Mr Morrill

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CONFIDENTIAL

RFD. 27

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

REVIEW OF FOREIGN DEVELOPMENTS

January 14, 1946

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Exchange Control and Quantitative Trade Restrictions

Robert Triffin

The ratification, a few days ago, of the Bretton Woods Agreements augurs well for the success of the proposed International Conference on Trade and Employment. It may now be hoped that an International Trade Organization will emerge during the coming year and form a natural and necessary complement of the International Monetary Fund and of the International Bank for Reconstruction and Development.

The ITO proposals, recently released in connection with the conclusion of the British loan negotiations, constitute a realistic and constructive approach toward many of the most vital and difficult problems confronting the world economy. Of special importance are the provisions relating to exchange control and quantitative trade restrictions. On the first of these problems, the proposed ITO convention merely refers to the Articles of Agreement of the International Monetary Fund and to the necessity for common membership in, and consultations between, the Fund and the ITO. Quantitative trade restrictions, on the other hand, which were not dealt with in the Bretton Woods Agreements, form the object of detailed provisions, far more specific in character than those devoted to exchange control in the Articles of the Monetary Fund.

It had often been pointed out, during the discussion of the Bretton Woods Agreements, that such limitations on the use of quantitative trade restrictions would form an indispensable complement of the Fund's provisions on exchange control. Indeed both types of instruments can be, and have been, used at times for similar purposes and with similar results. Thus the ITO proposals are of vital importance for the success of monetary as well as of commercial cooperation by the United Nations.

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While in full agreement, therefore, with the purposes of the ITO proposals on quantitative trade restrictions, I would venture to question whether they are well adapted to the ends sought. A first and fundamental doubt relates to the wisdom of separate treatment of exchange control and quantitative trade restrictions--at least when the latter are used in a comprehensive manner, for the purpose of safeguarding the balance of payments, as contemplated on page 14 of the ITO document. I would like to suggest an alternative approach which would emcompass both problems in a uniform and coordinated manner: the broadening, through an international convention, of the type of exchange control legislation recently adopted in Paraguay and Guatemala, with the help and advice of the Board's representatives, and briefly discussed in this Review of November 5, 1945, by Mr. Alter.

The ITO proposals are based on a different and, to my mind, largely unworkable or ineffectual, approach which admits individual rationing of exchange by administrative discretion, within the framework of a "previous representative period" concept. The core of the proposed commitments is that "any allocation of such quotas among sources of supply should be based in so far as practicable upon the proportion of the total imports of the product in question supplied by the various member countries in a previous representative period, account being taken of any special factors which may have affected or which may be affecting the trade in that product" (pp. 14-15).

This suggestion, attractive as it may appear at first view, is open to serious objections:

1. First of all, country discrimination can easily be brought in through the back door as long as allocation of exchange among commodities is left to the discretion of the members. The ITO document does not prevent this. While the criterion of a "previous representative period" could, in theory, be later extended to cover commodity, as well as country, allocation, it would be completely inappropriate in this respect, since any allocation of scarce exchange should change the "representative" pattern of imports in favor of the more essential, and against the less essential, imports.

2. The "previous representative period" criterion tends to freeze the channels of trade in a very arbitrary and uneconomic manner. The resulting distortion and unreality will be the more marked as one must go further and further back into the past to discover a "representative" period. Structural changes brought about by the war make it extremely difficult to accept as representative not only wartime, but even pre-war patterns. Difficulties are even greater in the case of the many countries in which pre-war trade was already subject, since the early 'thirties, to import quotas and exchange control regulation.

3. The recognition of these inadequacies is implicit in the qualifying language used in clause (a): "in so far as practicable" and "account being taken of any special factors which may have affected or which may be affecting the trade in that product." These qualifications are obviously necessary but, in so far as they apply, they

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invalidate the objective criterion upon which the proposals depend for the prevention of discrimination.

4. It is true that other clauses may be invoked in this case (see clauses (b) and (c) on p. 15), but they merely provide for information and discussion, and not for a method of resolving differences that may arise between members.

These objections to the "previous representative period" criterion are sufficiently grave to warrant study of the alternative approach mentioned above, which has the further advantage of being equally applicable to exchange control and quantitative trade restrictions. A general description of the system may be found in Mr. Alter's article. Basically it eliminates discriminatory practices at the roots, by outlawing the whole procedure of administrative rationing and allocation, substituting for it a flexible and impersonal system based on the free interplay of available exchange supplies and current demand. Traders may buy whatever they please wherever they please (presumably from the cheapest source of supply) subject only to the auction premia that would arise with respect to less essential categories of transactions. Various mandatory provisions make the system as largely non-discretionary as possible and go much further than the ITO proposals toward guaranteeing "equality of treatment" without freezing trade into uneconomic channels. In so far as automatic mechanisms are substituted for arbitrary discretion, the difficulties raised by the "representative period" criterion do not even arise. Conflicts are reduced to a minimum and the small range of discretion left to national administration can easily be brought under the control or supervision of an international authority.

The alternative procedure here suggested also incorporates, in concrete organizational terms, the recommendations of paragraphs 2, 4, and 5 of Section C and of the whole Section F of Chapter III of the ITO document. Specific reference is made, in the Guatemalan legislation, to the subordination of the national exchange control system to the international agreements or conventions accepted by Guatemala. The introduction of controls is permitted only when certain concretely and statistically defined criteria are met and is, even then, subject to the Fund's or ITO's approval. The restrictions are self-liquidating and will automatically disappear when exchange becomes available again. The cases of inconvertible and of scarce currencies are also provided for in the legislation.

It has been argued at Chapultepec that some controls might be justified, even when exchange reserves are more than ample with relation to current balance of payments needs, in order to ensure the utilization of those reserves for purposes of economic development. If this be agreed to by the ITO, some controls or quotas might be established for a few clearly defined categories of unessential transactions, while the bulk of imports remain entirely free of such restrictions. Even in this case, the method suggested in this paper would, with minor modifications, constitute a better safeguard against abuse than the "previous representative period" criterion.

