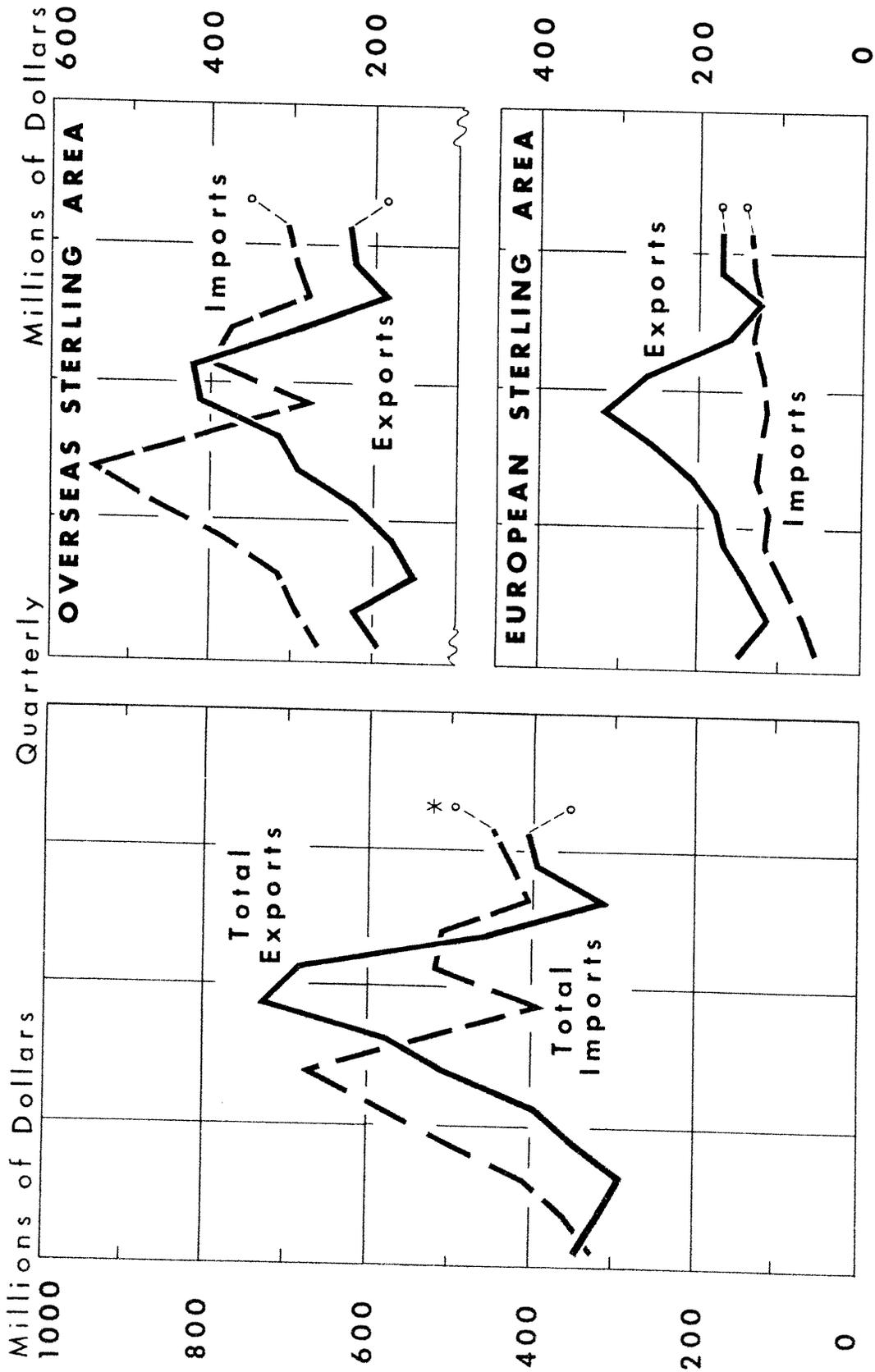
^{2/} See Chart III.

^{3/} Major raw materials imported from this area are burlap, cocoa, goatskins, jute, rubber, tea, tin and un-manufactured wool.

^{4/} See Chart II for quantity, value and price movements.

