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Sweden, the Fund, and the Bank

Robert W. Bean

Now that the Monetary Fund and the World Bank are about to begin operations, there is likely to be increasing interest in securing adherence to those organizations by some of the neutral countries, particularly those which are lenders rather than borrowers. Sweden and Switzerland are the two most important such countries, and of the two Sweden has shown by far the greater willingness to lend. Total foreign credits already extended or promised by Sweden amount to something like 640 million dollars. In actual volume, Sweden's foreign lending since the end of the war has been exceeded only by that of the United States, the United Kingdom, and Canada, and in proportion to national income has been approached by none. The strong demand for Swedish currency makes it clear that her adherence to the Fund and Bank would add considerable strength to those institutions.

It is likely that Sweden will eventually find it in her interest to join the Fund and Bank. The chief inducements will be the benefits to be derived from general exchange-rate stability and world economic development. These inducements are the same as those for the United States, but are less compelling for Sweden. It would be possible for Sweden to enjoy stability of exchange rates and a rising world demand for goods without herself supporting the Fund and the Bank, since they do not depend on Sweden's support. This consideration is likely to carry less weight, however, than Sweden's desire to be accepted fully into the good graces of the victor states, and to contribute her share in a project from which she will benefit. There is also the inducement offered by the Bank's security issues as an attractive outlet for the funds of Swedish insurance companies, savings banks, and pension funds, which before the war often had difficulty finding remunerative investments. But there are no other immediate inducements, and joining would entail certain sacrifices.

The disadvantages of joining the Fund and the Bank probably appear to the Swedes to be the following: (1) the partial surrender of control over the exchange value of the krona; (2) the obligation to extend additional krona credits to foreign countries without--in the case of the Fund--control over the volume or direction of such credits; (3) the required gold and foreign exchange contributions to the Fund and Bank; and (4) the contingent foreign exchange liability to meet possible losses incurred by the Bank.

There may also be misgivings about Russia's absence from the Fund and Bank. Sweden would hesitate to join if she felt that these organizations had become identified with an economic and political alignment. But the adherence of not only Denmark and Norway, but also Poland, Czechoslovakia, and Yugoslavia, should be sufficiently persuasive in this respect.

The most important consideration which might weigh against Sweden's joining is probably the surrender of control over the exchange value of the krona. The doubts which this raises have been stated forcibly by Mr. Dag Hammarskjöld, Permanent Secretary to the Ministry of Finance and a Director of the Riksbank:

> "It may be assumed that the exchange rates may be allowed to adapt themselves to the requirements of employment policy in all countries capable of getting what they want in the field of international monetary policy. But how will the other countries fare without the necessary international pondus to go their own way unimpeded? Do the Bretton Woods principles safeguard them or do they run the risk of being bound by the ambiguity of the stabilization program? If things go wrong, the possibilities of a liberal interpretation will be seized when the country affected is of sufficient weight, and the possibilities of a restrictive application will be exploited in other cases. It is only to be hoped that the member States possessing the decisive influence will allow all other countries the same margin of tolerance as they may find it necessary to retain for themselves. The fact is, however, that the Bretton Woods proposals reflect in important respects the lending nations' point of view as exemplified by the one-sided interest charge on purchases of exchange from the fund and by the guarantees in respect of claims against the fund upon retirement from it. Moreover, any international organization can be misused as a weapon of power politics."1/

Sweden was one of the first countries in the 'thirties to undertake a planned program of deficit spending, bolstered by the inflationary effect of exchange depreciation. A flexible budget policy to compensate for cyclical changes is now officially part of the Government's long-run program. It may be expected, therefore, that Sweden will be reluctant to surrender to the Fund the authority to decide whether or not a "fundamental disequilibrium" exists.

1/ "From Bretton Woods to Full Employment," p. 20, Supplement A to Svenska Handelsbanken's Index, December 1945.

