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REVIEW OF FOREIGN DEVELOPMENTS

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American Plans for Reorganization of the German Banking System

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In December 1946 three Land Central Banks were established to serve as regional central banks for the three Länder (States) of the American Zone of Occupation in Germany. Establishment of such regional institutions is part of a more comprehensive plan which has been prepared for Germany as a whole by the Finance Division of OMGUS and generally referred to as the Dodge Plan.

The American plan for reorganization of the German banking system is based upon the following two principles established at the Potsdam Conference:

(1) "At the earliest practicable date, the German economy shall be decentralized for the purpose of eliminating the present excessive concentration of economic power as exemplified in particular by cartels, syndicates, trusts, and other monopolistic arrangements."

(2) "During the period of occupation, Germany shall be treated as a single economic unit. To this end common policies shall be established in regard to ... currency and banking, central taxation and customs."

In implementation of these principles, the plan proposes decentralization of the German banking system (central and commercial banking) to the Land level, liquidation of Germany's central bank (Reichsbank), and the breaking-up of her big commercial bank systems (Grossbanken). Moreover, the American Military Government has sought adoption of its program in all occupation zones and the establishment of central agencies for Germany as a whole.

The American Plan[1]

The American Plan would establish a banking system organized in the three following strata:

(1) The Allied Banking Board and the Länder Central Bank Commission for Germany as a whole;

(2) The Land Central Banks for each of the German Länder;

(3) Local and regional credit institutions, all decentralized to the Land level.

(1) The Allied Banking Board and the Länder Central Bank Commission. The German banking system would be dominated by an Allied Banking Board representing the Allied Governments and a Länder Central Bank Commission (comparable to the Board of Governors of the Federal Reserve System) representing the central banks of the Länder. The Allied Banking Board would consist of four members, one representing each of the occupying powers; the Länder Central Bank Commission would be composed of 12 members, three from each Allied Zone, to be appointed by the Zone Commanders from among the presidents of the Land Central Banks within each zone.

The head office of the Reichsbank would be liquidated while many of its functions would be transferred to the two supervisory agencies mentioned. The latter, working together, would be "the sole authority for the issue of a currency common to all of Germany," though the notes themselves would be distributed through the medium of the Land Central Banks. They would establish uniform policies with respect to currency and banking and coordinate policies in the individual Länder. Thus the policies to be followed by the Land Central Banks with respect to such matters as discount rates, open market operations, and reserve requirements would be laid down by the two supervisory bodies. They would also control institutions specializing in the clearing and settlement of domestic financial transactions or in foreign exchange transactions.

(2) The Land Central Banks. In each of the Länder constituting the future German Federation (probably 12 in number) a Land Central Bank (Landeszentralbank) would be established, supplanting branches of the former Reichsbank in that area. These central banks would be channels for the distribution of the uniform currency. They would not deal directly with the public,

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1/ The following analysis is based on the plan as presented for quadripartite discussion before the Coordinating Committee on October 17, 1946 (84th meeting) and the Control Council on October 21, 1946 (44th meeting).

but would be bankers' banks extending credit facilities to the individual banks in the Land, setting interest and discount rates, executing open-market operations, regulating reserve requirements, and supervising the clearing and settlement of financial transactions. However, in all these activities, they would have to follow the policies, regulations, and instructions laid down by the two supervising authorities. They would be bankers for the respective Länder insofar as these tasks were not reserved to other institutions such as the Bavarian State Bank in Bavaria. The responsibilities of the Land Central Banks with respect to foreign exchange transactions have not yet been formulated.

The capital of Land Central Banks would be subscribed initially by the Länder Governments but would subsequently be reapportioned among the individual banks of each Land. Their day-to-day operations would be controlled by a Chairman and a President, both of whom would be appointed by the two supervisory agencies, subject to the approval of Military Government authorities of the respective zones. There would also be a board of directors (Aufsichtsrat) composed of nine members, three of whom would be appointed by the two supervisory agencies, three by the Finance Minister of the Land (from the officers or directors of individual banks within the Land), and three by the Minister of Economics of the Land to represent the economic interests of the Land in trade and commerce, agriculture, and industry.

(3) Local and Regional Credit Institutions. All credit institutions would be strictly local or regional in character. Branches within the Land would not be prohibited but no bank would be allowed to establish or retain branches outside of the Land in which its head office is located.1/ Banks with branches in more than one of the Länder would be required to select the Land in which they preferred to establish their domicile. In this process the main offices of the Berlin "Grossbanken" would be eliminated; their branch systems would be liquidated or broken up into a series of non-interdependent regional branch systems, each confined within an individual Land. In carrying out the reorganization, moreover, the number of banks and branches within each Land would be reduced to conform to the present limited service needs and available personnel of each Land and community. Where rationalization is deemed advisable or necessary, the offices or branches of the larger banks might be eliminated or absorbed by smaller banking institutions. Consequently, the branches of the Grossbanken would be absorbed in many cases by local or regional institutions.

The head office of any bank would be completely independent of any control, direct or indirect, by any banking institution, governmental agency, banking association, or similar organization located outside the Land in which the bank is located. This would abolish the type of influence which central credit institutions and central banking associations in Berlin formerly exercised on credit institutions in the Reich, especially on savings banks and credit cooperatives.

1/ A plan released to the press on December 13, 1945, provided for an even greater degree of decentralization. It stipulated that over a period of time to be agreed upon, branch banking systems within the Land would be further decentralized to a Landkreise or Stadtkreise (county or city) basis. It appears that this part of the original plan has been abandoned.

Although ownership and control would be confined within the Länder, banking business could be conducted on a nation-wide basis; each bank would be allowed to carry on business outside the boundary of the Land in which it is located or to establish correspondent bank relationships with banks in other Länder.