CHART I

U. S. TRADE WITH THE STERLING AREA



* April at a quarterly rate

Table I

U. S. Trade with the Sterling Area in 1952-53
(In millions of dollars)

	European Sterling	British Malaya	India	Pakistan	South Africa	Australia	New Zealand	Hong Kong		Total	Total Excluding E. S. A.
								All	Other		
Exports 1/											
1951- IV (peak)	317.4	13.8	191.5	10.7	54.3	64.9	20.2	7.8	48.8	729.4	412.0
1952- I	261.3	11.7	198.4	16.0	68.7	56.6	14.0	7.0	49.0	682.7	421.4
II	161.4	8.1	104.3	10.0	58.0	43.3	11.0	6.1	54.9	457.1	295.7
III	126.4	8.2	37.8	9.0	42.6	30.2	8.1	6.1	44.6	313.0	196.6
IV	173.2	8.0	37.7	19.8	45.2	43.3	9.7	7.4	54.3	398.6	225.4
1953- I	172.2	7.4	59.7	13.3	61.1	30.8	7.4	8.9	42.3	403.1	230.9
March	64.6	2.5	23.5	4.8	24.4	9.7	2.8	3.2	16.3	151.8	87.2
April	57.5	3.3	9.4	1.3	18.2	7.9	2.4	3.1	16.8	119.9	62.4
Imports 2/											
1951- II (peak)	129.9	104.0	88.5	17.9	42.3	170.3	13.0	2.4	103.9	672.2	542.3
1952- I	118.9	143.2	68.5	4.8	34.7	37.4	21.6	3.2	86.1	518.4	399.5
II	132.8	103.0	68.5	7.2	25.5	48.1	31.0	2.7	92.8	511.6	378.8
III	123.2	65.7	70.7	5.3	24.4	28.9	20.1	1.8	64.4	404.5	281.3
IV	131.3	71.1	66.1	6.6	21.3	39.4	11.9	4.9	76.0	428.6	297.3
1953- I	137.5	61.4	62.0	8.1	28.4	37.2	13.0	6.3	92.3	446.2	308.7
March	53.1	19.8	20.5	3.4	9.1	7.0	3.4	0.9	33.2	150.4	97.3
April	48.0	23.3	23.2	2.9	7.3	13.9	11.0	0.8	35.4	165.8	117.8
Trade Balance											
1952- I	+142.4	-131.5	+129.9	+11.2	+34.0	+19.2	-7.6	+3.8	-37.1	+164.3	+21.9
II	+28.6	-94.9	+35.8	+2.8	+32.5	-4.8	-20.0	+3.4	-37.9	-54.5	-83.1
III	+3.2	-57.5	-32.9	+3.7	+18.2	+1.3	-12.0	+4.3	-19.8	-91.5	-94.7
IV	+41.9	-63.1	-28.4	+13.2	+23.9	+3.9	-2.2	+2.5	-21.7	-30.0	-71.9
1953- I	+34.7	-54.0	-2.3	+5.2	+32.7	-6.4	-5.6	+2.6	-50.0	-43.1	-77.8
March	+11.5	-17.3	+3.0	+1.4	+15.3	+2.7	-0.6	+2.3	-16.9	+1.4	-10.1
April	+9.5	-20.0	-13.8	-1.6	+10.9	-6.0	-8.6	+2.3	-18.6	-45.9	-55.4

1/ Excluding special category exports, but including re-exports.

2/ General Imports - f.o.b.

3/ United Kingdom, Ireland and Iceland.