But Sweden has much to gain from general exchange stability. Quite possibly she wishes only to wait until she has greater assurance that the exchange value initially assigned to the krona will be maintainable over a fairly long period. Hammarskjöld, although skeptical, is hardly opposed to the Fund, and in the article cited concludes:

> "The realization of the Bretton Woods proposals, generally speaking, would lend the most powerful support to such a policy (full employment) that has as yet seen the light of day, seeing that the object of these proposals is to remove all payment and financial obstacles to a free and expanding world trade."

Of less importance is the reluctance to lose complete control over the volume and direction of Swedish foreign lending. Although Sweden would have only a very small voice in determining what countries received krona credits, and how much, from the Fund, she would be able to control krona credits extended by the Bank. Moreover, the total amount lent through these institutions would probably be considerably less than Sweden's direct foreign lending. That is, her contributions to the Fund and Bank would not tie up her entire lending capacity. She would still be able to extend direct credits to countries which she favored particularly for economic or political reasons.

Nonetheless, there would be economic objections to surrendering control over even a portion of her lending capacity. At present there is strong demand for Swedish exchange and Sweden has already committed herself to a risky volume of foreign credits. Further credits extended by the Fund would increase inflationary pressures in Sweden, and necessitate a longer period of rationing and price control. On the hypothesis that Sweden's subscription to the Fund equalled 150 million dollars, or 630 million kronor, the additional krona-lending which this would make possible could have a significant effect on Swedish prices. This consideration may impel the Swedes to delay joining the Fund and Bank until their production more nearly approaches demand.

The cost of joining in terms of the gold and foreign exchange which would have to be surrendered has not, of course, been fixed for Sweden. The figure suggested above--150 million dollars--appears reasonable as Sweden's quota in both the Fund and the Bank. It may be compared with those of other countries of similar magnitude:

	Fund	Bank
Australia	200	200
Brazil	150	105
Czechoslovakia	125	125
Poland	125	125
Denmark	68	68
Yugoslavia	60	40
Norway	50	50

If these quotas were applied, Sweden would have to subscribe in gold to the Fund either 25 per cent of its quota, which would be 37.5 million dollars, or (if smaller) 10 per cent of its net official holdings of gold and United States dollars. This latter figure would have amounted on December 31, 1945, to something under 61 million dollars. Assuming no substantial change in the relative size of these figures, Sweden's subscription in gold would therefore be 37.5 million dollars. Her subscription to the Bank in gold or dollars would amount to an additional 3 million dollars (2 per cent of her total subscription).

As of April 15, 1946, her gold reserve amounted to 475.8 million dollars, of which 296.3 million was legally required on that date as cover for the note issue, leaving 179.5 million available for other purposes. In addition (as of December 31, 1945), she had official dollar holdings of 129.6 million. Her total gold and dollar resources legally available for international transactions were thus in the neighborhood of 300 million dollars, and her required gold and dollar subscription would amount to 40.5 million dollars.

Should conditions so develop later that Sweden found it necessary to use her available gold and dollars, and also to call upon the Fund for additional dollars, it is theoretically true that she might obtain in that manner, over a period of five years, up to 187.5 million dollars. But in such circumstances there is the chance that dollars would have been declared scarce, and that Sweden might actually find it impossible to obtain from the Fund in dollars as much as she had subscribed in gold. In short, it is possible that the Fund mechanism might have broken down at the very time when Sweden would feel compelled to use it. As a creditor country, Sweden would be less likely than most members to have already used a large portion of her quota in advance of the Fund's shortage of dollars. Apart from this eventuality, Sweden would stand to gain by her contribution to the Fund, which would on the whole strengthen her international reserves. It does not appear that the size of her contributions in gold and dollars, as assumed here, would be embarrassing to her or act as a deterrent to her joining either the Fund or the Bank.

Finally, there is the contingent liability in foreign exchange to meet possible losses of the Bank which could not be met out of the Bank's special reserve. This amounts to 80 per cent of a country's quota, or 120 million dollars on the assumption made for Sweden. It must be paid in either gold, dollars, or the currency in which the obligation is to be met. The total gold and dollar contributions which Sweden might conceivably be called upon to make therefore total 160.5 million dollars, but it is pessimistic in the extreme to assume that a large portion of the contingent liability for losses will have to be met.