Quadripartite Negotiations on the American Plan

The American plan was submitted on October 21, 1946, to the Control Council of the Allied Control Authority for adoption for Germany as a whole. Because of objections from the Soviet Union the proposal was withdrawn from the agenda and referred back to the individual governments. While the three western powers consented to the decentralization of the German banking system, provided that a central banking authority was created, the Soviet representative took the position that creation of central banking machinery should be postponed until the general question of the stabilization of the currency had been solved. Moreover, while the American plan provided for the liquidation of the head offices of the Grossbanken, and for the splitting-up of regional branch banking systems created by the Grossbanken, the representative of the Soviet Union objected to this "partial and compromise" solution and supported complete liquidation. The Soviet representative emphasized that banking monopolies in the Soviet zone were liquidated in May 1945. At that time all banking institutions, including branches of the Grossbanken, were closed to prepare the way for a completely new banking system consisting of five new provincial banks and some 470 new city and county banks (Stadt-und Kreisbanken). In the three western zones of occupation, on the other hand, the existing banking institutions, including branches of the Berlin Grossbanken, had been allowed to continue in existence. In referring to this situation, the Soviet representative accused the three western powers of "leaving monopolies, including banking monopolies, undisturbed," an accusation which is obviously unfounded. It is difficult to explain the Russian attitude except from the desire to object to any solution of the banking problem which does not adapt banking conditions in the Reich to those created by the Russians in their own zone.

While adoption of the American plan on a quadripartite level has so far proved impracticable, the American authorities have pushed the execution of the plan in their own zone of occupation, that is, in the three Länder--Bavaria, Württemberg-Baden, and Hesse. In fact, as early as mid-December 1945 the Military Government directed the Länderrat, consisting of the Minister-Presidents of the three Länder, to bring about decentralization of banking and bank supervision according to the American plan. However, action in the American zone was postponed pending efforts of the United States Military Government to reach agreement with the other powers on uniform legislation for Germany as a whole. In October 1946 the Länderrat was finally advised to conclude its deliberations and in early December 1946 laws concerning the establishment of a Land Central Bank were proclaimed in each of the three Länder. These laws went into effect on January 1, 1947.

The Land Central Bank Laws

Except for minor details, the Land Central Bank laws are identical for the three Länder. They abolish the Reichsbank in the American zone and substitute for it three Land Central Banks. It was announced that these laws would be followed soon by legislation concerning decentralization of German private credit institutions, and the breaking up of the branch banking systems of the Berlin Grossbanken. The British may be expected to follow suit in their zone of occupation so that decentralization would eventually be secured on a bi-zonal basis.

The three new Land Central Banks have been formed from branches of the Reichsbank formerly operating in the American zone; the Reichsbank branches in Munich, Stuttgart, and Wiesbaden were made the head offices of the three regional institutions, while the remaining branches were transformed into branches of the newly created central bank in the Land in which located. Although not considered legal successors of the Reichsbank, they took over all real estate and all operating equipment of that institution situated within the Länder, as well as all other types of assets including the stock of Reichsbank notes. They were authorized, moreover, to assume certain liabilities arising out of banking transactions of the Reichsbank branches within the respective Länder. It may be noted in this connection that in March 1946 total assets of the 71 Reichsbank branches in the American zone of occupation amounted to 9,431 million marks of which 4,083 million marks were cash, 3,269 million marks due from the head office, and 2,079 million marks other assets.

The Land Central Bank of Bavaria was given a capital of 50 million marks, that of Württemberg-Baden 30 million marks, and that of Hesse 5 million marks. The original capital was subscribed by the respective Länder but within two years is to be taken over by the individual credit institutions of the region; equal shares will be apportioned to the three main types of credit institutions (private, public-law, and cooperative).

Pending the establishment of a uniform system of issuing bank notes throughout Germany (through the projected Allied Banking Board and the Länder Central Bank Commission) each of the three Land Central Banks has the following functions:

(1) To regulate the circulation of currency and the supply of credit;

(2) To insure the solvency of credit institutions and to hold reserves against deposits in credit institutions;

(3) To execute cash transactions for the State and other corporations created by public law, and to grant short-term credit to such public institutions insofar as these tasks do not fall to other institutions, such as the Bavarian State Bank in Munich;

(4) To attend to non-cash transfers and clearing of checks and to assist in financial transactions with other German Länder, and to facilitate international exchange transactions when these have been resumed;

(5) To attend to the safekeeping of securities, to hold them and to attend to their transfers.

In order to carry out these functions, the Land Central Banks were authorized to engage in the following transactions:

(1) To buy and sell three-name bills of exchange maturing not later than six months from the day of purchase;

(2) To buy and sell Treasury bills of the German Reich and the German Länder which mature within six months from the date of purchase;

(3) To buy and sell in the open market interest-bearing securities, in order to regulate the money market;

(4) To buy and sell foreign exchange subject to existing legal restrictions;

(5) To grant interest-bearing loans of no more than six months' maturity against various types of collateral (lombard loans);

(6) To grant credits to the State and, with the approval of the Minister of Finance, to the Railroad Administrations and other corporations created by public law in order to cover temporary cash deficits (the aggregate of such loans shall not exceed one-fifth of the total deposits);

(7) To accept non-interest-bearing deposits for giro or other purposes;

(8) To receive and hold in custody valuables, especially securities, on behalf of credit institutions and public agencies;

(9) To serve as "Wertpapiersammelbank" (Central Agency for the safekeeping and transfer of securities).

With respect to their functions and privileges, the new Land Central Banks do not differ substantially from the former Reichsbank (or from any other central bank, for that matter). The main difference is that they are not note-issuing institutions. Moreover, their business activities are limited expressly to dealings with credit institutions and public agencies, while the former Reichsbank dealt also with business enterprises.

The character of the Banks as bankers' banks is emphasized by the regulations concerning reserve requirements. Credit institutions having head offices or agencies within a given Land are required to maintain minimum deposits with the Land Central Bank. These shall bear a definite relation to the deposit liabilities of such institutions. It will be permissible to differentiate between different types of credit institutions and different forms of deposits. Similar regulations of a general character had been contained in the Reich Credit Law of December 5, 1934, but it never became necessary to specify actual reserve ratios because of the high liquidity which prevailed during the years following passage of that law. It is quite possible that, under American influence, these regulations will gain considerable importance as an instrument of banking policy, particularly after the monetary reform has been carried out and the German economy has been drained of its excessive cash reserves.

Each of the three Land Central Banks will be supervised by a Board of Directors and managed by a Board of Managers, the latter consisting of the President, the Vice-President, and such other officers as may be required. The President and Vice-President of each bank are appointed by the Minister of Finance; the other members are appointed by the Board of Directors upon recommendation of the President.