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German Holdings in Switzerland R. E.

Towards the end of November 1945 an official statement was issued in Bern by the Swiss Clearing Office giving preliminary figures for German assets in Switzerland. More than 25,000 declarations were received, many of them incorrectly or incompletely filled out, thus causing delays in the publication of the results of the investigation. Further delays occurred because special legislation had to be passed to lift the professional secrecy of the lawyers which was possible only after prolonged negotiations. According to the Clearing Office, an accurate analysis of these intricate declarations entailed considerable difficulties and work. The preliminary report (which includes figures for Liechtenstein) shows German holdings in Switzerland as follows:

	Millions of Swiss francs
Assets held by persons domiciled in Germany (excluding Swiss nationals)	371
Assets held by German nationals domiciled in Switzerland	254
Assets held by German nationals and German-controlled corporations in third countries	79
Assets held by persons domiciled in Austria (excluding Swiss nationals)	41
Assets held by persons domiciled in other areas formerly belonging to Greater Germany (excluding Swiss nationals)	7
Total	752

In addition approximately 4,000 declarations are still pending involving the following estimated amounts:

	Millions of Swiss francs
Assets held by German nationals domiciled in Switzerland	120
Assets held by persons domiciled in former Greater Germany	90
Assets held by Germans domiciled in third countries	25
Total	235

The total amount of German assets in Switzerland thus appears to be close to one billion Swiss francs. However, it must be emphasized that this figure should be accepted with reserve and that it is not as yet final. It may be of interest to point out that estimated Swiss claims blocked in Germany amount to between three and four billion Swiss francs.

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Russia and Bretton Woods

Alice Bourneuf and
Alexander Gerschenkron

Russia's failure to join the International Fund and Bank prior to the deadline of December 31 has, at least for the moment, dimmed the prospects of economic collaboration with Russia. At the same time, it is disconcertingly difficult to discover the rationale of the Russian attitude. The first explanation that comes to mind is that Russia may consider the obligations she would incur as too heavy in relation to the advantages offered to her by these organizations. Yet a scrutiny of the principal obligations which Russia would have to fulfill does not lend much support to this supposition.

The obligation to maintain the par value of the currency is comparatively light in the case of Russia (a) because in conditions of a complete state trading monopoly a change in the rate of exchange must be judged less in terms of economic effects than in terms of administrative convenience, and (b) because it is stated in the Fund Agreement (Article IV: Section 5, e) that "a member may change the par value of its currency without the concurrence of the Fund if the change does not affect the international transactions of members of the Fund." There is little doubt that the Fund would agree that this provision applied to a change in the rate of the ruble. For the Russians could be relied upon to find ways and means by which even such transactions as tourist expenditures in, or emigrant remittances to, Russia would remain unaffected.

Similarly, the obligation to avoid restrictions on current international payments is of very limited importance to Russia. As long as the Russians control the current transactions which give rise to current payments, avoidance of restrictions on payments does not necessarily lead to any substantial change in Russia's foreign trade. The only possible exception refers to remittances to other countries by persons residing in Russia. Under the agreement, such remittances will be regarded "without limitation" as current payments only if they are "moderate" and designed to cover "family living expenditures." The Russian experts at Bretton Woods registered a reservation against even this limited interpretation and suggested that the definition of such transactions as current or capital transactions should be left to special agreements between the Fund and the members concerned. The amounts in question would certainly be very small, particularly because foreign workers in Russia usually have had private contracts under which parts of their salaries or wages could be transferred abroad. At any rate, the Fund Agreement gives Russia sufficient power to hold such remittances to a negligible level.

The Fund Agreement imposes upon members the obligation to refrain from discriminatory currency practices. Yet, it is again obvious that a state trading monopoly country, where not only the rate of exchange but also the prices are controlled, may indulge in discriminatory policies while applying the same rate of exchange to all transactions with all countries. Exchange rates may be a somewhat more convenient instrument of discrimination than are prices but this is hardly an important consideration. It is only under the terms of

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the "State Trading" section of the "Proposals for Expansion of World Trade and Employment" that Russia would be subject to the formal, although probably not supervisable and not enforceable, obligation to abstain from discrimination in trade. But of course Russia could become a member of the Fund without even joining the prospective International Trade Organization. There is nothing in the Fund Agreement that might prevent the Russians from attempting to establish, by use of discriminatory trade practices, a Russian economic bloc, say, in Eastern Europe, if this be their goal. It is possible that adherence to the Fund of countries in Eastern Europe might tend to render more difficult Russia's efforts in this direction. However, all three of the countries in Eastern Europe which were eligible to sign the Fund and Bank Agreements (Yugoslavia, Czechoslovakia, Poland) did so before December 31, 1945, and there is no indication that Russia attempted to interfere with their actions.

Another consideration may be mentioned. In general Russia's foreign trade operations in the past have been conducted in foreign currencies or gold. Thus, foreigners have had no occasion to buy or sell ruble balances and market fluctuations in the value of the ruble have been impossible. Russia might find it disagreeable if her membership in the Fund were to lead, against her will, to the acquisition of substantial ruble balances by foreigners. But such a development is quite unlikely, if not impossible. It is true that under the Agreement the Fund would receive rubles from Russia to the amount of over 80 per cent of her quota, and that further ruble amounts would accrue to the Fund as a result of Russia's borrowings. But if the Russians desire to continue to conduct their trade in currencies other than the ruble, foreigners would have no occasion to obtain rubles from the Fund, and there is little in the Fund to prevent the Russians from pursuing such a policy.