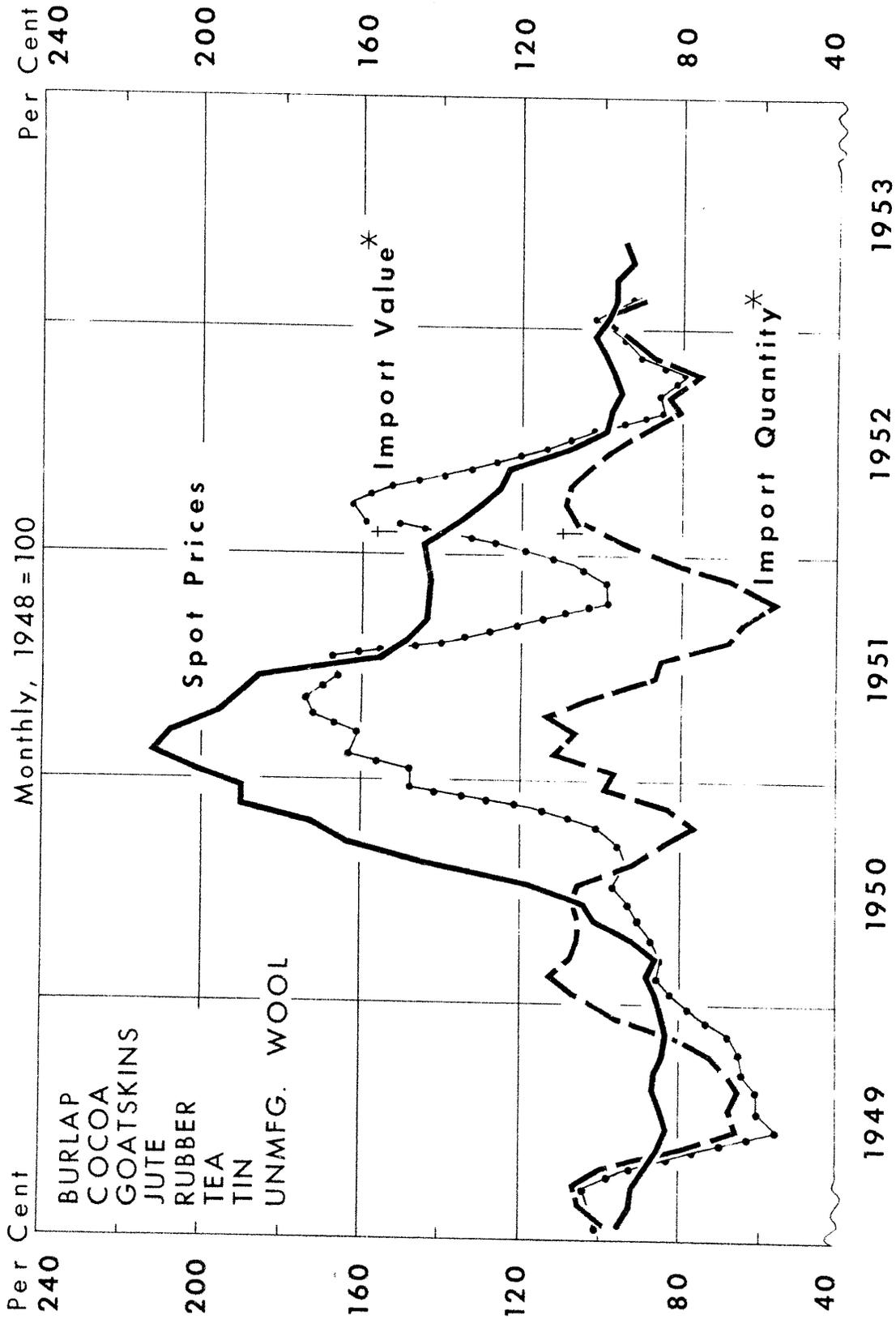
4/ European Sterling Area.

Source: -- U. S. Department of Commerce, Business Information Service, International Trade Statistics Series; U. S. Department of Commerce, United States Foreign Trade, Summary Report, FT 95C.

NOT FOR PUBLICATION

CHART II

U. S. IMPORTS OF EIGHT SELECTED COMMODITIES FROM THE STERLING AREA



* Three-months moving average centered in middle month.

† Statistical series revised beginning January 1952 to provide more extensive coverage.

volume of tin imports from the OSA in 1952 was about five times that in 1951. In the first quarter of 1953, the price of rubber continued to drop while that of tin remained steady until April, when the spot price index fell about 15 per cent. The volume of rubber imports was about half that in the same quarter of 1952 while the volume of tin was about 50 per cent higher.

The strikingly different movements in the prices and import volumes of these two strategic commodities can be attributed in large part to the effect of the U. S. stockpiling program; additions to the rubber stockpile were at a declining rate, while stockpiling of tin was apparently maintained at a constant rate during the period. In the case of rubber, increased competition from Indonesian exports and increased use of synthetic rubber in 1952 undoubtedly played an additional part in reducing rubber purchases from the Sterling Area.