The entire management of each institution is supervised by the Board of Directors which establishes "the principles underlying the execution of the functions of the Bank". In so doing, it will be bound by recommendations of the Advisory Council (see below) established as a coordinating body between the three Land Central Banks. The Board of Directors will consist of nine members including a President and a Vice-President. The President will be appointed from among its members; the President of the Land Central Bank will be its Vice-President. Other members of the Board, besides the President of the Land Central Bank, are: the head of the Bank Supervisory Authority, one representative each from agriculture, trade, industry, and from labor and salaried employees, all of whom will be appointed by the Minister having jurisdiction in the respective field. In addition, the shareholders will elect one representative from private banking, one from the credit cooperatives, and one from the public law credit institutions, such as savings banks. The Board of Managers and the Board of Directors will reach decisions by majority vote; in case of a tie, the vote of the respective President will prevail. The composition of the Board deviates somewhat from that projected under the general plan of reorganization, where three of the members were to be appointed by the Allied Banking Board and the Länder Central Bank Commission.

Each Land Central Bank is subject to State supervision which is exercised by the Bank Supervisory Authority. The highest authority in the field of banking, however, is the Advisory Council, which directs and coordinates the banking policies in the three Länder. Its functions are to recommend to the Boards of Directors of the three Land Central Banks uniform discount and interest rates, minimum reserve requirements and principles underlying open-market policy; to provide for uniform organization of payments by cashless transfer and check; to regulate transfers to and from other German Länder; and, after resumption of transactions with foreign countries, to regulate such international transfers. Each Land is represented on the Council by three representatives, the President of its Land Central Bank, the head of its Bank Supervisory Authority, and a member of the Board of Directors of its Land Central Bank to be appointed by that Board. Decisions are reached by majority vote. The composition of the Advisory Council deviates considerably from that of the Länder Central Bank Commission as projected under the American plan for Germany as a whole. It will be remembered that the Commission was to consist of 12 members, chosen by the Zone Commanders from among the Presidents of the Land Central Banks (see page 2).

Comments and Criticisms

It has been generally noted that American plans for reorganization of German banking have taken the American banking system as a model. The Länder Central Bank Commission of the general plan (or the Advisory Council as now established in the American zone of occupation) corresponds to the Board of Governors of the Federal Reserve System; the Land Central Banks correspond to the 12 Federal Reserve Banks; and the system of local unit banks or branch banks limited to each Land is also patterned on the American system which excludes nation-wide branch banking. There are, moreover, a series of individual features taken directly from the American system, such as the reserve requirements, ownership of the Land Central Banks through the credit institutions, composition of their Boards of Directors, etc.

The central bank system planned for Germany may, however, develop less cohesion and show a higher degree of decentralization than the American system. Less cohesion may develop if, in the course of time, the Allied Banking Board should recede into the background or disappear completely and relinquish all its powers to the Länder Central Bank Commission. It will be remembered that the members of the Board of Governors of the Federal Reserve System are appointed by the President and that in selecting its members the President shall have due regard to fair representation of the financial, agricultural, industrial, and commercial interests, and to geographical divisions of the country. Though regional points of view are not left entirely out of consideration, "the controlling or regulatory body is one which represents the interests not of any particular class or group of people but of the Nation as a whole ... Since ... the effect of monetary policy is Nation-wide, the formulation of monetary policy should be by a body which represents the Nation and which is activated by national considerations" (Chairman Eccles in an address at Columbus, Ohio, February 12, 1935). The Länder Central Banking Commission, on the other hand, would be a sort of parliament of the Land Central Banks inasmuch as all of its 12 members would be Presidents of the Land Central Banks. It is questionable whether under these circumstances the Commission would function as an independent body aside from and above the Land Central Banks. It is also quite uncertain that it would be a strong centralizing force able to initiate effective nation-wide policies. It would reflect all the regional differences of economic interests, and special blocs might develop to foster the interests of the predominantly agricultural or the predominantly industrial Länder, of the Länder formerly occupied by the Soviet Union or those formerly occupied by the Western Powers, of the Länder in southern Germany or the Länder formerly making up the Prussian State. Each group might seek to dominate national policies with the result that deadlocks would develop, making initiation and administration of nation-wide policies impossible. Such difficulties may be avoided as long as the Allied Banking Board remains an effective force.

Certain features of the plan for Germany bear more similarity to the Federal Reserve System before the reform legislation in the early 'thirties than to the present system. For example, the Länder Central Banking Commission, consisting exclusively of representatives of the Land Central Banks, will be composed in the same manner as the important Federal Open Market Committee prior to 1935. Until that year the latter body consisted of the Presidents of the 12 Federal Reserve Banks. Its function was to formulate open market policies, while the Board of Governors was limited to adopting or rejecting such policies. The Federal Reserve Act of 1935 changed the composition of the

Committee which now comprises the seven members of the Board of Governors and five representatives (Presidents or First Vice-Presidents) of the Federal Reserve Banks, thus giving the Governors a majority in the Committee.

In a country the size of the United States, the regional system of 12 Federal Reserve Banks affords an essential link between the thousands of individual member banks, on the one hand, and the Board of Governors, on the other. In comparing the Federal Reserve System with that planned for Germany, it should be realized that the United States is more than 21 times as large and its population about twice as great as that of Germany. A similar degree of decentralization might have been achieved for Germany by formation of, say, four or five regions (as in the United States, "not necessarily coterminous with any State or States") each of them having its own central bank. The system of probably 12 central banks planned for Germany, instead, closely follows the future political pattern of the country. The result is that the German system would be more decentralized than the American system.

It is generally agreed that before the war great economic power was concentrated in the hands of the Berlin Grossbanken. Before entering into a discussion of the decentralization problem, it may be pointed out that, as a result of war and post-war developments, the scope of the problem has been considerably reduced. There were six "Grossbanken" in Berlin, four of which had nation-wide branch systems, the Deutsche Bank, the Dresdner Bank, the Commerzbank, and the Bank der Deutschen Arbeit A.G. (the latter on a considerably smaller scale), while two, the Berliner Handels-Gesellschaft and the Reich-controlled Reichs-Kredit-Gesellschaft A.G., had no branches. In the course of a rationalization movement undertaken during the war and terminated in 1943, the Deutsche Bank, Dresdner Bank, and Commerzbank lost about one-third of the number of bank offices maintained by them in 1940. In May 1945 the head offices of the Berlin Grossbanken, all of which were located in the Russian sector of Berlin, were closed by the Russians, who also closed all the branches in their zone of occupation. Moreover, all branches in territories east of the Oder and Neisse rivers were eliminated as a result of territorial changes. The Bank der Deutschen Arbeit, which was completely owned by the German Labor Front, an organization of the Nazi party, is being liquidated in all four zones of occupation under special laws concerning Nazi property. As a result of these developments, only the branches of the Deutsche Bank, the Dresdner Bank, and the Commerzbank (all cut off from their former Berlin head offices) have been operating in the three western zones of occupation.