It is conceivable that in the case of countries with which Russia may have a considerable export surplus for which she insists on being paid in convertible foreign exchange or in gold, the governments concerned might exert pressure on the Fund and cause it, in turn, to press Russia to agree to accept payment in rubles obtained through the Fund.1/ Such pressure is likely to grow stronger if Russia should develop an over-all export surplus in her foreign trade as may well be the case in the next decade. In general, it is probable that Russia would prefer to accumulate gold or dollars rather than to increase her drawing rights on the Fund. Moreover, the acceptance of rubles in payment for Russian exports might present certain dangers from Russia's point of view in that it might, to some extent, widen the market for ruble notes smuggled out of Russia and thus tend to induce such smuggling on a larger scale. All this is imaginable but hardly very serious. Russia could refuse to be persuaded by the Fund authorities and still insist on payments in convertible funds; or she could agree to accept rubles on a very small scale. At any rate, in such a case,

1/ Members of the Fund are not in general obligated to maintain their currencies convertible into gold or foreign exchange. They can live up to their obligations by converting balances of their currencies held by other members into the currencies of those members.

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she could protest effectively should she discover that the ruble holdings of the Fund were not reduced by the full equivalent of the balances converted. It would be surprising indeed if consideration of such remote contingencies had influenced Russia's present attitude to the Fund.

The only remaining major obligation is to supply economic information under the Fund Agreement. The pertinent provisions may indeed be looked upon with disfavor by the Russians. One could argue, somewhat cynically, that the Russians could simply provide incorrect figures. Yet, even if we assume that the Russians desired to do this, to supply false statistics over a long period of time is not an easy matter. In the past, at any rate, the Russians tended to suppress rather than falsify statistical information.

It is true that certain items of information required under the Agreement, such as gold statistics (holdings, output, exports), prices, and the invisible current items and capital movements in the balance of payments, were either not divulged at all in the last 10 or 15 years or divulged sporadically or in a disguised fashion. But it is also true, first, that we have a reasonably good idea of some of these items, and, second, that the Russians probably could still successfully resist demands to supply very detailed information. At any rate, this information seems to touch only very indirectly on the question of Russia's military security.

While the supplying of information may be annoying to the Russians and regarded by them as a disadvantage, this disadvantage must be measured in terms of the advantages they may expect from the Fund. From the point of view of the Russians, the advantages of the Fund are fourfold: 1) stability of exchange rates; 2) maintenance of the role of gold; 3) absence of exchange discrimination against Russia; and 4) the credit facilities. Since the Agreement has been signed by members having more than 65 per cent of the quotas, the Russians will benefit with respect to exchange stability and gold even without becoming members of the Fund. It is different with regard to the third and fourth points. The advantages of the former are self-evident, and there is likewise little doubt that the credit facilities of the Fund can play an important role in Russia's foreign economic relations in the years to come. While it is necessary to combat exaggerated notions of the Russian need for credit (as for instance the implied notion of the Colmer Committee that the Russians may be willing to reduce their military expenditures in exchange for a loan), foreign loans are doubtless of great importance to Russia for eliminating numerous bottlenecks in the process of reconstruction. Absence of foreign loans would greatly hamper this process. It should be noted that, under the specific conditions of a planned economy country, the use of Fund loans for reconstruction purposes is practically impossible to prevent.

To be sure, the Russians are more interested in long-term than in short-term credits; it is true that they would like to borrow on more favorable terms than those to be granted by the Fund. But there is little doubt that they could profitably utilize every cent they may receive from the Fund. Moreover, the very fact of their

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membership in the Fund and of their access to its resources would be likely to improve considerably their bargaining position with regard to long-term loans obtainable from other sources. At any rate, it would seem that the urgency of the Russian demand for foreign loans should be very much more important than the relative inconvenience of divulging economic information to the Fund.

This is perhaps less convincing in the case of the Bank. There the advantage of credit facilities is offset by the sharing of the aggregate creditors' risk which might involve a drain on the Russian reserves of gold and foreign exchange. Apart from general questions of economic cooperation, Russia's participation in the Bank guarantee would probably be the most tangible advantage the United States could derive from Russian participation in the Bretton Woods organization. By the same token, this participation would be the most palpable obligation Russia would undertake in accepting the Agreements. But if this consideration deterred Russia from signing the Bretton Woods Agreements, it is still not clear why Russia did not adopt the same strategy as Colombia by signing the Fund Agreement while refraining from signing the Bank Agreement.

It has been mentioned in public discussions on the subject in recent days that Russia has been reluctant to join an organization where it did not possess the right of vetoing the decisions and resolutions of the organization. It is true that the Russians have insisted on the veto right in the UNO and on other occasions. But they never claimed this right at Bretton Woods; and to assume that the Russians would under no circumstances join an international organization unless they had at least such a negative instrument for determining its policies seems to underestimate the flexibility of Russian policies. It is difficult to believe that the Russians would forego concrete advantages for the sake of an abstract principle. With regard to general policies, whatever influence the Russians may have in the Fund and the Bank, it is clear that it would be larger if they were in rather than out. With regard to policy toward Russia herself, it is possible that the Russians may fear that they would receive less than fair treatment in the Fund and the Bank. The Russians may consider that a veto power would be useful to them in preventing certain decisions directed against themselves. But it is difficult to think of decisions to be taken by the Board of Governors of the Fund under the Fund Agreement which would place Russia at a greater disadvantage than she would inflict upon herself by her failure to join the Fund.

Thus a scrutiny of possible Russian motivations, to the extent that they may be found in the Agreements and in the mode of operations of the Fund, does not suggest a rational motive for Russia's remaining outside the Fund. This conclusion is reinforced by the fact that none of the reservations Russia made at the conclusion of the Bretton Woods conference seems to concern a matter serious enough to justify Russia's abstention.