On balance, it would seem that the only really important consideration which may delay Sweden's decision to join will be her reluctance to submit to limitations on her exchange-rate policy.

Should Sweden become a member, the Bank may find in that country a ready market for its obligations. If the Bank issues krona obligations it will have to compete with the Swedish Government, which on its most recent 40-year issues has had to offer 3 per cent. Better terms might possibly be obtained on dollar obligations issued in Stockholm. Swedish holdings of dollar securities at present are probably in the neighborhood of 50 million dollars.

Belgian Clearing Balances J.H.F.

The Finance Commission of the Belgian House of Representatives has released a compilation of the balances of all Belgian clearing accounts as of May 11, 1946. The balances concern all countries with which Belgium has intensive trade relations, excepting the United States which has no clearing agreement with Belgium. The compilation, as well as a summary of the debt limits negotiated in the various agreements, are presented in the following table:

Belgian Clearing Balances
(In millions of francs)

	Credit	Debit	Credit or debit limit
United Kingdom	60.8	--	880.0
France	655.2	--	883.0
Netherlands	694.5	--	2,000.0
Switzerland	41.3	--	500.0
Sweden	--	896.4	2,090.0
Denmark	--	401.0	1/
Norway	--	29.0	1/
Finland	93.0	--	100.0
Portugal	--	134.0	176.0
Spain	--	9.5	1/
Italy	--	1.6	100.0
Czechoslovakia	54.0	--	1/
Total	1,598.8	1,471.5	

1/ Not available.

The table shows a clear pattern of trade: Belgium is buying on credit from the Scandinavian and Iberian countries, and is selling on credit to the United Kingdom, France, the Netherlands, Switzerland, and Eastern Europe. This situation conforms to the pre-war pattern in regard to the United Kingdom, France, the Netherlands, and Switzerland, but departs from it in regard to the Scandinavian and Iberian countries, with which Belgium formerly had an export surplus, and in regard to Eastern Europe, with which it had an import surplus. The changes reflect the varying degree of scarcity of goods, which increases in Europe from west to east. The small debit balance with Italy, contrary both to the relative economic standing of the countries and to the pre-war pattern, is probably the result of a decision of the Belgian authorities to prevent the accumulation of credits because of the unsettled political and economic conditions in Italy.

The approximate balance between credits and debits is misleading because of the substantial import surplus in relation to the United States. Moreover, the picture will be altered by the resumption of trade with the leading Latin American nations, with which agreements have been concluded in recent months.

Most remarkable is the relative smallness of the balances. The French debt would have been much larger if France had not shipped substantial amounts of gold to Belgium. With the exception of the debts of France and Finland, and of the Portuguese credit, the balances have remained below one-half of the limits set by the various credit agreements. This fact may account for the recent decision of the Belgian Government to free the importation and exportation of a great number of goods from priority and licensing requirements.

Utilization of Export-Import Bank Funds

M. J. Roberts

In July of 1945 the Export-Import Bank's lending authority was increased from 700 million dollars to 3,500 million dollars in order that the Bank might undertake a program of reconstruction loans to the liberated and war-devastated countries of Europe and the Far East in the period prior to commencement of lending operations by the International Bank. Since July 1, 1945, the Export-Import Bank has made loans and loan commitments totalling 2,160 million dollars. The following table lists the loans and commitments made by the Bank during the period July 1, 1945, through June 15, 1946:

Country or Area	Amount (Millions of dollars)
Europe:	
Belgium	100.0 1/
Czechoslovakia (for cotton purchases)	20.0
Denmark	20.0
Finland (5.0 for cotton purchases)	40.0
France	1,200.0 1/
Greece	25.0
Italy (for cotton purchases)	25.0
Netherlands (10.0 for cotton purchases)	310.0 1/
Norway	50.0
Poland	40.0
Cotton loans not yet allocated	40.0
Total Europe	1,870.0
Asia:	
China	66.8
Netherlands East Indies	100.0
Saudi Arabia	25.0
Turkey	3.1
Total Asia	194.9
Latin America	95.3
TOTAL	2,160.2

1/ Of these totals loans to finance lend-lease requisitions are as follows: Belgium, 55 million dollars; France, 650 million dollars; Netherlands, 50 million dollars.