There are two main lines of approach to the problem of curbing the economic power of the Grossbanken. One would consist in divorcing investment banking from commercial banking, the second in breaking up their branch systems. The American Plan places emphasis on the latter. It is uncertain whether this approach will prove fully effective in the long run.

For reasons which need not be discussed here, banking can easily be conducted on a nation-wide scale and, therefore, lends itself to bigness. The question of banking organization seems to be of secondary importance. Germany had nation-wide branch banking systems in the field of commercial banking, while in the United States commercial banking is limited to the State or the city level, depending on the legislation of the State in which the head office is located. In both countries, however, the largest commercial banks rank among the largest corporations of the country.[1] It is, therefore, quite possible that limiting of branch banking to the Land level will not, in the long run, prevent the accumulation of economic power. It is interesting to note that two of the Berlin Grossbanken had no branches and yet became large and powerful. These institutions did a nation-wide business and acted largely as bankers' banks for provincial banks which maintained considerable balances with them. The American Plan does not preclude the right of a credit institution to carry on business outside of the boundary of the Land in which it is located or to establish correspondent bank relations with outside institutions. As long as the deposits of a region exceed its credit demands, surplus funds are likely to flow to certain credit institutions doing a nation-wide business. Such institutions may not reach the magnitude of the former Berlin Grossbanken, with their extensive branches (because a system of correspondent banks is believed to be less effective in collecting funds) but there may still be institutions of considerable size and representing a substantial accumulation of economic power.

Judging from past experience in times of financial crises, a nation-wide branch banking system is safer from the point of view of the depositor than a system of numerous local or regional banks. It is doubtless easier for the central bank and the government to deal with and to assist a few large branch banking institutions than to assist a multitude of local banks. So it was a comparatively easy task for the German Government (and a few assisting institutions) to support and to reconstruct failing Grossbanken in 1931 by guaranteeing their deposits, supplying them with liquid funds and by subscribing to new capital stock. In this process of reconstruction, the depositors incurred no losses. In this country, on the other hand, several thousands of banks were closed during the banking crisis with considerable losses to depositors. This experience during the crisis led to banking reforms in this country, such as the introduction of nation-wide deposit insurance. The introduction in Germany of a system of local and regional banks may similarly require further complementary legislation to make the new system safe.

The alternative approach of divorcing commercial banking and investment banking might prove worthy of further attention. The Berlin Grossbanken not only granted short-term industrial credit to finance working capital needs but also undertook the financing of long-term investment pending the issue of securities. As a result of these very comprehensive business activities, relations between the banks and the industrial corporations were extremely close. Through representation on the boards of directors of many corporations, the banks exercised a dominant influence on German industry, each Berlin Grossbank having its own industrial empire. Proposals to prohibit banks from investing in corporate stock and from engaging in stock market transactions have already been approved on a quadripartite level and an important beginning in divorcing commercial from investment banking has thus been made.

1/ Among the 12 largest corporations in the United States in 1935, seven were financial corporations, of which four were insurance companies and three commercial banks. The latter were the Chase National Bank, the National City Bank of New York, and Guaranty Trust Company, all of which maintain branches in greater New York and a few branches abroad.

There is, in general, a close interrelationship between the structure of industries and the banking structure. Inasmuch as Germany's industrial capacity is to be reduced and large corporations are to be dissolved, there will be less need for large banking institutions. At relatively low levels of industrial production, there would be little need for Grossbanken, and their decentralization or dissolution would be the logical development. If, on the other hand, higher levels of industry are eventually decided upon, stronger financial institutions may also be required.

Post-UNRRA Needs of Yugoslavia — J. Herbert Furth

The United Nations published on January 24, 1947, a report of the special technical committee on relief needs after termination of UNRRA. The report estimated minimum import requirements and the resources available for financing the import programs for Austria, Czechoslovakia, Finland, Greece, Hungary, Italy, Poland, and Yugoslavia. It came to the conclusion that these countries, with the exception of Czechoslovakia and Finland, will need relief assistance to an aggregate value of 583 million dollars in 1947, in amounts varying from 40.2 million dollars for Hungary to 143.5 million dollars for Austria. For those countries for which comparable estimates have been prepared independently, the conclusions reached by the committee are by and large in harmony with previous figures.1/ Only in the case of Yugoslavia does the estimate appear unduly pessimistic.

The committee assumed that minimum import requirements for Yugoslavia (including UNRRA shipments to be delivered in 1947) would reach 234.5 million dollars, and deducted expected UNRRA shipments of 40.8 million dollars, exports of 129.5 million dollars, and other receipts of 6.0 million dollars, leaving a deficit of 58.2 million dollars. It assumed further that 10.0 million dollars of exports would not be available for financing the import programs, because of bilateral agreements involving credits to trade partners or necessitating imports not vitally needed by the Yugoslav economy. It thus estimated the relief assistance required at 68.2 million dollars.

The largest item on the import side is food, estimated at 80.9 million dollars. This figure appears far too high. Before the war Yugoslavia was a substantial net exporter of foodstuffs. According to the announcements of the Yugoslav Government, agriculture has almost recovered its pre-war productivity. Under these circumstances, substantial food imports could be deemed necessary only if the claims of the government as to the progress of the country's economy are completely rejected. According to impartial observers, however, domestic production, while perhaps 25 per cent below the pre-war average, was sufficient after the 1946 harvest to provide for a diet of 3,000 calories daily per consumer in the food-producing areas of the country, and of 2,000 calories in the food deficit areas; the outlook for the period after the 1947 harvest is reportedly even more favorable. Yugoslavia is able, therefore, to provide for average daily consumption of substantially more than 2,300 calories per person, which is the minimum standard adopted by the committee.

1/ See Review of Foreign Developments, November 18, 1946, p. 1.

At most, it may be estimated that Yugoslavia's food exports (mainly grains) would have to be compensated by an approximately equal value of imports (mainly fats and proteins), the rehabilitation of livestock having made less progress than grain production. With the exportable grain surplus estimated at 20 million dollars, food import requirements should not be larger than that sum, or about 61 million dollars less than the committee's estimate.1/

The committee has estimated coal and petroleum product imports at 18.2 million dollars. This figure also appears far too high. Yugoslavia at present operates the Istrian mines, which formerly supplied coal to Italy, and thus is one of the few European countries to have a higher domestic coal potential than before the war. Its industrial system hardly needs more fuel than in pre-war years, and therefore imports as high as the pre-war volume (around 600,000 tons of hard coal equivalent, or 6 million dollars at present prices) should be ample. This would reduce the committee's estimate by another 12 million dollars. Leaving all other import figures unchanged, these reductions would mean a decrease in total import requirements by approximately 73 million to 161 million dollars.