It is difficult, therefore, to escape the impression that the reasons for Russia's attitude are of a tactical nature and extraneous to the Bretton Woods organizations. It may be that Russia's policy is dictated by the hope that she will be able to use a subsequent

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offer to join the Fund as a bargaining weapon in order to obtain concessions from abroad, particularly from the United States. In other words, the Russian government may believe that if Russia had joined before the end of 1945 it would have obtained few additional advantages beyond having created good will. At a later date, the government may be able to obtain a more tangible quid pro quo as the price of adherence to Bretton Woods. This at least is a rational explanation, and one which also appears to conform to the observed pattern of Russian negotiation tactics. If this be the policy, it is probably ill-conceived in the present case. The establishment of the Fund and the Bank is assured, and it is more than doubtful that Russia's decision to disregard the deadline of December 31 can add appreciably to Russia's bargaining position. In fact, as far as the intangible but important element of good will is concerned, the Russian attitude is likely to have weakened rather than strengthened Russia's hand in future negotiations.

Those who believe in the importance of Russia's integration into the world economy and in the benefits of broad economic cooperation with that country for the cause of peace and rising welfare will still welcome Russia's adherence to the Fund and would regard it as unfortunate if any obstacles were to be placed in the path of Russia's entry. But they would regard it as unjustifiable and as an ill omen for the cause of this cooperation if Russia should expect the United States to pay a special price in order to induce Russia to join.

Bretton Woods Institutions with Present Signatories As Members

Alice Bourneuf

This note analyses the position of the Fund and Bank if the membership is confined to present signatories of the Agreements as compared to the position with full membership of the countries represented at Bretton Woods. The analysis is confined to the quantitative changes in the assets and the distribution of voting power in the two institutions. It appears that the Fund would be in a stronger position to meet demands upon it with the present signatories as members. The Bank's operations would be curtailed but its ability to meet the demands of specific borrowers would probably be unaffected and its overall financial position would be little changed.

The following table shows the status of Fund and Bank subscriptions and membership on the basis of those countries which signed the Agreement prior to the December 31, 1945, deadline.

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TABLE 1
FUND AND BANK SUBSCRIPTION AND MEMBERSHIP

	Present Signatories	Full Membership	Per cent of 1 to 2
	(In millions of dollars)		
Fund Quotas	7,324 1/	8,800	83.2
Bank Subscriptions	7,600 1/	9,100	83.5
Number of Fund Members	35 2/	44 3/	
Number of Bank Members	34 2/	44 3/	

1/ The differences between the total Fund quotas and Bank subscriptions is accounted for as follows. The United States subscription to the Bank is 3,175 million dollars as compared to its 2,750 million quota in the Fund. The subscriptions of Latin American countries to the Bank are somewhat smaller than their Fund quotas. Colombia joined the Fund and not the Bank.
2/ The difference between the Fund and Bank total is accounted for by the Colombian action.
3/ Not including Denmark which is in a special category and will be allowed to sign as soon as agreement is reached on its quota.

The countries which did not sign the Agreements and their Fund quotas and Bank subscriptions are as follows.

TABLE 2
SUBSCRIPTIONS OF NON-SIGNATORIES

Country	Fund Quotas	Bank Subscriptions
	(In millions of dollars)	
Russia	1,200	1,200
Australia	200	200
New Zealand	50	50
Venezuela	15	10.5
Haiti, El Salvador, Nicaragua, Liberia, Panama	10.5	4.5
Colombia		35
Total	1,475.5	1,500.0

There is reason to believe that at least some of these countries will apply for membership in the near future,1/ and may be admitted to membership by the Board of Governors before the Fund and

1/ Venezuela asked to sign before December 31, 1945 with a reservation regarding exchange controls and was not allowed to do so.

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Bank actually begin operations on the same terms as if they had signed before December 31. Also, some countries not represented at Bretton Woods may be admitted to membership before long. However, the probabilities that Russia, Australia, and New Zealand will not apply for membership in the near future are sufficiently great to make it worthwhile to consider the distribution of quotas and voting power and the financial position of the Fund and Bank on the assumption that for a time at least the present signatories of the Agreements constitute the actual members. The absence of Russia, Australia, New Zealand, and the others increases substantially the proportion of the assets of the two institutions contributed by each of the present signatories and also each country's percentage of the total voting power. The United States and the United Kingdom together on the basis of the present signatories have 50 per cent of the total Fund voting power rather than 41 per cent, and 54 per cent of the total Bank voting power rather than 44 per cent.

TABLE 3
INTERNATIONAL MONETARY FUND

Country	Percentage of Quotas		Percentage of Voting Power	
	Present Signatories	Full Membership	Present Signatories	Full Membership
United States	37.55	31.25	33.84	28.03
United Kingdom	17.75	14.77	16.16	13.38
China	7.51	6.25	7.01	5.81
France	6.14	5.11	5.79	4.80
India	5.46	4.55	5.18	4.29
Canada	4.10	3.41	3.96	3.28
Netherlands	3.75	3.13	3.66	3.03
Belgium	3.07	2.56	3.04	2.53
Total Latin America	6.34	5.57	9.96	9.73
Other countries	8.33	23.40	11.41	25.11
Total	100.00	100.00	100.01	99.99

TABLE 4
INTERNATIONAL BANK

Country	Percentage of Quotas		Percentage of Voting Power	
	Present Signatories	Full Membership	Present Signatories	Full Membership
United States	41.78	34.89	37.87	31.37
United Kingdom	17.11	14.29	15.68	12.99
China	7.89	6.59	7.40	6.13
France	5.92	4.95	5.62	4.66
India	5.26	4.40	5.03	4.17
Canada	4.28	3.57	4.14	3.43
Netherlands	3.62	3.02	3.55	2.94
Belgium	2.96	2.47	2.96	2.45
Total Latin America	3.76	3.68	7.24	7.94
Other countries	7.43	22.13	10.51	23.93
Total	100.01	99.99	100.00	100.01

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The percentage distribution of the Fund's assets as between the currencies of probable lenders through the Fund and the currencies of probable borrowers from the Fund, and the percentage of gold and the currencies of probable lenders to the maximum normal drawing privileges of the other countries, are substantially altered by the absence of the countries which did not sign before December 31. (See Table 5.)