Since April 1953, tin prices have weakened and industrial purchasers have adopted a "wait and see" attitude in expectation of further price declines. Industrial inventories of this metal were at a very low level in June, and only sufficient amounts were on hand to carry production through the end of August.^{1/} Nevertheless, there seems to be no great activity in the market as buyers anticipate further downward adjustments in price.^{2/}

Continuing its downward movement, the price of natural rubber in April 1953 had declined by about 50 per cent in the preceding 12 month period. Industrial inventories of natural rubber in the first quarter of 1953 were about 50 per cent higher than in the same period last year. Furthermore, tire inventories at the end of April were about 27 per cent higher than those of a year earlier.^{3/} Synthetic rubber production also has been maintained at high levels. On the other hand, the transfer of the government owned synthetic rubber plants to private interests could result in a sharp curtailment in production as well as a price increase for this major competitor with the natural product. This factor appears not to be of immediate importance, however, and in view of substantial stocks in the hands of consumers further price declines as well as a continued low import volume of natural rubber are likely for the remainder of 1953.

The prices of jute and burlap declined considerably between the first quarter of 1952 and the same period of 1953; burlap declined in price about 45 per cent and jute about 40 per cent. Prices have shown a tendency to stabilize since the beginning of the year, and the price outlook for these two commodities is somewhat clouded at the moment. The volume of burlap imports in the first quarter of 1953 was about 3 per cent higher while that of jute was over four times as high as in the same quarter of 1952.

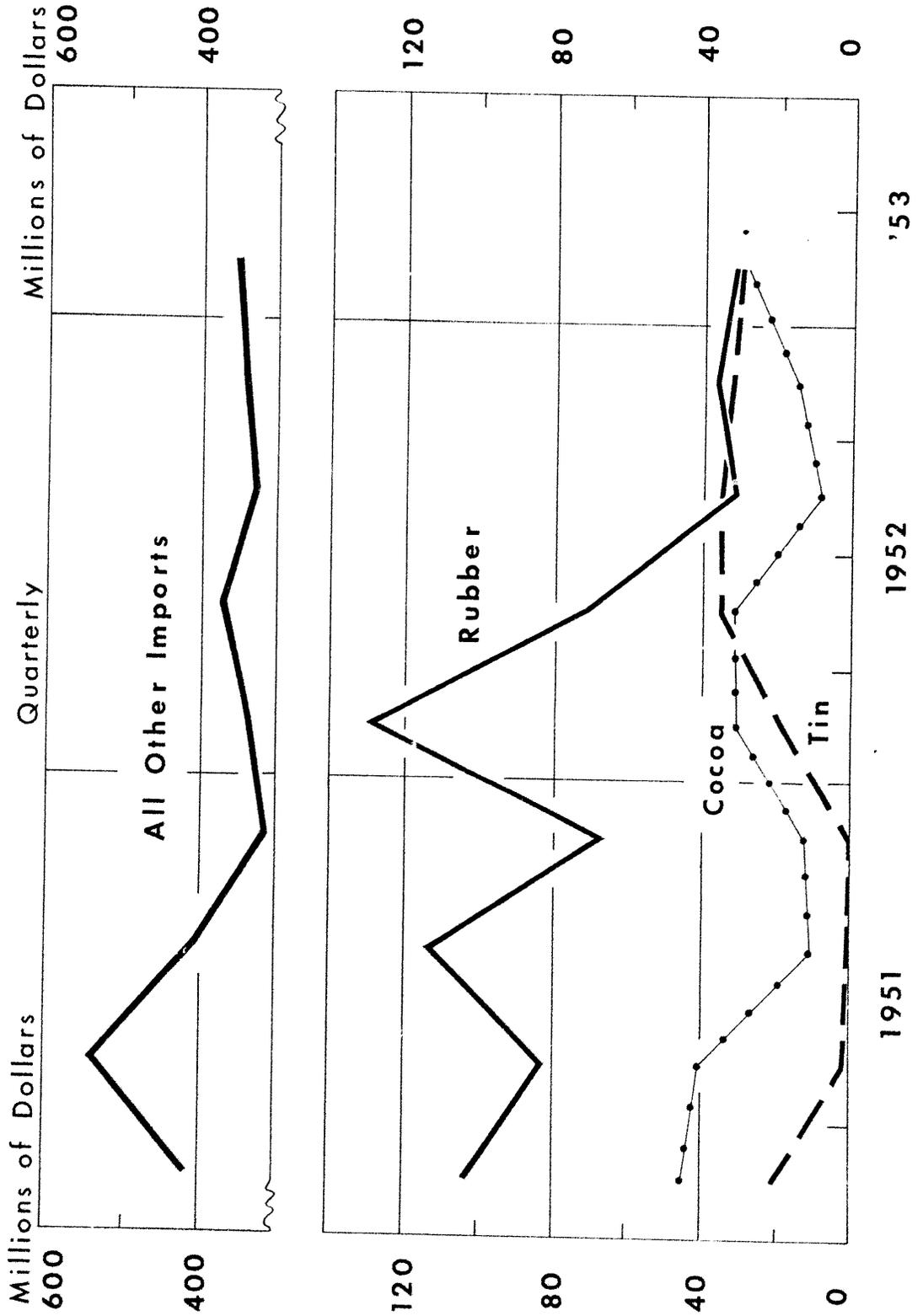
^{1/} The Journal of Commerce, June 16, 1953.