On the basis of the committee's estimates of foreign exchange receipts, these requirements would be completely covered by available revenues. Actually, however, the export forecast appears optimistic. Unfortunately, the committee has not published a breakdown of its export estimate. On the basis of crop reports and pre-war consumption data, however, it may be assumed that food exports will not exceed 20 million dollars.2/ All other exports probably will not exceed 60 million dollars since exports of raw materials (other than foodstuffs), including minerals, tobacco, and hemp, will probably reach approximately their pre-war volume, but exports of lumber and manufactured products will be substantially lower than before the war. Total exports would thus be only around 80 million dollars, or about 50 million dollars less than the committee's estimate.

On the other hand, there is no need to assume that Yugoslavia would have to accumulate idle clearing balances or to import unnecessary goods because of her bilateral trade agreements. All her trading partners can supply her with needed commodities, and Yugoslavia is under no obligation to export to any of them more than is required to pay for those imports. If Yugoslavia chooses to grant trade credits to some of her neighbors for political reasons, she cannot expect relief assistance in order to carry out that program. The export sum of 80 million dollars should therefore be counted as fully available for financing necessary imports.

Adding to that sum expected UNRRA shipments of about 41 million dollars and net revenues on non-trade account of 6 million dollars, total resources reach about 127 million dollars. Deducting that figure from import requirements of 161 million dollars leaves a deficit of around 34 million dollars. This deficit can easily be covered by receipts from reparations,

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1/ The American member of the committee also recorded his doubts as to the accuracy of the committee's estimate of food imports.

2/ Since it is assumed that foodstuff imports must approximate foodstuff exports, any change in the export figure would alter the import figure by the same amount and leave the balance unaffected.

which the committee--against the vote of some of its members--excluded from consideration. Hungary recently undertook to supply Yugoslavia with needed commodities on reparation account and Yugoslavia is also expecting deliveries from Germany and Italy. Moreover, the deficit is less than half of the country's known reserves of gold and foreign exchange. Since part of the imports represent capital investments needed for the reconstruction of Yugoslav industry, there would be ample justification for using part of the gold reserves in payment.

For these reasons, Yugoslavia should be able to cover all her necessary imports in 1947 without recourse to relief assistance.

Prospective Drawings on the International Monetary Fund

F. Jafiy

The accompanying table is a compilation of estimates, prepared by members of the Foreign Areas Section, of prospective drawings on the International Monetary Fund by all present members and countries accepted for membership during the initial period of the Fund's operations. It indicates that, while foreign countries have combined annual drawing rights in the Fund of about 1,250 million dollars, they may be expected to draw less than 400 million dollars in each of the first two years of operation of the Fund. (It should be understood that these estimates are based merely on individual judgments as to future developments in the countries concerned.) This compares with total fund holdings of about 3,500 million dollars in gold and United States and Canadian dollars.

The figures take account of the fact that Brazil, China, the Dominican Republic, Greece, Poland, Uruguay, and Yugoslavia have postponed agreement with the Fund on exchange rates. The assumption made here is that no drawings by these countries will occur in the first year, but that agreement will be reached in time to permit drawings during the second year. The estimates assume free access to the Fund by all members except those mentioned above. If it is thought that the Fund will restrict drawings of any other countries, the figures should be adjusted downward accordingly. No explicit assumption as to future prices has been made; this can be justified if it is considered probable that price changes during this period will not greatly affect balances of payments. Thus an implicit assumption of these figures is that no radical price changes will occur. No significant change in United States commercial policy has been assumed.

With regard to repurchases of currency from the Fund, the assumption made here is that countries will arrange their affairs so that they will be free of any repurchase obligations under Article V, section 7, of the Fund agreement, either because they draw down their reserves *pari passu* with their use of the Fund, or because their reserves are less than their Fund quota. It seems likely that this assumption, the simplest for estimating purposes, will be approximately true.

The figures for each year represent total amounts, which may be drawn either at one time or in installments during the year.

Prospective Drawings on the International Monetary Fund
March 1947 through February 1949
(In millions of United States dollars)

	Maximum drawing power in any 12-month period (25 of quota)	Probable drop Mar.1947 to Feb.1948	Probable drop Mar.1948 to Feb.1949	Total
Western Europe, excluding France (Belgium, Denmark, Iceland, Italy, Luxembourg, Netherlands, Norway)	202	202	85	287
France	131	131	20	151
United Kingdom	325	0	0	0
Eastern Europe (Czechoslovakia, Greece, Poland, Yugoslavia)	88	15	75	90
Latin America (Bolivia, Chile, Costa Rica, Ecuador, Honduras, Mexico, Nicaragua, Paraguay, Peru, likely to draw; Brazil, Colombia, Cuba, Dominican Republic, El Salvador, Guatamala, Panama, Uruguay, Venezuela, unlikely to draw)	121	25	30	55
China	138	0	138	138
India	100	0	0	0
Middle East (Lebanon, Syria, Turkey, likely to draw; Egypt, Ethiopia, Iran, Iraq, unlikely to draw)	35	12	13	25
Rest of World (Canada, South Africa, Philippines)	104	0	0	0
Total	1,244	385	361	746

Some Remarks on the Polish Plan of Economic Reconstruction

Hans J. Dernburg

Poland's Plan for Economic Reconstruction covers the period from January 1, 1946, through December 31, 1949. A comprehensive critical discussion of the Plan is impaired by the inadequacy of our knowledge of current economic conditions. The following is accordingly confined to a few preliminary remarks.

The economic development of the country, as projected by the Plan, is epitomized by the following figures:

	In billion zlotys of 1938 purchasing power					In per cent (1946=100)		
	1938	1946	1947	1948	1949	1947	1948	1949
Consumption	15.4	7.0	9.7	13.2	16.7	139	189	239
Investment	2.3	1.8	2.8	3.2	4.0	156	178	222
Total national income	17.7	8.8	12.5	16.4	20.7	142	186	235
Income from agriculture1/	6.9	2.6	3.9	4.4	5.5	150	170	213
Manufacturing, mining, and handicrafts	5.7	3.8	5.2	7.3	8.7	138	193	229
Services2/	5.1	2.4	3.4	4.7	6.5	141	194	270
Total national income	17.7	8.8	12.5	16.4	20.7	142	186	235

1/ Including forestry and fisheries.
2/ Services such as commerce, transportation, communications, professions, education, etc.

