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Lend-Lease and Rehabilitation

C. R. Harley

Concern has been expressed, both in Congressional and business circles, regarding the extent to which the Lend-Lease program may be used for purposes of foreign relief, rehabilitation, and reconstruction. Two recent developments which might have been expected to provide the answer to this question have in fact increased the uncertainty. The first of these was conclusion of the so-called Section 3 (c) Lend-Lease Agreement with France, which appears to be directed in part to rehabilitation of the French economy. The second was adoption of an amendment to the Lend-Lease Act by the House of Representatives, which has been generally interpreted as prohibiting the use of Lend-Lease for post-war purposes.

On February 28 three Lend-Lease agreements with the Provisional Government of France were announced. One was a straight Lend-Lease agreement similar to those entered into with the United Kingdom and other countries. The second was a reciprocal aid agreement retroactive to June 6, 1944. The third agreement was based on Section 3 (c) of the Lend-Lease Act, which authorizes the President during the three years immediately following the expiration of the Act to continue to exercise such powers of procurement and transfer of goods and services as may be necessary to carry out contracts entered into prior to such expiration. The agreement provides for transfer to France of specified classes of goods and services to the maximum value of 2,575 million dollars. The United States may withhold delivery of any supplies or services should the President determine such action to be in the national interest. France may be released from its obligation to receive any of the specified products upon payment of net losses incurred by the United States in connection with the French action. The agreement contemplated that all of the specified products might not be delivered before the President should determine that they were "no longer necessary to the prosecution of the war" and provided definite terms of payment for (1) 900 million dollars worth of long-life capital goods (Schedule II), such as locomotives, machine tools, and industrial equipment, and (2) for any portion of the non-durable (Schedule I) goods transferred after the Presidential determination mentioned. A 20 per cent down payment is to be made on Schedule II products as they are delivered; and the balance, together with payments due for Schedule I products, is to be paid in equal installments over a thirty year period. Interest at the rate of 2-3/8 per cent will be charged on the unpaid balances. The products included in this agreement are equally appropriate for furthering the fullest participation of France in the war effort or for rehabilitation of the French economy when the war is over. Should France join in the war against Japan, Schedule I goods might all be delivered before the conclusion of that struggle in which case they would presumably be considered "straight" Lend-Lease transfers for which conditions of payment are yet to be determined.

Against this background, the House of Representatives on March 13 voted to extend the Lend-Lease Act for another year -- until June 30, 1946. Passage of the bill was facilitated by adoption of an amendment which is designed, in the words of the Committee on Foreign Affairs, to constitute a "clear expression" by the Congress that the Lend-Lease Act is not a measure for post-war relief, reconstruction, or rehabilitation. The amendment consists of an addition to Section 3 (c) (the substance of which was given in the preceding paragraph) and reads as follows:

> "Provided, however, That nothing in section 3 (c) shall be construed to authorize the President to enter into or carry out any contract or agreement with a foreign country for postwar relief, postwar rehabilitation or postwar reconstruction; except that a contract or agreement entered into in accordance with this Act in which the United States undertakes to furnish to a foreign government defense articles, services, or information for use in the prosecution of the present war and which provides for the disposition, on terms and conditions of sale prescribed by the President, of any such defense articles, services, or information after the President determines they are no longer necessary for use by such government in promoting the defense of the United States shall not be deemed to be for postwar relief, postwar rehabilitation or postwar reconstruction."

The amendment was supported by the entire Foreign Affairs Committee, but was adopted by that body as a concession to a group of Republican members who had presented a minority report objecting to the original majority report of March 6, which recommended extension of the Lend-Lease Act without amendment. The minority report favored renewal of the Act for one year but opposed extension of the Section 3 (c) "clean-up" period; in other words, if the time limit on 3 (c) were unchanged, this period would have been reduced automatically from three years to two years. In addition the minority group favored incorporation of specific restrictions against use of the Lend-Lease program for post-war relief, rehabilitation, or reconstruction.

Careful reading of the amendment shows that the agreement with France is permissible under it, and that goods delivered in fulfillment of the agreement will "not be deemed to be for postwar relief, postwar rehabilitation, or postwar reconstruction" regardless of their character or actual use. The condition under which this verbal construction may be applied to deliveries under the Lend-Lease Act, as amended in the House,[1] is that "terms and conditions of sale" shall have been prescribed by the President. The words "of sale" are considered to be of prime importance since they imply monetary repayment in contrast to the more general provisions of the Lend-Lease Act which stipulate that payment may be in kind or property, or may consist of any other direct or indirect benefit which the President deems satisfactory.