^{2/} At the end of July 1953.

^{3/} The Wall Street Journal, June 13, 1953.

CHART III

U. S. IMPORTS OF SELECTED COMMODITIES FROM THE STERLING AREA



Spot prices of other important imports from the Overseas Sterling Area such as cocoa, goatskins and tea declined only to a limited extent between the first quarters of 1952 and 1953. Cocoa prices dropped about 10 per cent, goatskins only slightly and tea about 15 per cent. Wool prices, on the other hand, were about 12 per cent higher.

The quantities of both cocoa and goatskin imports were about the same in both these periods, while tea imports were a little larger. Wool imports, on the other hand, were about 35 per cent lower in the first quarter of 1953 compared with the same quarter a year earlier.

Geographic breakdown of imports -- The values of U. S. raw material imports from the Overseas Sterling Area were affected in an uneven fashion during the period under review. Imports from British Malaya, which dropped from about \$143 to \$61 million (quarterly rate) between the first quarter of 1952 and the same period in 1953, were hardest hit because of the rapid drop in both price and quantity of rubber imports. The decline in imports of this particular commodity was offset to some extent by increased purchases of tin in 1952. Virtually no tin was imported from British Malaya between May 1951 and February 1952.^{1/} The total value of tin imports in 1952 from the Sterling Area was about \$123 million or about five times that in 1951.

The value of imports from South Africa, Australia, and New Zealand, on the other hand, fell to much less an extent than those from British Malaya. The decline in imports from these countries was to a considerable degree the result of a decline in the quantum of wool imports, the major import from this group of countries. Between the first quarter 1952 and the same quarter 1953, total imports from these countries fell by about \$15 million, while wool imports fell about \$34 million. Increased imports of metals such as copper, lead and manganese, helped offset in part the decline due to curtailed wool purchases.

Imports from India showed little change, dropping only about \$7 million (10 per cent) between the first quarter of 1952 and that of 1953. Burlap exports, one of the chief commodities exported by this country to the United States, declined about \$8 million. During the period under review, Pakistani exports to the U. S. increased about \$3 million, jute accounting for most of the increase. Although the price of this commodity fell considerably, the increased volume of U. S. jute imports more than offset the decline in price.

Imports from Hong Kong in latter half of 1952, as well as the first quarter of 1953, were considerably higher than in the first half of 1952.

^{1/} This was the result of official U. S. policy to reduce the price of tin to "reasonable" levels. For details of this policy, see this Review for January 15, 1952, "Tin and Rubber in United States Trade with the Sterling Area".

This rise is probably due for the most part to the clarification of import licensing procedures pertaining to imports of goods of Chinese origin.

Exports

U. S. exports to the Sterling Area declined from \$1,140 in the first half of 1952 to \$713 million ^{1/} in the second half of 1952, or about 38 per cent. Part of the decline may be attributed to import restrictions imposed against dollar area products by members of the Sterling Area. These measures were taken as a result of large deficits which the Sterling Area ran with the dollar area in late 1951 and early 1952. Some part of the decline in United States exports can be attributed to slackening demand for raw materials as industrial production in the United Kingdom and other countries of the Sterling Area fell off in the second and third quarters of 1952. Raw cotton exports were chiefly affected in this respect.

Exports rose somewhat in the fourth quarter and the level reached then was maintained in early 1953. Nevertheless, as the result of the earlier decline, exports in the first quarter of 1953 were lower by about \$280 million, or approximately 40 per cent, than those in the same quarter of 1952.^{2/}

The major portion of the decline in exports to the Overseas Sterling Area was centered in India. Exports to this country dropped from about \$300 million in the first half of the year to only around \$75 million in the second half. Two commodities, wheat and cotton, accounted for most of the decline. Wheat dropped by about \$100 million between the two half-yearly periods with the completion by mid-1952 of wheat shipments under the India Wheat Loan. Raw cotton exports accounted for about \$80 million of the total export decline.