National income in 1949 is scheduled to exceed that of 1938 by about 17 per cent and that of 1946 by 135 per cent. Over the period 1946 to 1949, 11.8 billion zlotys or about 20 per cent of the aggregate national income is to be devoted to investment as compared with 13 per cent in 1938. This is a rather ambitious program requiring capital imports from abroad in the aggregate of 800 to 900 million dollars (equivalent to 2.4 to 2.7 billion zlotys1/). It may be noted that, apart from 1947, consumption is scheduled to develop faster than investment and income from manufacturing faster than that from agriculture. The share of agriculture in national income in relation to that of industry, which in 1938 was 55 per cent, is to decrease from 41 per cent in 1946 to 39 per cent in 1949.

As far as the significance of the Plan figures is concerned, it should be noted that the 1938 figures refer to the territory of old Poland. This is not unjustified in some respects. It is meaningful, for instance, to compare the consumption of the Polish people at present or in 1949 with that of pre-war Poland in 1938. In other respects, however, comparison with old Poland tends to be misleading. Since before the war the present area of Poland was much richer than the area of old Poland, the planned rate of recovery appears substantially higher than it would if pre-war conditions in the present area, rather than in old Poland, were used as the basis of comparison.

1/ Converted at the ratio used in the Plan of 1 dollar = 3 zlotys of 1938 purchasing power.

The pertinent data on coal output provide a particularly clear illustration in this respect. Coal output in old Poland before the war was 38 million tons; according to the Plan this figure is being exceeded in 1946. But the present area of Poland produced 66 million tons of coal in 1938; this figure will not be reached before 1948. War-time production in the present area was as high as 100 million tons; this level will not be reached until 1950.

Similarly, the national income of old Poland in 1938 is stated in the Plan to have amounted to 17.7 billion zlotys. The national income of the present area in 1938, according to our own estimates, was in the vicinity of 25 billion zlotys. Thus while Poland's projected national income for 1949 would exceed the former figure by about 17 per cent, it would still remain some 20 per cent short of the latter figure.

More significant than the question of the proper basis of comparison is the internal consistency of the Plan. In this respect it may be useful to compare the planned rate of growth of national income and its component parts with the planned rate of growth in output of a number of key commodities. This is attempted in the two following tables. The top line of Table I gives the index of the development of agricultural income for the years 1946-1949, as scheduled in the Plan. This index is based on value figures in constant (1938) prices and thus may be taken to represent also the development of the volume of total agricultural production. The following lines of the table give the planned index number for 1949 for a number of agricultural goods. These figures (1946=100) are based on planned physical quantities of output. The arrangement of these figures in the table is determined by the top line. To give an example: the 1949 index number for the output of beef in Table I is 142. Accordingly the figure has been placed in a column between 1946 and 1947, the total index of agricultural production for the former year being 100 and for the latter, 150. In Table II the scheduled rate of increase in income from manufacturing, mining, and handicrafts is compared with the rate of growth of physical output of a number of important industrial goods. The arrangement is identical with that of Table I. The tables can provide only a very rough measurement of the internal consistency of the Plan. Still, if we were to find that all indexes of physical output were greatly in excess of that for agricultural and industrial production respectively, the findings would indicate a possible overfulfillment of the Plan. On the other hand, if we found that output of all key commodities showed a much lower rate of growth than that foreseen for the national income of the country, prima facie evidence for the impossibility of attaining the planned levels of national income would be established.

As shown in Table I, the value of national income from agriculture in 1949 is expected to be 113 per cent higher than in 1946. The table shows that out of 7 commodities the output of only 2 is planned to develop faster than total agricultural output. One of these, pork, is important as its weight in the total is considerable. However, 5 of the commodities listed show an appreciably slower rate of growth than total agricultural production. This group includes such important commodities as potatoes and sugar beets. Although the over-all result is inconclusive, the table shows a bias in the direction of underfulfillment of the Plan.

Table I

Planned Increase in National Income from Agriculture as Compared with Planned Physical Output of Agricultural Goods in 1949[1]
(1946=100)

	1946		1947		1948		1949	
National Income from Agriculture	100		150		170		213	
Physical output in 1949								
Net crops								
Rye						190		
Potatoes						172		
Sugar beets				167				
Wheat								349
Pork								319
Beef		142						
Milk		141						

1/ See page 16 for explanation of the tabular treatment.

The table on national income from manufacturing, mining, and handicrafts in relation to the output of specific industries gives an even more definite picture. Here 22 out of 30 items for which projections are given in the Plan lag very considerably behind the value index of industrial production. This category includes such important products as coal, coke, steel bars, cement, timber, transmission belting. The actual discrepancy may be somewhat smaller than is indicated by the table, inasmuch as the output of machine tools and agricultural machinery--commodities with a relatively higher value added--show rates of growth in excess of that of the value index. Yet, it is difficult to escape the conclusion that on the whole the development of the national income from manufacturing has been considerably overestimated.

Table II

Planned Increase in National Income from Manufacturing, Mining, and Handicrafts as Compared with Planned Physical Output of Industrial Goods in 1949 1/
(1946=100)

	1946		1947		1948		1949	
National Income from Manufacturing, Mining, and Handicrafts	100		138		193		229	
Physical output in 1949								
Coal				174				
Coke				141				
Pig iron						200		
Steel bars				182				
Zinc						204		
Lead								250
Cement				154				
Timber				157				
Bricks, tile, etc.								438
Pressed glass				167				
Tar paper		127						
Transmission belts		119						
Power				151				
Locomotives				191				
Freight cars						209		
Bicycles								333
Machine tools for metal and wood								367
Agricultural machines and tools 2/								279
Railroads								
Bridges reconstructed		110						
Tracks reconstructed		113						
Highways								
Roads modernized								890
Roads reconstructed		117						
Bridges reconstructed				150				
Salt				142				
Cotton fabrics						194		
Woolen fabrics								300
Shoes		121						
Cigarettes								344
Matches				154				
Paper				173				

1/ See page 16 for explanation of the tabular treatment.
2/ Based on zloty value.