The percentages given under Items 6 and 8 of Table 5 show that the position of the Fund in the sense of its ability to meet probable demands for strong currencies on the basis of initial subscriptions to the Fund is much stronger with the present signatories as members than it would be with full membership. This is a consequence of the fact that Russia and most of the other non-signatories are all prospective borrowers from the Fund or, at least, not probable lenders. It also reflects the fact that the gold and dollar contributions of all those countries which did not accept membership is a smaller percentage of their total quotas than that of those which did accept membership. The result is that the probability that members will be able to obtain strong currencies from the Fund up to the amount of their maximum normal drawing privileges is greater with the present signatories as members than it would be with full membership.

TABLE 5
INTERNATIONAL MONETARY FUND - ANALYSIS OF ASSETS
(In millions of dollars)

	Present Signatories	Full Membership
1. Subscriptions of the United States and Canada (gold and currency)	3,050.0	3,050.0
2. Gold or United States Dollar Subscriptions of Other Countries 1/	755.7	947.9
3. Total Gold and Currencies of Probable Lenders	3,805.7	3,997.9
4. Currencies of Other Countries	3,518.3	4,802.1
5. Total Assets; Item 3 + 4	7,324.0	8,800.0
6. Percentage of Item 3 to 5	52 %	45 %
7. Maximum Normal Drawing Privileges of Countries other than the United States and Canada 2/	5,029.7	6,697.9
8. Percentage of Item 3 to 7	76 %	60 %

1/ Estimated required gold and United States dollar subscriptions on the basis of estimated gross official gold and dollar holdings as of June 30, 1945. Actual gold and dollar payments will depend on net official gold and dollar holdings as of the date on which countries having 65 per cent of the quotas allocated at Bretton Woods have agreed with the Fund on initial par values of their currencies and the Fund is ready to begin exchange transactions. This probably will not be before August 1 but could conceivably be as early as July 1, 1946.

2/ This is equal to total quotas minus the United States and Canadian quotas plus the amount of gold and United States dollars contributed by countries other than the United States or Canada (or Item 5, minus Item 1, plus Item 2 in the table shown above).

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The position of the Bank is also altered but not substantially. On the basis of the present signatories of the Bank Agreement, the subscribed capital of the Bank totals 7,600 million dollars rather than 9,100 million. Since the total loans and guarantees of the Bank can not exceed the subscribed capital plus accumulated surplus and reserves, the Bank's power to make and guarantee loans is correspondingly curtailed. The probability is that Russia's borrowings from the Bank might have equalled her subscription so that the ability of other countries to borrow from the Bank is probably not altered by the fact that Russia is not a member. Furthermore, their prospects of borrowing dollars are not affected, as they are in the case of the Fund, because the Bank's ability to lend dollars or guarantee dollar loans is not limited by the amount of gold and dollars subscribed to the Bank but may be as large as the Bank's total power to lend or guarantee loans.

The percentage of the United States subscription to total subscriptions to the Bank, as shown in Table 3, is increased from 35 per cent to 42 per cent which is a measure of the percentage share of the United States in the ultimate risks of the Bank's operations. Any judgment as to the effect on the ultimate solvency of the Bank, in the sense of its ability to meet any losses on its loans and guarantees, of the abstention of Russia and the other countries from membership, must rest on assumptions as to their ability and willingness to live up to their obligations under the Bank Agreement.

It is frequently argued that countries like Belgium, Canada, France, the Netherlands, the Union of South Africa, the United Kingdom, the United States, and Russia are the countries represented at Bretton Woods which could be counted on most certainly to meet calls on their subscriptions even though payments were called in United States or Canadian dollars. On this assumption, Table 6 shows that the Bank could be most certain of 77 per cent of its total subscriptions either with the present signatories as members or on the basis of full membership. However, any assumptions as to the ability of various countries to meet their obligations to the Bank at some time ten or fifteen years from now can be little more than pure guesswork.

TABLE 6
INTERNATIONAL BANK SUBSCRIPTIONS
OF A SELECTED LIST OF COUNTRIES AS
COMPARED TO TOTAL SUBSCRIPTIONS
(Millions of dollars)

	Present Signatories	Full Membership
1. Total Subscriptions	7,600	9,100
2. Subscriptions of Selected List of Countries	5,850	7,050
3. Percentage of 2 to 1	77 %	77 %

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A New Foreign Exchange Rate Structure for the French Empire

Hans J. Dernburg

The monetary unit throughout most of the French Empire is the franc; notable exceptions are the piastre of French Indo-China, which before the war was pegged to the Metropolitan franc at the rate of 1 to 10, and the Syrian-Lebanese pound, which was attached to it at the rate of 1 to 20. In the pre-war period, the franc currencies of French colonial areas were held at par with the franc of Metropolitan France.

During the liberation period, there was a definite trend toward restoring in the French colonies franc currencies which would be at par with the Metropolitan franc. The recent franc devaluation, however, is breaking with the tradition by creating different franc zones. The new policy, although dictated primarily by economic conditions, seems to be in line with certain political tendencies to liberalize the organization of the French Empire and to give eventually each colony or protectorate a status commensurate with its development.

Both political and financial developments in the French Empire in the last five years seem to have had a bearing on the determination of the recently established rates and it may be helpful to review certain facts. From March 1941 until February 1944, the French colonies under control of General de Gaulle were members of the sterling area.1/ The franc was pegged to the pound sterling at 176-5/8 which was the exchange rate prevailing before the war for Metropolitan France. The corresponding dollar rate was 43.8 francs to the dollar (1 franc = 2.26 cents). When Syria and Lebanon became members of the sterling area in September 1941, the Syrian-Lebanese pound was pegged to the pound sterling at 8.83; this rate corresponded to that of 176-5/8 francs to the pound, one Syrian-Lebanese pound having an exchange value of 20 francs.