The trade balance of the United States with the Sterling Area members in Southern Asia, chiefly India, has been affected in the post-war period to a very large extent by imports of wheat and other grain products from the United States. As shown in Table II, U. S. exports of these products to this region have been erratic; those to India have been consistently the largest in magnitude. The data also reveal that this group of countries would have had a considerable trade surplus with the United States in 1949, 1951 and 1952, had it not been for grain imports. In 1950, although India achieved a large surplus on trade account with the U. S., grain imports reduced it by nearly \$30 million.

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- ^{1/} Exports to the European Sterling Area (United Kingdom, Ireland and Iceland) declined about 30 per cent, while those to the Overseas Sterling Area declined about 40 per cent.
- ^{2/} Exports to the European Sterling Area in this period were down about 35 per cent and those to the Overseas Area around 45 per cent. If India is excluded, exports to the Overseas Sterling Area declined only 23 per cent, making the average decline for the Sterling Area as a whole about 28 per cent. Exports to India declined about 70 per cent between the two periods.

Table II

U. S. Exports of Grains and Preparations to Sterling Area
Countries in Southern Asia, 1949-52
(In millions of dollars)

	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>
India	43.5	27.5	205.1	158.5
Pakistan	-	-	-	10.8 ^{1/}
Ceylon	-	-	2.5 ^{2/}	11.7 ^{3/}
Total	43.5	27.5	207.6	181.0
Combined Trade Balance of India, Pakistan and Ceylon with U. S.	-18.3	+100.8	-129.3	-125.2

^{1/} Wheat.

^{2/} Wheat flour.

^{3/} Milled rice and wheat flour.

Source: → U. S. Department of Commerce, Business Information Service, International Trade Statistics Series.

Exports to the European Sterling Area declined from about \$420 million in the first half of 1952 to around \$300 million in the second half of the year. They remained at about the same level in the first quarter of 1953 as in the last quarter of 1952, or at about \$175 million (quarterly basis). Most of the decline in 1952 can be accounted for by the drop in export values of foodstuffs (mostly corn, lard and wheat) - \$70 million; metals and manufactures -- \$16 million; wood and paper -- \$9 million; raw cotton excluding linters -- \$7 million; and chemicals and related products -- \$7 million.

The movements in the values of major United States exports to the Sterling Area for the period 1948-52 are shown in Table III. The first five in importance are illustrated in Chart IV on a quarterly basis for 1951-52.^{1/} Only with respect to two items, chemicals and cotton products, does there seem to be a fairly continuous movement in a particular direction since 1948; in these specific cases, the movement was downwards except during part of 1951. Exports of corn and wheat were considerably higher in both 1951 and 1952 than in any of the preceding three years, but this was due primarily to special shipments of these products to famine areas in South Asia.

^{1/} Machinery and vehicles, steel, raw cotton including linters, wheat and tobacco.

Table III

Major United States Exports to the Sterling Area
(In millions of dollars)

	<u>Wheat</u>	<u>Corn</u>	<u>Tobacco</u>	<u>Raw Cotton and Linters</u>	<u>Steel Mill Products</u>	<u>Machinery and Vehicles</u>	<u>Chemicals</u>	<u>Cotton Products</u>	<u>All Other</u>	<u>Total</u>
1948	48	1	126	79	85	639	133	161	734	2,006
1949	53	23	138	155	122	582	109	56	629	1,867
1950	43	33	123	200	55	309	97	19	390	1,269
1951 ^{1/}	273	52	190	240	78	407	116	77	772	2,205
I	41	23	21	40	20	81	21	13	136	396
II	83	13	10	17	18	99	29	28	205	502
III	69	4	59	34	19	106	34	23	230	578
IV	80	13	101	150	22	117	32	14	200	729
1952 ^{1/}	175	75	79	189	116	485	83	30	628	1,860
I	97	30	23	121	28	143	30	15	202	689
II	41	14	7	21	39	129	22	7	179	459
III	7	5	17	17	20	106	17	4	120	313
IV	31	26	32	31	29	107	15	5	123	399

^{1/} The sum of quarterly figures may not equal the total for the year because of rounding errors.

Source: -- U. S. Department of Commerce, Business Information Service, International Trade Statistics Series.