Unwelcome Aspects of Tourism in Western Europe

Rosa Ernst

The monetary agreement signed on March 12, 1946, between the United Kingdom and Switzerland specified that during the first contractual year a credit of 5 million pounds sterling (86.75 million Swiss francs at the agreed rate of 17.35 francs per pound) was to be granted Great Britain for monetary transfers.1/ There was an additional clause under which, it was understood, this amount might be increased by a maximum of 5 million pounds, so that the total available to the sterling area was really 10 million pounds. The possibility of exhausting this credit before the end of the specified period was taken into consideration and it was stipulated that gold should be accepted by the Swiss National Bank in case the credit limit was reached before the end of the first year. The British actually exhausted this credit of 173.5 million francs in less than eight months. Swiss estimates report that it was used for the following purposes:

	Million Swiss francs
1) Expenditures of British tourists in Switzerland	80
2) Expenditures for British military personnel on leave	10
3) Remittances and government expenditures	30
4) Proceeds of capital investments, insurance payments, etc.	50
	170

Mr. Dalton, the British Chancellor of the Exchequer, estimated the amount used for tourist expenditures at a somewhat lower figure of about 52 million francs and emphasized that the balance of payments between Switzerland and the United Kingdom proper was in equilibrium, but that Swiss trade with other countries of the sterling area was responsible for the deficit of the area as a whole. Since no further credits are to be available until the beginning of the second year of the treaty (March 1947), payments in the interim period are to be made in gold. Such a course of action, it is emphasized, is unwelcome both because of the low level of gold reserves of Great Britain and because of unfavorable effects on the monetary circulation and price level of the Swiss economy. The Swiss authorities would have preferred to offset the balance by accepting increased merchandise imports from England, but are well aware that the exporting capacity of Great Britain is limited.

One of the chief concerns of Switzerland in connection with the agreement has been to find ways and means to prevent misuse of funds earmarked for tourist expenditures. British tourists have been permitted to exchange up to 75 pounds sterling to finance travel and living expenses in Switzerland. It was pointed out by Swiss circles that the funds allotted to tourists to a large extent were not being used to defray legitimate tourist expenditures.

1/ See this Review, March 25, 1946.

Instead, the Swiss charged, British visitors would often come to Switzerland mainly to exchange their pounds into Swiss francs at the official rate, the Swiss francs into Italian or French currency at a highly profitable free market rate, and would then proceed to enjoy a very inexpensive vacation in Northern Italy or Southern France; or would stay very shortly and buy up scarce consumer goods, thus contributing to the rise in prices. With francs left over, it was charged, the visitors would buy pound notes in the free market at the very favorable rate of about 9.50 francs for one pound (as against the official rate of 17.35 francs per pound).

It is estimated that between July and September about 469,000 tourists visited Switzerland and that they took out of Switzerland about 20 million dollars worth of shoes and clothing. In all fairness it must be stated that a large number of Belgian and French tourists also had a part in these purchases.

Similarly, American tourists, who had an allotment of 1,000 dollars per month, could exchange their drafts and checks against Swiss currency at the rate of 4.25 Swiss francs per dollar. Assuming a tourist had 1,000 dollars to exchange, he would get 4,250 Swiss francs, and assuming that his expenses were 1,000 francs per month, he then had 3,250 francs left which he could exchange for American dollar notes (in denominations 1-20) at a rate of 3.50 francs in July and as low as 3.21 francs in September, thus receiving approximately 1,000 dollars, the sum he started with. The Swiss National Bank, in an attempt to check this practice, is now allowing American tourists to exchange no more than 125 dollars per week.

Since a reduction in the allocation of exchange for tourist expenditure would have been resented in Great Britain and would, perhaps, have been contrary to the long-term interests of the Swiss tourist industry, another way to restrict excessive tourist outlays was sought. A meeting of financial experts was arranged in November in an effort to iron out the difficulties and find a suitable solution. After some weeks of negotiations an agreement was arrived at last December. In accordance with the terms of this agreement the British tourist, beginning December 18, will receive the same basic allowance (75 pounds) as heretofore, but will receive cash to a maximum amount of 400 Swiss francs; the remainder of about 900 francs he will have to take in vouchers which may be utilized for purchasing hotel accommodations and transportation on Swiss railways. This arrangement allows a tourist a reasonable amount for strictly personal expenditures, while at the same time channeling the remainder into the tourist trade proper.

It is expected that from December 18 until the end of the contractual year (March 12, 1947) about 3 million pounds sterling will accrue from expenditures of British tourists, since a considerable seasonal increase in the number of visitors is expected for the winter sports season. Unofficial figures report that between December 20-22 about 9,000 British tourists entered the country.

Italian and French authorities in turn have expressed displeasure with the way Swiss tourists spent their funds in Italy and France. Italian officials in particular have complained that Swiss and other European tourists, coming into Northern Italy on one-day excursions, purchased indiscriminately any kind of merchandise offered in such cities as Milan, Turin, and Genoa.

These tourists, having bought lire in the free market at a most favorable rate (approximately 50 Swiss centimes for 100 lire) bought up fine foods and wines, leather and textile goods, other luxuries, and even watches, with no resulting increase in the foreign exchange resources of the Italian exchange control authorities. This practice has grown to such proportions that the Swiss Clearing Office called the Swiss public's attention to the fact that the rules and regulations concerning imports of Italian merchandise were still in effect. According to these regulations, payment for any goods purchased in Italy, as well as payment of import duties on such goods, must be effected through the Swiss National Bank. The only exception to this rule applies to items purchased for strictly personal use of the tourist and amounting to not more than 100 Swiss francs per person.

The French authorities, in contrast to the Italian Government, have made an effort to combat these practices through which tourism from Switzerland has facilitated illegal capital export. By a regulation of October 15, 1946, they established a minimum amount of 500 French francs per day which each Swiss tourist will be required to purchase from an authorized foreign exchange dealer at the prevailing official rate (3.605 Swiss francs per 100 French francs).

China's Attempted "Export Subsidy"

A. B. Hersey

The long-expected third attempt to adjust the official foreign exchange value of the yuan (Chinese National dollar) to rising commodity prices in Shanghai[1] was announced February 5. The readjustment took the unexpected form of an "export subsidy." Three days later, a reminder from the Shanghai United States Consulate General of the existence of legislation for countervailing import duties in this country set off a new flight from the currency into goods.