Of this total amount of loans and commitments about 64 per cent represents loans to European and Far Eastern countries to finance reconstruction. Included in this category are a loan of 33 million dollars to China and a line of credit of 100 million dollars to European countries to finance purchases of raw cotton required for the operation of textile manufacturing industries in these countries. In addition, another 30 per cent is made up of loans to France, Belgium, and the Netherlands to finance purchases of goods requisitioned but not contracted for prior to the termination of lend-lease. These credits in effect are similar to reconstruction loans. Loans to finance purchases of materials and equipment for development projects, granted principally to Latin American countries, make up the remaining 6 per cent of the total. From this division of loans according to purpose, it is apparent that the Bank has devoted all but a small proportion of its loan funds committed in the past year to financing reconstruction abroad, the avowed purpose for which its lending authority was increased. However, it must be pointed out that the total amount of the Bank's loans and commitments made during the past year to countries other than liberated and war-devastated countries and for purposes other than reconstruction compares favorably with the average annual rate of loans of this type made in the years prior to the beginning of the Bank's intensive program of reconstruction loans.

In addition to the loans and commitments listed in the preceding table, the National Advisory Council and the Export-Import Bank's Board of Directors have approved in principle a loan of 500 million dollars to China to finance specific development projects and a loan of 50 million dollars to Czechoslovakia to finance reconstruction.

As a result of its broad lending program of the past year, the Export-Import Bank's lending authority of 3.5 billion dollars is dwindling rapidly. The following tabulation indicates the status of the Bank's funds as of June 15, 1946.

	(Millions of dollars)
Outstanding loans	659.1
Undisbursed commitments	2,028.4
Total loans and commitments	2,687.5
Uncommitted lending authority	812.5

From this 812 million dollars of uncommitted lending authority should be deducted the 550 million dollars tentatively earmarked for China and Czechoslovakia, leaving only about 260 million dollars available for additional loans.

In arriving at an estimate of the possible extent of the Export-Import Bank's available lending authority in the coming fiscal year, however, two factors must be taken into consideration. In the first place, the Bank, in the course of its operations, is constantly building up additional loan funds from repayments on outstanding loans, from the expiration or cancellation of loans and commitments, and from advances made by commercial banks participating at their own risk in the Bank's loans. It has been estimated that funds available from these three sources through June 30, 1947, may reach 290 million dollars.

Adding this amount to funds of 260 million dollars available as of June 15, 1946, the Bank might have about 550 million dollars with which to make loans through June 30, 1947. The second factor to be considered is the possibility that Congress will grant the Bank additional lending authority. The increase in lending power which the National Advisory Council has proposed and which President Truman has endorsed as necessary to carry out the Government's immediate foreign lending program is 1,250 million dollars. It is not considered likely, however, that a bill requesting any increase in the Bank's lending authority will be presented to Congress during the present session.

Italian Commercial Banking J.H.F.

The two largest commercial banks, Banca Commerciale Italiana and Credito Italiano, have published their balance sheets for 1945. Before the war these two institutions held 36 per cent of all deposits of commercial banks, and their development may be taken as indicative of the trend of Italian commercial banking in general. The most important items of their assets and liabilities for 1939 and 1945 are summarized in the following table:

Assets and Liabilities, 1939 and 1945
(In millions of lire)

	Credito Italiano		Banca Commerciale	
	1939	1945	1939	1945
Assets				
Cash	1,059.4	5,043.3	706.4	3,873.0
Bank balances, bills, and Government bonds	4,674.5	30,129.4	4,869.7	39,062.1
Advances	2,527.5	12,609.5	2,208.1	12,062.7
Liabilities				
Savings deposits	1,823.6	11,164.8	2,478.8	19,093.0
Current account deposits	5,345.1	29,686.2	4,218.6	27,356.4
Bank acceptances	391.0	6,425.7	382.1	6,831.3