Table IV

U. S. Exports of Metals, Manufactures, Machinery and Vehicles to
Selected Underdeveloped Countries of the Sterling Area ^{1/}
(In millions of dollars)

	<u>1949 ^{2/}</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>I-1953 ^{4/}</u>
Metals and manufactures	103.8	49.6	64.2	66.2	42.4
Machinery and vehicles	356.3	194.1 ^{3/}	278.3	283.7	248.8
Total	460.1	243.7	342.5	349.9	291.2

^{1/} India, Pakistan, Ceylon, British Malaya, Burma, Australia, New Zealand, Union of South Africa, Gold Coast and Nigeria.

^{2/} Excluding Burma, data not readily available.

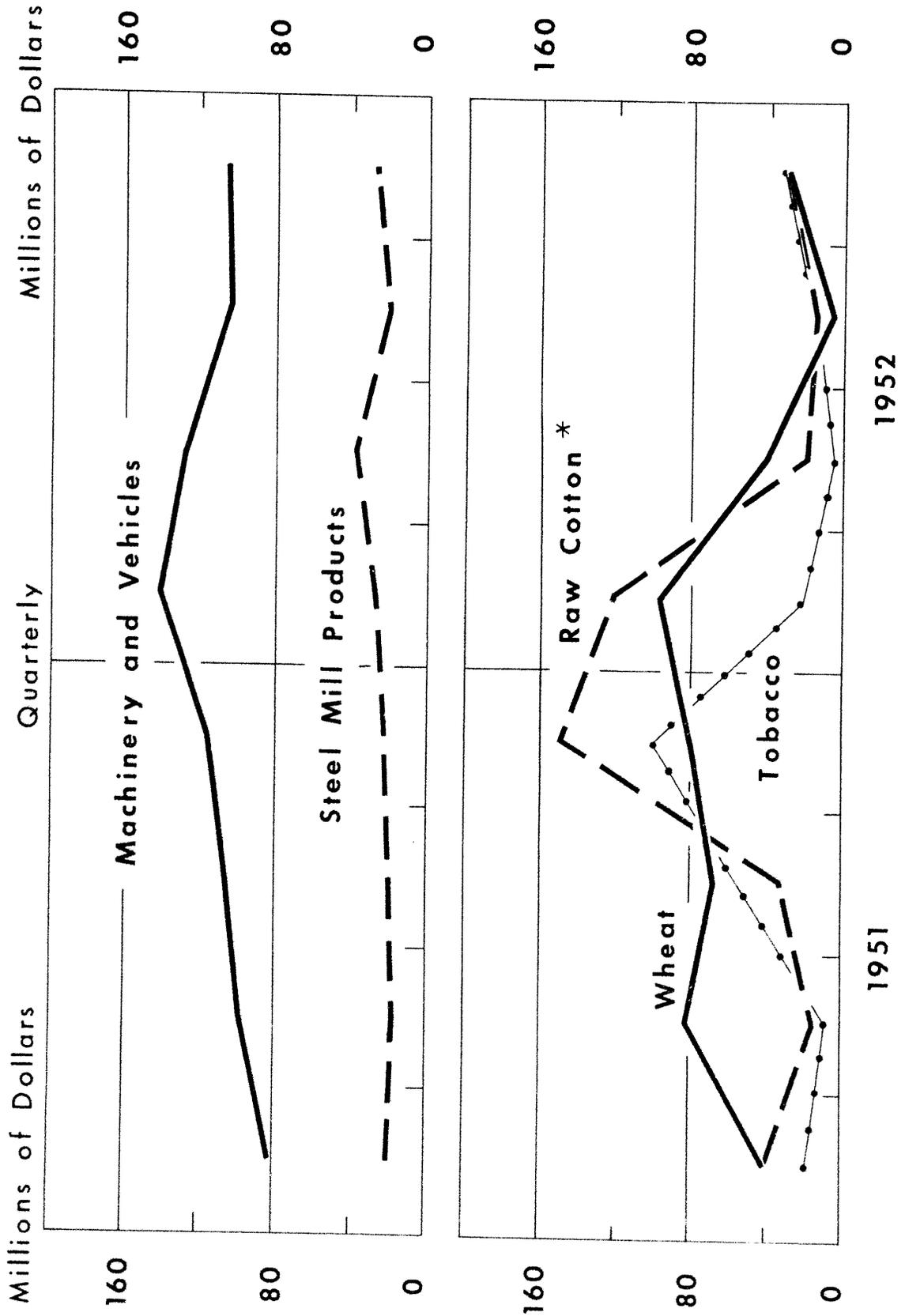
^{3/} Excluding special category exports after July 1950.