The only conclusion which can be drawn from developments to date is that while some post-war relief and rehabilitation aid may be rendered under the authority of the Lend-Lease program, definite terms of payment for such aid must be stipulated if deliveries are delayed until after the expiration of the Lend-Lease Act. The range of products which may properly be included in the category "defense articles" in connection with highly industrialized modern warfare is wide enough to include all types of relief and rehabilitation supplies. Moreover the term "post-war" will be subject to varying interpretation. Under these conditions it may never be possible to measure quantitatively the extent of post-war rehabilitation and relief assistance rendered under the direction and through the mechanism of the Lend-Lease Act.

1/ The Foreign Affairs Committee of the Senate is now considering the Lend-Lease extension bill.

Recent Financial Developments in Turkey — J. Herbert Furth

The war boom which had pervaded the entire Turkish economy began to collapse recently. Turkish exports to Germany, stipulated at 60 million Turkish pounds annually, were suspended when Turkey broke diplomatic relations with Germany on August 3, 1944. Some weeks later, even smuggling to Germany became impossible since military events isolated Germany from the Balkans. At the same time, preemptive buying of Turkish products by the United States and the United Kingdom, which up to the middle of 1944 had exceeded German purchases, first was cut in half, and later on abandoned entirely. The scarcity of shipping made impossible, for the time being, the resumption of normal foreign trade activities on a large scale, except for the discussion and preparation of future sales and purchases.

Under these circumstances, the great expansion of currency circulation and the rapid increase in prices has come to an end. The note circulation had risen from 806 million TP to 969 million during the first nine months of 1944, but declined slightly to 961 million during the last quarter of the year. Between April and December 1944, the black market quotation of U.S. dollars (Telegraphic Transfers) dropped 5 per cent, and the free market price of gold almost 20 per cent. Commodity price indices are not available for the period after March 1944, but there can be no doubt that they showed a similar trend.

In December 1944, the official dollar rate was 1.30½ TP; but in view of the import premium of 48 per cent, and the export premium of 40 per cent used in determining the rate in foreign trade transactions[1/] it actually was 1.93 TP for import, and 1.82 TP for export dollars. The black market rate for TT was 2.57 TP; the difference between official and black market prices was small by Near Eastern standards. The Turkish gold pound (resat) was quoted at 35.11 Turkish paper pounds, a rate corresponding to a price of 165.05 TP per ounce of fine gold. On the basis of the black market dollar rate, gold thus was valued at the equivalent of $64.20 per ounce, or about 183 per cent of the U.S. Treasury price. This premium is less than that in most other countries of the Near East. One of the reasons for the relative cheapness of gold was the sale of large amounts of gold, especially of Netherlands gold guilders, by the local branches of German banks (the Istanbul branch of the Deutsche Bank, and the Istanbul and Ismir branches of the Deutsche Orient Bank, owned by the Dresdner Bank). The Istanbul market provided the Germans with one of their main opportunities for exchanging the gold looted from occupied countries for commodities and Allied currencies. After breaking diplomatic relations with Germany, however, the Turkish Government forced the German banks to liquidate their business.

The monetary expansion since the start of the war may be illustrated by comparing the balance sheets of the Central Bank of Turkey for August 26, 1939, December 31, 1943, and December 23, 1944 (the latest date available):

1/ See R.F.D. of January 8, 1945, p. 4.

Balance Sheets of Central Bank, 1939-44
(Millions of Turkish pounds)

Assets	Aug. 1939	Dec. 1943	Dec. 1944
Gold	36.9	201.7	276.4
Foreign exchange	3.6	95.3	52.7
Bills	139.2	466.7	584.0
Advances upon securities	14.8	254.6	255.9
Other assets	226.1	223.8	205.7
Total	420.6	1,242.1	1,374.7
Liabilities			
Bank notes	229.5	805.6	960.6
Deposits	26.7	133.9	130.2
Foreign exchange	38.7	34.1	30.2
Gold deposited by Govt.	--	78.1	78.1
Other liabilities	100.5	158.4	141.6
Capital and reserves	25.2	32.0	34.0
Total	420.6	1,242.1	1,374.7

About one-third of the increase in gold holdings was due to a gold loan of 78.1 million TP, granted to the Turkish Government by the British Government early in the war, the gold being loaned in turn to the Bank by the Turkish Government in February 1940. The remainder was the result of the Allied preemptive purchases, and in part of the German gold sales. The foreign exchange position underwent a fundamental change in 1944 insofar as the holdings consisted solely of clearing balances in 1943, but almost wholly of free exchange in 1944. This development reflected the stoppage of the trade with Germany. The increase in advances upon securities was due exclusively to advances to the Government; the remarkable rise in bills probably also included Government paper. The "other" assets were mainly Treasury bills.