Credito Italiano, which before the war was somewhat smaller than Banca Commerciale, has surpassed its rival, mainly because of the more rapid growth of its savings deposits. Apart from this, the development of the two institutions was virtually identical. On the assets side, the item "Bank balances, bills, and Government bonds," which represents advances to the Government--the bills being exclusively Treasury paper and the balances being kept with the Bank of Italy--has increased far more than the advances to the private sector of the economy. On the liabilities side, savings deposits have risen about as much as current account deposits, a trend contrary to the experience of other countries suffering from the threat of inflation. The substantial rise in bank acceptances may be due to a scarcity of bank notes.

The combined balance sheet total of the two institutions has increased to about seven times the 1939 level, while the value of the lira, in terms of free market exchange rates, has declined to about one-fifteenth of pre-war. In terms of stable currency, the balance sheet total of the banks has thus been cut in half--a common experience under conditions of currency depreciation. In spite of this decline, however, the banks still are good-sized institutions, with combined assets equal to about 350 million dollars at the free market exchange rate. Assuming that the Government will not default on its internal debt--a contingency which would be contrary to modern fiscal policy--the banks are very liquid and should be able to play an important role in financing the rehabilitation of the country. In order to facilitate this task, the banks, together with the smaller Banco di Roma, have established a new institution, Banca di Credito Finanziario, with a capital of 1 billion lire, which will grant medium-term loans with a maturity varying from one to five years. Thus the commercial banking system, like the currency and central banking authorities1/ and the foreign exchange administration,2/ will be fully prepared to do its part as soon as the restoration of normal international relations and especially the granting of the necessary foreign credits paves the way for the reconstruction of the Italian economy.

1/ See Review of Foreign Developments, April 8, 1946, p. 6.
2/ See Review of Foreign Developments, June 3, 1946, p. 8.

Exports in the First Quarter

C. R. Harley

With the flow of foreign trade statistical information approaching pre-war volume, a brief preliminary analysis of the current pattern of United States exports may be undertaken. Month to month changes are somewhat erratic and unpredictable as a result of unsettled conditions of domestic production and the emergency character of certain export programs. Export data for the first quarter of 1946, however, should provide a reasonably accurate picture of the basic pattern for the current year. Comparisons will be made with exports during the same months of 1945 and of 1939 in order to show both the relatively moderate shifts which have occurred since the end of the war and the virtual cessation of straight lend-lease and the far more substantial shifts since the pre-war period. The data are shown in Table 1 on the following page.

Exports of United States merchandise in the first quarter of 1946, at 2.2 billion dollars, were about 80 per cent by value of exports in the same period of 1945.1/ This decline appears surprisingly small in view of the fact that over 2 billion dollars of lend-lease exports were included in the 2.8 billion total for the earlier period while in the first quarter of the current year lend-lease2/ and UNRRA shipments together totalled only 670 million dollars.

1/ Exports to United States armed forces abroad are excluded throughout.
2/ Lend-lease exports at 340 million dollars for the quarter were principally merchandise for which payment, on cash or credit terms, had been arranged.

Exports of United States Merchandise by Economic Classes
(In millions of dollars)