After the landing of Allied troops in North Africa in November 1942, the Allies set exchange rates for these formerly Vichy-controlled colonies. The originally established rates of 300 francs to the pound sterling and of 75 francs to the dollar were changed in February 1943, as a result of French representations at the Casablanca Conference, to 200 francs to the pound and 50 francs to the dollar (1 franc = 2 cents).

The disparity between the "de Gaulle franc" and the North-African franc was abolished through the important Franco-British agreement concluded on February 8, 1944, in Algiers (Algiers Pact). The rate of 200 francs to the pound was made the uniform rate for the entire French Empire except Indo-China, then still under Japanese rule. Correspondingly, by agreement with the United States Treasury, the rate for the dollar was established at 50 francs.

1/ These included originally French Equatorial Africa, the Cameroons under French mandate, French Oceania and French Establishments in India. In the course of time, Syria and Lebanon and Madagascar were added.

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As a result of the Algiers Pact, membership of the French Colonies and Mandates in the sterling area was terminated and the franc bloc reestablished. Since the French had guaranteed to maintain the stability of the Syrian-Lebanese pound with regard to sterling, special treatment was given to Syria and Lebanon. These mandates were placed in the franc bloc, but the Syrian-Lebanese pound remained pegged to the pound sterling. The rates were fixed as follows: 1 Syrian-Lebanese pound = 22.65 francs and 1 pound sterling = 8.83 Syrian-Lebanese pounds.

Prior to the liberation of Metropolitan France, the rate of 200 francs to the pound and a corresponding dollar rate were also agreed upon for Metropolitan France, thus restoring parity of the colonial franc currencies with the Metropolitan franc. However, this parity was abandoned with the devaluation of the franc effective December 26, 1945, since devaluation did not take place at a uniform rate throughout the Empire. As a result of the devaluation, the "franc zone" now includes three sectors in overseas territories:

(a) The currencies of Algeria, Tunisia, Morocco, the Antilles, and French Guiana were devalued at the same ratio as the Metropolitan franc (58.3 per cent) and will therefore remain at par with it. Their new exchange value is 119.10669 francs to the dollar (1 franc = .84 cent) and 480 francs to the pound sterling.

(b) The franc currencies of the remaining African Colonies[1/] and of Saint Pierre and Miquelon were devalued at a lower ratio (29.1 per cent) than the Metropolitan franc and 1 local franc of these areas now exchanges for 1.7 Metropolitan francs. Their new exchange value is 70.06 francs to the dollar (1 franc = 1.43 cents) and 282.35 francs to the pound sterling.

(c) The currencies of New Caledonia, the New Hebrides, the French territories in Oceania and the French Colonies in the Pacific were not devalued. As a result, one local franc now exchanges for 2.4 Metropolitan francs while no change occurred with respect to the pound sterling or the dollar. The dollar and the pound sterling are fixed at 49.627 francs (1 franc = 2.0 cents) and 200 francs respectively.

In accordance with the French guarantee mentioned earlier the Syrian-Lebanese pound remained stable in terms of the pound sterling (and the dollar); as a result of the devaluation of the Metropolitan franc the Syrian-Lebanese pound is now worth 54.34 francs.

The Indo-Chinese piastre, which before the war (and before Japanese occupation) was linked to the franc at the rate of 1 to 10, was devalued to the same extent as the currencies listed under "b" and is now worth 17 francs; 7.006 piastres equal one dollar and 28.235 piastres equal one pound sterling (against 4.41 piastres to the dollar and 17.74 piastres to the pound in 1940).

1/ They are French West Africa, French Equatorial Africa, French Togo, French Cameroon, French Somaliland, Madagascar, and Reunion Island.

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It is difficult to evaluate these developments because of the great number of colonies involved. The principle of the new colonial rates is that the relation of the colonial currencies to the franc of Metropolitan France should be based on the economic conditions of each territory. This principle had been accepted at the Conference held at Brazzaville, capital of the French Congo, in January 1944 and at other meetings dealing with the status of the colonies. Generally speaking, currencies of those French colonies which had been under Vichy control (such as the North African colonies) were devalued most, while the currencies of those which had been under control of General de Gaulle and had become temporary members of the sterling area were devalued less or not at all. The degree of devaluation of the North African currencies has already been criticized by some North African representatives in the National Constituent Assembly in Paris who have pointed out that the economic situation of their territories would justify a higher monetary value for their currency than for that of Metropolitan France. It has also been pointed out that the differences between economic conditions in French West Africa, French Equatorial Africa, Madagascar and Reunion Isle, which were all put into one group, should have necessitated different monetary rates. In establishing the rates for the North African colonies at 480 francs to the pound sterling, the French government may have been influenced by the fact that this is the same rate at which the colonial (Italian) lira has been fixed. Trade between French and Italian colonies may be facilitated by the parity of their respective currencies.

British Agricultural Policy

Wilellyn Morelle

Mr. Thomas Williams, Britain's Minister of Agriculture, announced in the House of Commons on November 15, 1945, the principles on which the Labor Government's agricultural policy is to be based. For those who had expected a more specific statement of policy, the essentially vague character of the official announcement is disappointing; it provides the basis for little more than conjecture as to what the size and structure of the domestic agriculture may be after the transition period. Nor is it more explicit as to the methods which may be used to protect domestic producers from foreign competition.

Briefly, the policy provides for full agricultural production, guaranteed prices as far as four years in advance, assured markets, the efficient use of land, dispossession of farmers who are unable or unwilling to improve practices, acquisition of land for public use if necessary for full productivity, the establishment of a commission to manage and develop these lands, and the organization of County Committees appointed by the Minister of Agriculture to provide agriculture with local leadership and guidance.