^{4/} At annual rate.

Source: -- U. S. Department of Commerce, Business Information Service, International Trade Statistics Series.

CHART IV

MAJOR U.S. EXPORTS TO THE STERLING AREA



* Including linters.

Tobacco exports in 1952 were much lower than in the preceding years partly because of restrictions imposed by the United Kingdom on dollar imports. Also, inventories of this commodity had been built up when heavy purchases were made from the U. S. in 1951. Some part of the low value of tobacco exports in 1952 can be attributed to a decline in purchases for inventory.

Raw cotton exports to the Sterling Area declined sharply after the first quarter 1952 primarily as result of declining textile production in the United Kingdom. In the first half of 1952, cotton stocks in the United Kingdom were large relative to current utilization, and at mid-year these stocks amounted to about 14 months' consumption compared with about 7 months a year earlier.^{1/} Another factor affecting the low level of U. S. exports of this commodity in the last three quarters of 1952 was increased competition from cheaper foreign produced cotton.^{2/}

Economic development in the Overseas Sterling Area apparently was not hindered by cuts in dollar expenditures during 1952, since two categories of U. S. exports essential for development programs (metals and manufactures; machinery and vehicles) actually rose slightly compared with the previous year. This upward movement did not continue, however, in the first quarter of 1953. Export data for these two categories are shown in Table IV.

Prospects for 1953

Expansion of U. S. exports to the Sterling Area for the remainder of 1953 will depend to a very large extent on relaxation of import controls imposed on dollar area products by member countries, the amount of foreign aid, as well as the maintenance of a high value of Sterling Area exports to the United States. Exports of wheat to Pakistan to relieve famine conditions in that country will undoubtedly raise the level of total exports to the Overseas Sterling Area for the remainder of the year.

The long-run position of wheat exports to Southern Asia will undoubtedly be affected by many factors, including not only weather, but also competition between grains and other crops for land use, the amount of surplus rice available in the major rice producing regions in the world, and local marketing conditions. Burmese rice production in 1952, although having increased considerably since the end of the war, amounted to only about 80 per cent of the pre-war level. Recent reports indicate that the Burmese rice surplus in 1953 will amount to at least 1.6 million tons. This compares with the annual pre-war sales of about three million tons.^{3/} On the other hand,

^{1/} Survey of Current Business, March 1953.

^{2/} U. S. Department of Agriculture, Foreign Agriculture Trade, July 1953.

^{3/} New York Times, June 17, 1953.

now that the prices of jute and cotton (an important competitor with grain for land use) have fallen, grain production is likely to be increased in this region. An increased grain output in India and Pakistan could offset a prospective decline in Australian wheat production of about 12 per cent compared with the previous crop year. The U. S. wheat loan to India has been an important factor allowing the Government to build up stocks of food grains which were large enough at the end of 1952 to permit the programming of a smaller volume of imports in 1953 than in either of the two previous years.

With respect to U. S. imports, there has been a distinct upward movement in United States purchases from the European Sterling Area over the last two years in response to continued high level economic activity in the United States and to the increasing ability of British exporters to sell to the American market. Barring a recession in this country during the remainder of 1953, this movement should continue. The prospect for increased imports from the Overseas Sterling Area appears less bright. Continued prosperity in the United States is, of course, a prime requisite for maintenance of a high volume of imports from this area of the world. But U. S. Government stockpiling policies are also a very important factor with respect to two major exports of this area, tin and rubber. Should the present international tensions relax, it is unlikely that these two commodities will be acquired from the Overseas Sterling Area in any great quantity for stockpiling purposes.

The index of spot prices of eight major commodities imported from the Overseas Sterling Area continued to decline very slightly through May 1953. But on the whole, since July 1952, this price index has tended to be fairly stable. Except for rubber and tin the price outlook seems to be one of stability. Rubber and tin prices appear not to have reached the bottom yet.

In view of the much lower prices of raw materials at present compared with 1952, as well as indications that the current low import volume of rubber will be continued for the rest of the year, and the tendency for the U. S. Government stockpiling program to slacken, it is probable that the value of imports in 1953 from the Overseas Sterling Area will be somewhat lower than in 1952, though perhaps not below the rate of the second half of 1952 if we assume continued prosperity in the United States for the remainder of 1953.