	January-March 1946	January-March 1945	January-March 1939
TOTAL	2,219	2,791	690
Crude Materials	298	153	112
Cotton, unmanufactured	101	44	46
Tobacco, unmanufactured	77	58	28
Coal	64	21	8
Crude petroleum	10	8	18
Crude Foodstuffs	191	48	40
Wheat	130	9	17
Manufactured Foodstuffs	461	336	45
Meat products	149	114	7
Dairy products	108	40	1
Wheat flour	50	16	5
Milled rice	20	9	3
Lard	19	36	6
Canned vegetables	21	24	1
Preserved fruits	21	22	10
Semi-Manufactures	202	206	116
Gas and fuel oil	12	21	13
Iron and steel semi-manufactures	48	62	32
Coal tar products	15	8	3
Industrial chemicals	20	32	6
"All other" 1/	70	48	25
Manufactures	1,068	2,047	377
Rubber manufactures	39	36	7
Tobacco manufactures	14	4	4
Cotton manufactures	82	50	13
Wool manufactures	33	33	1
Rayon, nylon, and other synthetic textiles	25	13	5
Paper and manufactures	28	21	6
Motor fuel and gasoline	38	192	21
Lubricating oil	26	19	16
Steel mill manufactures	50	61	12
Iron and steel advanced manufactures	33	26	10
Electrical machinery and apparatus	61	93	24
Industrial machinery	192	195	68
Agricultural machinery	34	41	14
Cars, trucks, and buses (new)	42	87	50
Auto parts	29	55	25
Aircraft and aircraft engines	8	292	20
Merchant vessels	9	19	-
Medicinal and pharmaceutical preparations	32	27	5
"All other" 1/	268	762	74

1/ As listed in Census release FT-930; this is not the total residual.

The drop in exports occasioned by the sharp curtailment of lend-lease exports affected the economic class "manufactures" most drastically. Exports in this class were nearly 1 billion dollars lower in the first quarter of 1946 than in the first quarter of 1945. Approximately half of this decline appears to have been accounted for by curtailed exports of military equipment for which detailed data are not given in the summary tables from which the most current statistics must be drawn.1/ Other major declines are shown for exports of aircraft and aircraft engines (a drop of 285 million dollars), gasoline (145 million dollars), trucks (53 million dollars), and electrical machinery (32 million dollars). Cotton manufactures and synthetic textiles showed substantial gains. The important industrial machinery classification remained about the same.

As shown in the following summary table, increased exports in three of the four remaining classes offset the decline in manufactured exports to a large extent:

Exports of United States Merchandise
(Value data in millions of dollars)

	January-March					
	1946	%	1945	%	1939	%
Crude Materials	298	13.4	153	5.5	112	16.2
Crude Foodstuffs	191	8.6	48	1.7	40	5.8
Manufactured Foodstuffs	461	20.8	336	12.0	45	6.5
Semi-Manufactures	202	9.1	206	7.4	116	16.8
Manufactures	1,068	48.1	2,047	73.4	377	55.7
	2,219		2,791		690	

In the crude materials class, raw cotton and coal accounted for most of the increase in 1946 shipments, with raw tobacco exports also showing a sharp rise. Exports of crude and manufactured foodstuffs, stimulated by governmental and inter-governmental efforts to mitigate food shortages in Europe and Asia, rose well above the high war-time level. Wheat and wheat flour exports to the value of 180 million dollars in the first quarter of 1946 showed a seven-fold increase over the comparable months of the previous year. Meat and dairy products, exports

1/ While the flow of foreign trade statistical information released for publication has increased gradually since the end of the war, the form of the data leaves much to be desired. Summary tables (FT-900 series of the Bureau of the Census) show excessive "all other" groupings, particularly for the war years, and are arranged by the five economic classes shown in Table 1 rather than by the more revealing 11 economic groups which were commonly used in the Monthly Summary of Foreign Commerce and in the annual Trade and Navigation volumes. The 11 economic groups also form the basis for the minutely detailed statistical reports in the FT-400 series (exports) and the FT-100 series (imports), from which both country by commodity and commodity by country material may be secured. Since the 11 groups cannot be fitted into the 5 classes without excessive statistical rearrangement, gaps in the summary tables cannot be readily eliminated by reference to the detailed reports. Comparison with prior (pre-war) years is hampered for the same reason.

of which had already reached unprecedented levels under lend-lease, were shipped in still greater volume. Only about one-third of the foodstuffs exports during the quarter was shipped under the UNRRA program.