Although the Labor Government appears prepared to underwrite the future prosperity of agriculture, the methods to be employed await legislative action. Whether assistance is to be given by quantitative regulation of imports, by the imposition of tariffs, or by direct

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subsidization of production, the cost will be paid by the public. Since the Government is committed to bettering the standard of living of the common man, it is committed to a cheap food policy. In pursuance of this policy, large subsidies to agriculture will be required especially in the production of those commodities in which Britain does not have a comparative advantage. As an alternative, a high price policy may be pursued with the prices of imported foods increased by tariffs to the level of domestically produced foods. The full burden of the latter policy will be borne by the consumer and efforts to raise nutritional standards nullified. All indications seem to point to the adoption of a large scale scheme of direct subsidization of producers. If the Government is to accomplish its objectives, a decision to subsidize must be accompanied by measures designed to eliminate outmoded high-cost methods of production.

British taxpayers and consumers want to know what the cost will be "to promote a healthy and efficient agriculture capable of producing that part of the nation's food which is required from home sources at the lowest price consistent with the provisions of adequate remuneration and decent living conditions for farmers and workers, with a reasonable return on capital invested."

In 1938-39 when Britain was producing one-third of its food requirements, the cost of direct and indirect subsidies to agriculture was estimated to be around £ 100 million and total output, inclusive of direct subsidies, was valued at £ 280 million. The Ministry of Agriculture's monthly index of prices of farm produce (1927-29 = 100), which includes direct subsidies to farmers, averaged 90 in that year. By 1944, the average price index had advanced to 170 and home production had expanded sufficiently to provide two-thirds of Britain's restricted war-time diet. In February 1944, it was stated in the House of Commons that the annual cost of food subsidies was then £ 205.8 million. The individual items were; bread, flour, and oatmeal, £ 60.4 million; meat, £ 23.1 million; potatoes, £ 28.6 million; eggs, £ 11.3 million; domestic sugar, £ 10.5 million; milk production, £ 10.5 million; cheese, £ 3.7 million; bacon, £ 1.6 million; other (including fluid milk consumption schemes), £ 56.1 million.

Although the policy statement provides little information about the future size of the industry, the tenor of the proposals suggests output considerably greater than the pre-war level. Some indication of the magnitude of the cost of such a program to the nation can be gained from the data given above. True enough, the policy statement provides that "all prices--minimum and actual--will be fixed with due regard to the need for the greatest possible efficiency and economy in methods of production" and also that "if it should become necessary to apply a quantitative limitation to any section of the assured home market, this would be announced 18 months before the harvest in the case of crops and at least two years in advance in the case of livestock, milk, and eggs." Efforts to translate the veiled statement concerning limitation of production into workable legislation which will limit output by eliminating high cost producers have yet to be disclosed. The outlook for reductions in farm prices is not bright since wages to be consistent with Government policy may continue their

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upward trend and tend to cancel reductions in cost brought about by the use of improved practices. With this hazy cost picture in view, it is small wonder that the Government has felt it necessary to warn farmers that they are not being given a blank check.

Since British imports of food have long provided a large share of the exchange necessary for foreign purchases of British exports, decisions on British agricultural policy are of particular interest to countries exporting agricultural products. Out of British imports of food, drink, and tobacco valued at £ 432 million in 1937, £ 289 million were spent on grain and flour, meat, dairy products, and fresh fruits and vegetables. A large proportion of the four principal groups of food imports was supplied by Empire sources. In 1937, about 50 per cent of her imports of grain and flour, dairy products, and fresh fruits and vegetables and 40 per cent of her imports of meat products came from British countries. Argentina was the largest supplier of foodstuffs outside the Empire, having furnished 29 per cent of Britain's grain and flour imports in 1937 and 24 per cent of her imported meat. Denmark ranked second as a supplier of meats and dairy products. The United States figured in the agricultural import picture of the United Kingdom primarily as a supplier of raw cotton and tobacco. Domestic agriculture, which supplied one-third of Britain's food, was largely devoted to producing livestock and livestock products. In the crop year 1937-38, the output of livestock and livestock products amounted to 70 per cent of the value of the total domestic output. To support a livestock industry of this size, about 8.5 million tons of feedstuffs were imported annually.

It is not likely that British imports of agricultural products will equal the pre-war level in the immediate future. Nor is it likely that they will remain at the war-time low, for even with the great expansion of production which occurred in the war years Britain's food rations were not generous. If legislation providing for subsidized production is integrated with a national policy directed toward full employment and social security, the resulting higher income may raise total demand to a level capable of absorbing expanded domestic production and a fairly high level of imports in addition. Imports of tobacco from the United States will probably not be affected by the change in agricultural policy. However, imports of United States cotton will depend largely upon the United Kingdom's ability to export cotton textiles. Many bulk purchases of food have been made during the war and some of these contracts extend through 1948. A continuation of State trading and bulk purchasing in the post-war period may drastically affect the direction of trade in the future.

As a guide in appraising the recent policy statement, a review of the policies from which it developed may be helpful. The world-wide collapse of farm prices in 1920 struck British agriculture with full force. British farmers reacted to the situation by reducing employment, by neglecting necessary maintenance, by contracting production, and by seeking Government aid. The pleas of the farmers for direct aid were reinforced by those of the general public in the later 'twenties when it became apparent that the cultivated acreage was dwindling rapidly and that about one-fifth of the agricultural laborers had migrated to urban areas.

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Faced with the prospect of a continuing decline under a laissez-faire policy, the Government intervened in 1926. At first, agricultural assistance was limited to efforts to improve efficiency; direct aids such as subsidies were sidestepped since the Government considered them unsound. In the meantime, the scheme of Empire preference as a means of developing resources and trade with the Empire was gaining general favor throughout the United Kingdom. Agricultural groups, whose opposition to Imperial Preference had been stiffest, were won over by the prospect of gaining assistance for domestic production to offset the competition arising from concessions to Dominion agriculture. A system of preferential tariffs, which had its beginning in Canada in 1898, was gradually extended to include to some degree nearly all parts of the Empire by the late 'twenties. Thus, even before the signing of the Ottawa agreements in 1932, it was obvious that the United Kingdom had abandoned its traditional free-trade position and had embarked upon a policy combining protection of domestic production and Empire preference.