Commercial banks have not experienced the same expansion as the central bank. Deposits with the 12 leading institutions increased from 262 million TP in December 1939 to 458 million in June 1944. Bills and advances rose only from 116 million TP to 162 million, but holdings of public securities from 60 million TP to 237 million. The discrepancy between the bill holdings of the commercial banks and the central bank justifies the assumption that the latter's portfolio does not represent bona-fide commercial paper. The relation between note circulation and commercial bank deposits illustrates the familiar story of the decreasing relative importance of commercial banking: currency circulation was substantially smaller than total deposits in 1939, but more than twice as large in 1944. The increased ratio of Government security holdings also reflects the ascendance of the public over the private sector of the economy.

The economic development of Turkey in the near future will be of general interest because the stoppage of German trade and Allied preemptive purchases has put the country in a position similar to that in which most other countries will find themselves at the end of the war. The curtailment of exports has not in itself diminished the country's real income since payment had consisted mainly in war materials or promises of future deliveries (i.e., gold or foreign exchange) rather than in actual consumers' goods or services. But it has reduced the country's flow of money income, and this deflation may easily lead to a drop in real income. Whether, and how, Turkey manages to avoid a depression at this time, may give some indication as to the problems that will confront the rest of the world in its attempts to escape the deflationary effects of the cessation of war production.

The Anglo-Swedish Monetary Agreement

J. Hans Adler

On March 9, the conclusion of a monetary agreement between the Governments of the United Kingdom and Sweden was announced simultaneously in London and Stockholm. Together with the conclusion of the Anglo-Belgian agreement of last October and the agreement with France announced last week, this is the first indication of the direction by which the sterling area is to be modified and adapted for the post-war period. Although the new agreement is similar in appearance to the Anglo-Belgian and the Anglo-French agreements, its dissimilarities and the underlying economic conditions seem to warrant a few comments.

In all three agreements the contracting parties obtain a certain latitude in the volume of sales and purchases from each other. In every instance sterling can be used for purchases in the entire sterling area. Unlike rigid clearing agreements, the monetary agreements explicitly foresee the accumulation of balances. But the Anglo-Belgian and the Anglo-French agreements establish a definite limit of 5 million and 100 million pounds sterling, respectively, for such balances, while the agreement with Sweden formally leaves the question of the size of the permissible balance open. (The London "Financial News", however, relates that in a secret protocol outside the agreement a limit has been established.) But more important than the differences in the texts of the agreements is the fact that while in the case of Belgium and France it is an open question which side will have a favorable trade balance and, consequently, acquire credit balances, in the case of the Swedish agreement all parties concerned anticipate that Sweden will become the owner of a substantial sterling account with the Bank of England.

Although the provision that the sterling balances can be used in the entire sterling area offers Sweden the opportunity to purchase badly needed raw materials and foodstuffs in the parts of the British Empire which belong to the sterling area, it is by no means certain that Sweden will achieve an import surplus from the trade with the sterling area outside the United Kingdom. British-Swedish trade relations before the war were such that Swedish exports always exceeded imports by 5 million pounds annually. For the first twelve months period after VE-day, Swedish sources estimate Swedish exports at 500 million and imports from Great Britain at 300 million kronor, resulting in a surplus for Swedish exports of 200 million kronor, or 12 million pounds. The figures appear reasonable if the price increases of the war period, the back-log of British demand, and Britain's inability to expand exports immediately, are taken into account. The pre-war trade of Sweden with the sterling area outside the United Kingdom likewise resulted in an export surplus averaging 2.5 million pounds. This traditional favorable balance may be decreased or even reversed in the immediate post-war period, but it still would not substantially affect the favorable balance with Great Britain, unless Sweden has received assurances that it will obtain large quantities of products of the Empire in return for her deliveries to Great Britain. The prospects of the acquisition of excessive sterling balances were presumably the primary reason for the reluctance of Sweden to sign the agreement before the conclusion of a trade agreement.