The extremely high proportion of agricultural products in current exports may be seen from the following figures of domestic exports (in millions of dollars) for the first quarter of the years listed:

	Agricultural		Non-Agricultural	
Jan.-Mar. 1946	845	(38%)	1,374	(62%)
Jan.-Mar. 1945	500	(18%)	2,291	(82%)
Jan.-Mar. 1939 1/	164	(21%)	617	(79%)

1/ Estimated from annual data.

According to indexes prepared by the Department of Agriculture, the quantity of all agricultural exports in the first three months of the year was 25 per cent above the average for the period 1924-1929 and agricultural exports excluding cotton were more than double those of the base period. It is, of course, doubtful that shipments of agricultural products will be maintained at this level once the period of acute world food shortages has passed.

A comparison of the trade pattern for the first three months of 1946 with that of 1939 shows that while the value of exports of each commodity class increased considerably over the period, the major gains occurred in finished industrial products and manufactured foodstuffs. In studying the data in Table 1, however, it is necessary to remember that the level of export prices was about 55 per cent higher in the more recent period than in 1939; it may be estimated roughly that the quantity of exports in the first quarter of the current year was 100 to 125 per cent greater than in the comparable period of 1939.

While the ten-fold increase in exports of manufactured foodstuffs is most impressive, the likelihood of a sharp decline in foreign sales of this category must be recognized. This is not to suggest that the widespread distribution of American foodstuffs during the war (under lend-lease) will have no continuing favorable influence upon such exports; it can hardly be expected, however, that foreign nations will be either willing or able to purchase the high-cost foodstuffs which dominate this category in any great volume once the period of acute need has passed. About 85 per cent of manufactured foodstuffs exports in the first quarter of 1945 was supplied under lend-lease and over 50 per cent of the meat products shipments in the first three months of the current year was financed by UNRRA.

The three-fold increase in the value of exports of industrial manufactures since 1939 accounted for a greater portion of the total increase than did the two foodstuffs classes combined. This classification, moreover, must be given predominant attention in estimating the longer term prospects for United States trade. It is in finished manufactures that the comparative efficiency of this country is the greatest and productive capacity the most elastic. It is in this field also that the curtailment of Japanese and German competition will be particularly noticeable.

Continued existence of export controls on many finished manufactures suggests that foreign demand for goods of this type is in excess of our present capacity to export without damaging domestic reconversion.1/ The extent of this artificially restricted demand cannot be estimated, but in view of the widespread destruction of capital installations during the war, the obsolescence of much of the world's industrial equipment, and the long period during which durable consumers goods have not been available, deferred demand must be extremely large. Exports of automobiles and parts may be expected to increase in roughly the same ratio as domestic production. Rubber exports should continue well above pre-war levels as special-purpose synthetics gain a firm foothold in the rubber products market, but the current rate of shipments will probably decline with increased availability of natural rubber from the Far East. Foreign sales of synthetic textiles may continue to increase, while exports of cotton and wool manufactures will meet increasingly stiff competition as foreign producers resume manufacture. The decline in foreign capacity for iron and steel production should insure a continuing strong demand for the entire range of United States manufactures in this field. Similarly the curtailment of German competition will open large markets for medicinal and pharmaceutical preparations of domestic producers. Exports of merchant vessels will increase during the year following Congressional approval (in April) of the Ship Sales Act authorizing foreign disposal of surplus ships. Substantial foreign orders for aircraft and aircraft engines have been reported. Second quarter strikes and a severe shortage of copper may cause a slump in exports of electrical machinery but the backlog of demand for all types of industrial machinery means that any such decline may be expected to be temporary. Exports of petroleum products, already far below the wartime level, may continue to contract as foreign production is resumed (e.g., in South East Asia).

With price and production developments still uncertain, forecasting is especially difficult at this time. There appears to be no reason, however, to expect the total value of exports during the year to fall below the 9 billion dollar rate established in the first quarter. Some decline in foodstuffs exports may be expected, but this should be offset by increased exports of finished goods.

1/ Authority to continue export controls until June 30, 1947, was granted by Congress on May 23.