It was announced last Wednesday that the official rate of CN$3,350 to US$1 would be kept, but that exporters would receive a "subsidy" equal to 100 per cent of the official Chinese National dollar equivalent of the foreign exchange that they delivered to the banks. Foreign exchange for imports would continue to be sold by the "appointed banks" at the existing official rate, but on most import goods a 50 per cent ad valorem surcharge would be collected. The items exempt from this surcharge, and therefore to be imported at an unchanged rate, included licensed capital goods, rice, wheat and flour, coal and coke, raw cotton, fertilizers and crude ammonium sulfate.

It is possible to view this scheme, which is essentially a multiple exchange rate system, in two different lights. It might be described either as a subsidization of exports or as a subsidization of imports, depending on which rate is taken as the standard. Formally, since the official rate remained unchanged, the arrangement was an export subsidy. Actually, the new effective rate for exports was closer to the recent average open market rate for United States dollar notes than was the official rate. Both the official rate and the export rate may have overvalued the yuan, but the overvaluation

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1/ See this Review, January 28, 1946.

by the official rate was much the greater. Taking the new export rate as the standard, one might say that those imports which were to pay "a 50 per cent surcharge" would really be receiving a 25 per cent subsidy and that "surcharge-free" imports would be getting a 50 per cent subsidy.

Since, however, the arrangement as announced was legally an export subsidy, it was incumbent on the United States Consul General in Shanghai to issue "for the information and guidance" of shippers a notice, based on provisions of the United States Tariff Act of 1930 and on customs regulations, to the following effect: "Any dutiable goods imported into the United States on which any form of subsidy is granted in the country of origin are liable to an additional duty equal to the full amount of such bounty." This announcement was interpreted in Shanghai as destroying all possibilities of an expansion of Chinese exports for the present, even though it is true that tung oil, certain hides and furs, and various other export commodities enter the United States duty-free. The Chinese Government has so far given no public indication of its next move. Undoubtedly some further action will be necessary, since the open market exchange rate for United States dollar notes had risen by Saturday at least temporarily to 11,000-to-1 from about 8,000-to-1 earlier in the week and 6,500 or 7,000-to-1 during January. Local merchants were reported to be marking up their stocks of imported goods by 20 to 30 per cent even before the consular announcement was made, while other reports have spoken of a doubling of some commodity prices. On Monday buyers were offering CN$14,500 for United States dollar notes but found no takers.

The following table recapitulates the course of exchange rates and commodity prices in Shanghai in 1946. (1) An official rate of CN$2,020 to US$1 was put into effect on March 4, 1946, along with import and exchange control regulations that were later tightened considerably, especially in November. On August 19 the official rate was changed to CN$3,350 to US$1. (2) The open market for United States dollar notes was at first an officially recognized market. After it was decreed on October 5 that quotations should not depart by more than 5 per cent from the official rate, this market became "black" but it has continued to function as a market in which traders can express their expectations of ultimate developments in the official market. The black market deals only in dollar notes; it plays little or no role in financing external trade. (3) There is a well-established gold market, in which the government has intervened actively with sales of gold obtained mainly from part of the proceeds of the 500 million dollar "financial aid" given to China by the United States in 1942. Quotations in the gold market have consistently shown a greater departure from parity with the United States dollar (at the official rate) than have quotations in the open market for currency. (4) Shanghai commodity prices have risen the most of all. With the 3,350-to-1 official dollar-yuan ratio, which is approximately 1,000 times the pre-war ratio, and with wholesale prices in the United States nearly 75 per cent higher than in 1935-39, a price index in China of about 1,750 (based on pre-war prices = 1 rather than 100) at the end of 1946 would have represented some kind of an approximation to a "purchasing power parity." The actual index of wholesale prices, 6,100 in the last week of December, was 3-1/2 times as high as this. Even in August--that is, just before and after the August 19 revaluation--the index averaged 4,300. At the 2,020-to-1 exchange rate and with United States wholesale prices 60 per cent above pre-war, a "parity" level for Chinese wholesale prices in the first half of August would have been about 950.

Exchange Rates and Prices in Shanghai
(Monthly averages)

	Exchange Rates Official (CN$ per US$)	Exchange Rates Market (CN$ per US$)	Gold Price In US$1/	Gold Price In CN$2/	Wholesale Price Index (1st half 1937=1)
January	3/	1,459	-	86	928
February	3/	2,071	-	141	1,756
March	2,020	2,022	72.00	156	2,560
April	2,020	2,190 4/	70.60	155	2,582
May	2,020	2,330	81.20	176	3,807
June	2,020	2,590	87.50	190	3,724
July	2,020	2,520	89.30	194	4,072
August 1-18	2,020	2,570	89.20	194	4,061
August 19-31	3,350	3,390	59.70	215	4,615
September	3,350	3,550	59.40	214	5,092
October	3,350	4,240 5/	62.00	223	5,363
November	3,350	4,550	71.10	256	5,317
December	3,350	5,920	87.70	316	5,700

1/ Converted at official exchange rate; U.S. dollars per fine troy ounce.
2/ In thousands of CN$ per shih liang (1.083 troy oz.) .992 fine.
3/ No effective official rate. Nominal exchange rate was CN$20 to US$1, with special rates for certain transactions.
4/ April 15-27 only.
5/ Week of September 30-October 5 omitted.

Note: The monthly averages for the market rate for U.S. dollar notes from April to December and the December averages for gold and commodity prices are averages of weeks falling mainly in the given month.

There are, of course, wide differences between the indexes for different commodities. The food component of the general index has been close to the general average. Coal and kerosene, building materials, and metals prices have been higher, relative to pre-war. Textile prices and prices of three primary export commodities (tung oil, hides, and bristles) have been lower, but even these groups averaged 2,300 and 1,700 times pre-war in August and 3,700 and 3,000 times pre-war at the end of 1946.

There is no geographical uniformity of price levels within China. The general level of commodity prices is much higher in Shanghai than at many points in the interior. The Chungking wholesale price index, perhaps an extreme example, was only 1600 in August and 2700 at the end of the year. For products of the hinterland, including export goods, the high prices ruling in Shanghai reflect high transportation costs, among other things. In the case of import goods, regional price level differentials plus transportation costs severely limit shipments to the interior. With an exchange rate that makes imports low in cost, Shanghai during much of 1946 has been an attractive market for importers who could obtain foreign exchange from the Central Bank. But such strength as this market possesses is based on expectations of further currency depreciation rather than on economic activity in the processing and distribution of goods.