The position of Sweden is difficult for two reasons. Her import needs had always been satisfied through sizeable imports in excess of exports from Continental Europe, primarily Germany, and from the United States, and Canada. Continental Europe will not be in a position to resume exports to Sweden in the immediate future and the need for obtaining imports from alternative sources of supply will be great. Increased shipments from the Western Hemisphere will only partly take care of the deficiency, but to overcome the most important shortage, supplies of coal and coke will have to come either from Continental Europe, or from England. Sweden has emphasized, therefore, in recent conversations the necessity of resuming coal shipments at the earliest possible time. Newspapers within the country point out that Sweden's ability to cooperate in the reconstruction of neighboring countries in the north and the countries of Western Europe will primarily depend on adequate coal supplies. If Sweden does not obtain coal she has to substitute, in some uses, the abundant wood supplies which would lead to a curtailment of exports of lumber and paper, commodities in urgent demand in the British Isles.

On the other hand, the Swedish export industry is eager to share in the industrial reconstruction of Europe and in the industrialization of overseas countries. Since the trade with Germany and with German-occupied Europe was interrupted last fall, employment in the Swedish industry has been maintained through the large reconstruction orders of Norway and Western European countries, mainly financed through Swedish credit. A continuation and geographical expansion of this development is considered a prerequisite for the maintenance of employment in the post-war period. The Anglo-Swedish Monetary Agreement, which assures export markets for Swedish products, must be considered an important step in this respect. Since the credit and exchange risks are born by the Swedish Government and the Riksbank, which acquires the foreign balances at the agreement rate of 1 £ = 16.90 Swedish kronor, exporters will be eager to expand their business; and hence the pressure to let sterling balances accumulate will come from them, as well as from the British buyers. It is therefore not unlikely that the Swedish sterling balance will assume quite sizeable proportions. Unless British exports are resumed more rapidly than is generally assumed, or overseas sterling area countries supply goods formerly purchased in the Western Hemisphere, Swedish sterling balances may possibly reach 30 to 40 million pounds in the first three years after the end of the war in Europe.

This balance may easily double if shipping services furnished to Allied governments are also paid in sterling balances. During the war, Sweden's net earnings through shipping services amounted to 300 to 400 million kronor (71 to 95 million dollars) annually. Shipping services were largely sold to Great Britain and payment took the form of gold shipments. With the expected easing of the transport situation, Great Britain may use fewer Swedish ships. At the same time, Sweden may be eager to divert some of her vessels to routes outside the sterling area and thereby acquire free or more freely convertible exchange. This possibility, however, would be wholly or partly eliminated if the Swedish merchant fleet should join the Allied shipping pool as contemplated. Negotiations to that effect have been carried on for a considerable period of months. The reluctance of Sweden to join may be partly due to the fact that her adherence to the pool may impede her ability to earn free foreign exchange needed for purchases outside the sterling area.

As to the international monetary implications of the agreement, it is interesting that the London "Financial News" and the London "Times" concur in their opinion that the agreement is a contribution to the resumption of multilateral trade.1/ The "Times" strongly implies that, after all, it is nothing new or unusual that countries should keep their "surplus reserves" in sterling. The "Financial News" calls the agreement a "multilateralist victory"; the author of the article, however, is concerned about the possibility that the countries of the sterling area may put a limit to the accumulation of their sterling balances (which they would acquire also in exchange for exports to Sweden). Both papers minimize--in all probability correctly--the significance of the provisions of the agreement that sterling may be released for purchases outside the sterling area "as opportunity offers".

The agreement, which is to remain in force for five years (with the usual provision for changes after consultation), contains what may be interpreted as a "Bretton Woods clause": if each of the contracting Governments changes its monetary relations with third parties, it is obliged to "maintain contact [with the other Government] wherever the monetary relations of the one affect the interests of the other". Sir John Anderson, Chancellor of the Exchequer, replied in the House of Commons to a question as to whether the agreement conflicts with the Bretton Woods proposals, "with the fullest assurance" in the negative.

(The value of the Swedish krona is about 23.8 U.S. cents.)

1/ See Review of Foreign Developments No. 6, p. 1.

The latest available balance sheet of the Danmarks Nationalbank (National Bank of Denmark) shows surprisingly large amounts deposited on "Foliokonto" (sight and time deposits) and in the so-called "special account of the Ministry of Finance" at the end of December. These amounts are, in fact, frozen for the duration of the war, and the immobilization of such large sums has been one of the reasons why economic conditions in Denmark have deteriorated less than in other German-occupied countries.