In line with this policy, a series of measures was enacted which provided for direct assistance to agriculture by means of subsidy payments and established certain restrictions upon the importation of competitive agricultural products. With the exception of sugar beets, which were first subsidized directly from the Exchequer in 1925, the general program of protection began in 1932. By 1939, direct subsidies were paid on wheat, barley and oats, sugar beets, cattle, sheep, and milk sold for manufacture. Import restrictions and price guarantees protected the domestic market for potatoes, hops, bacon, and hams. Thus, by the outbreak of the second World War, British producers and distributors of foodstuffs were accustomed to a large measure of Government assistance. The changing pattern of domestic production is shown in the following tables.

Acreages of Selected Crops and Grasslands
in the United Kingdom
(In thousands of acres)

	1923-25	1930	1939	1944
Grains	6,502	5,613	5,308	9,446
Potatoes	768	684	704	1,421
Sugar beets	32	349	348	434
Total crops	10,521	9,302	8,813	14,617
Temporary grass and clover	4,712	4,627	4,093	4,752
Permanent pasture	17,590	18,315	18,733	11,698
Total acreage (excluding rough grazing)	32,823	32,244	31,679	31,067 1/

Number of Livestock in the United Kingdom
(In thousands)

	1923-25	1930	1939	1944
Cattle	7,864	7,759	8,873	9,545
Sheep	22,301	24,669	26,888	20,341
Pigs	3,157	2,670	4,394	1,875

Source: Official Statistics for the United Kingdom.

1/ Excluding 600,000 acres used for military installations.

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Because of urgent need for food and fiber, the program of assistance outlined above was superseded at the outbreak of the war by a system whereby all food domestically produced was purchased at a guaranteed price. In order to maximize production, prices were set at a level which provided profits even for uneconomic farms. In addition, incentive payments were made on acreages of wheat and potatoes. As a result, the change-over from the pre-war pattern, emphasizing livestock and livestock products based on use of grassland and imported feedstuffs, to a war pattern, emphasizing the production of high energy and protective foods, was accomplished rapidly. Increased mechanization and wider application of scientific knowledge helped to reduce costs and resulted in a larger output for the labor used. About three million acres of land were reclaimed and six million acres of permanent pasture were diverted to the cultivation of crops. Although the seizure of inefficiently utilized land was permitted, few such seizures were necessary.

In general, emphasis was placed on crops for direct human consumption and on dairy products at the expense of poultry and livestock production for meat. Enough sugar and potatoes were produced to fulfill ration requirements and cereal and vegetable crops were increased to a point where, in terms of nutritional content, 60 per cent of the nation's food was grown at home. Before the war, about two-thirds of the food was imported.

Im May 1943, a four-year program for agriculture was instituted which guaranteed markets and established price floors for crops and for milk, cattle, calves, sheep, and lambs until the summer of 1948. The plan provided for a review of the general financial condition of agriculture by farmers' organizations and the agricultural departments each February for the purpose of fixing prices for the harvest of the following year. This program aimed to ensure stable markets for British farmers through the transition period from war to peace and to allow time for the formulation of long-term policies for agriculture as a part of the national economic policy.

In May 1944, influential farm organizations meeting in a joint session sponsored by the Royal Agricultural Society drew up a statement of objectives to be considered in formulating agricultural policy. In general, the official policy announced by the Labor Government follows the recommendations sponsored by the Royal Agricultural Society and provides for the continuation on a permanent basis of essential features of the May 1943 program.

In adopting the policy set forth in the Hot Springs agreement as a working principle, Britain can be expected to alter agricultural output as the world food shortage eases so as to increase the production of relatively perishable foods needed for better nutrition such as vegetables, fruits, milk, eggs, and meat; to encourage the expansion of livestock production in areas where the necessary feedstuffs can be grown or economically imported; and to limit the production of bulky, easily stored and shipped foods in areas where they can not be produced efficiently. Trends in this direction are already discernible in the current decline in wheat acreage from the peak of

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1943 and in the price increases permitted on all principal commodities except cereals in the February 1945 review of prices. Dairy herds have been expanded as a part of the war program, as have vegetable acreages.

The nations attending the Hot Springs Conference agreed that it was the responsibility of every nation to assure adequate food for the life and health of its people. Although the national level of nutrition in the United Kingdom was improving before the war, a large percentage of the population is still inadequately fed. It has been estimated that if the United Kingdom were to grow at home the additional food necessary for an adequate national diet, increases in production over the 1939 rate would be: milk 65 per cent, eggs 60 per cent, fruits 70 per cent, vegetables 60 per cent, and meat 15 per cent. A subsidized consumption program such as that suggested in the Beveridge plan may be instituted to aid those who otherwise can not afford an adequate diet.

The element of newness in the policy announced by the Labor Government lies not in the nature of the proposals but in the projected application of these proposals to a peace-time economy. Planned agricultural production and control by public bodies of the private use of land imposes a grave responsibility upon the Government. The conflict of interest between the 93 per cent of the population not engaged in agricultural pursuits and the 7 per cent so engaged must be reconciled and the still greater conflict between an expanding high-cost domestic agriculture and cheap imported food must be resolved. The extent to which Britain maintains self-sufficiency in food production will be determined in the long run both by the degree of efficiency attained and by the willingness of the taxpayers to support a high level of agricultural antarky. The artificial raising of prices to protect high-cost producers can be accomplished only by means of enormous subsidies, either direct or indirect, which will in the long run result in a lowering of the standard of living. It seems unlikely that the British public will be willing to pay this price permanently for a prosperous agriculture. The success of the British program will accordingly depend, in the long run, upon the ability of British farmers, with governmental guidance, to concentrate upon those areas of production in which the gap between domestic and world prices can be narrowed or eliminated.

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