The Danish economy has been threatened by the same inflationary tendencies present elsewhere in "German Europe". There has been steadily increasing exploitation by the Germans, but in Denmark the "occupation cost" payments have been disguised as "loans". This subterfuge has not prevented the appearance of the familiar pattern: a scarcity of goods and a continuous rise in the note circulation. The greatest monetary problem has been the ever growing liquidity of the money market. The pressure of funds seeking investment has not led to the same degree of inflation in Denmark as in other countries because Danish authorities, permitted by the Germans to remain in charge of the country's economic institutions, have been able to take measures to cope with the situation. These have been dictated by the exigencies of the domestic position rather than by outside influence. Moreover, the highly planned economy developed in Denmark during the 'thirties made it easier to introduce and carry out measures of the kind outlined below.

These measures may be divided into two groups: those designed to restrict the expansion of bank credit, and those intended to drain off excess funds. They took the form of: (1) Establishing (by law) minimum amounts which the commercial banks and the savings banks have to keep on account with the Nationalbank or as cash reserves; and (2) Issuing short-term Government bonds and notes (six months and two years) and Government savings bonds, the proceeds of which are paid into a special blocked account at the Nationalbank. The purpose of the issues being anti-inflationary rather than fiscal, these amounts are frozen until the end of the war. To reenforce these measures, an effective price and rationing control has been carried out simultaneously. Some details of the rather novel financial controls are given below.

In July 1942 a law was passed requiring all Danish commercial banks to open a current account with the Nationalbank, at the latest one month after the passage of the law. The account at the central bank was called "Lovpligtig Foliokonto" (legally required current account).1/ The minimum amount which each bank had either to have deposited there or to keep as cash was changed the following year but the regulations were essentially the same. The final provisions

1/ The banks had a choice between depositing the money in what was called a "liquidity account" upon which the Nationalbank paid 1/4 of 1 per cent interest, and on which some notice, probably three months, was required, or on six months notice, in which case a 3/4 of 1 per cent interest was paid.

(Law of July 3, 1943) require each commercial bank, in addition to liquid reserves stipulated by the original bank law, to maintain in cash or on account with the Nationalbank the sum of the following:

1. Forty per cent of the increase in current and sight deposits since August 1939;
2. Fifteen per cent of the total deposits on current and sight accounts;
3. Forty per cent of the increase in deposits by other banks and savings banks since August 1939;
4. Fifteen per cent of the total of deposits by other banks and savings banks;
5. Five per cent of total deposits on passbook-account (special savings account);
6. Forty-five per cent of the increase in passbook-accounts (special savings account, since December 1942;
7. Fifty per cent of the increase in savings deposits on from three to six months notice since December 1942;
8. One hundred per cent of deposits by other banks and savings banks, which are counted as part of the cash holdings.

For the savings banks, the corresponding regulations, which were only introduced in 1943, are as follows: In addition to the basic legally required liquid funds a savings bank must maintain as cash or on account with the Nationalbank the sum of the following:

1. Fifty per cent of the increase in total deposits, except deposits by other banks and savings banks, since December 1942;
2. One hundred per cent of deposits by other savings banks which are counted as part of the cash holdings.

No distinction is made on the balance sheet of the Nationalbank between sums ordinarily deposited on current account with it and those deposited in accordance with the war regulations, nor are the various amounts on three or six months notice shown. However, total deposits on "Foliokonto" with the Nationalbank increased between July 1942 and the end of December 1944 from 993 million Kr. to 2,925 million Kr., compared with an increase during the last prewar years (December 1937 to December 1939) from 94 to 114 million Kr.

The proceeds of the various Treasury bonds and notes and the savings bonds are shown separately on the balance sheet of the Bank in an account called "Finansministeriet i Henhold til Lov af 3 Juli 1942" (Account of the Ministry of Finance in accordance with the law of July 3, 1942). This account, which appeared first in July 1942, had by the end of December 1944 grown to 1,717 million Kr.

To sum up: against the Bank's claims on Germany (occupation costs plus clearing debt) all created since April 1940 and amounting to 7,119 million Kr. by the end of December 1944, stands a rise in the note circulation of 1,049 million Kr. between these two dates, while the combined increase in the special account of the Ministry of Finance and in the "Foliokonto" deposits amounts to 4,592 million Kr. The Bank and the Government thus have succeeded in neutralizing a large part of the increased purchasing power, but, on the other hand, the danger of inflation is still latent. Since the Danish economy has had to become more and more directed towards the fulfillment of the demands of the occupation forces, rather than towards supplying the civilian population with goods it needs, the diversion of money incomes into deposit on savings or blocked accounts, or investment in long-term bonds remains a formidable task. If this task continues to be tackled successfully, the burden of the occupation will have been born primarily by the consumers (by reducing their consumption) and will not be an ever increasing threat to the post-war period.