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

REVIEW OF FOREIGN DEVELOPMENTS

March 14, 1950

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RECENT MONETARY DEVELOPMENTS IN GREECE Mary Maroney

Some of the favorable aspects of the Greek economy, which followed the uneventful absorption of currency devaluation in September 1949 and the ending of the civil war shortly thereafter, have lately been dissipated by the revival of public demand for gold from the Bank of Greece. Following a custom inaugurated by the Germans during their occupation and re-established after liberation, the Bank of Greece for the past four years has purchased and sold sovereigns over the counter as a measure of currency stabilization.1/ These sales have tended to decline in the past year, indicating improvement in business sentiment as well as a tendency toward more productive use of funds. After some months, however, when the Bank was actually able to make net purchases from the market, the situation again became markedly adverse in December and January. At the end of January, the market was again under control as the result of a strong official statement to the effect that "stability of the currency had been assured" -- (as was thought, by arrangements with the United States to make a continuing gold supply available).

This new flight from the drachma has been explained as stemming from the year-end accumulation of funds in the hands of merchants and small savers -- a seasonal phenomenon due to the liquidation of inventories and the widespread practice of giving Christmas bonuses -- which coincided with the political uncertainties precipitated by the fall of the coalition government and the announcement of general elections. This latter factor suggests that the period of unsettlement may last until a new government has been formed and its policies appraised.

Economic progress in 1949

Unquestionably a good deal of progress took place during the year 1949. Although the war was not over until October 1, some 480,000 of 680,000 refugees were returned to their homes. They are still largely unproductive and their rehabilitation continues to be a drain on the government budget, but they are at least on the way to becoming re-established in the economy, poor as it is. Food production during the year turned from very poor to reasonably good largely because the important olive crop, which was very short in 1948, was bountiful. Greater availability of implements and fertilizer also had a good effect on other output. Improvement in industry, as measured by a 13 per cent rise in the weighted index of the Association of Greek Industrialists, was also substantial. These gains do not mean that the country became self-supporting in any sense but the extreme

1/ The domestic price of sovereigns is being kept stable at about 226,500 drachmae or $15; this price is 83 per cent higher than the bullion value of the sovereign calculated at $35 per ounce of gold.

scarcity abated and with ECA imports the country became relatively well stocked with essentials. The commodity price index, which in April reached a high of 350 (October 1939 = 1), declined at the year end to 340, or 2 per cent below December 1948. Steadiness in the last quarter of the year, however, was due in part to the assistance from subsidies which offset the effects of the currency devaluation; by February 15, 1950, the usual midwinter rise had resulted in a somewhat higher level. (cf. Chart 1.)

There has been little or no improvement in the fundamental problem of the heavily adverse balance of payments. Although the general devaluation of currencies in September tended to end compensation trade and put export business on a more realistic footing, the country remains under the handicap of trying to sell luxury products in a European area which is too poor to afford them. Figures are not yet available to show the post-devaluation trend in exports. The tonnage reported for October was 37,602 as compared with 31,416 in September and 25,877 in October 1948. For the ten months ended October 1949 exports were 255,588 tons and the corresponding figure for 1948 was 307,581 tons. The net deficit in the balance of payments for the fiscal year to end June 1950 is now estimated at $264 million as against $239 million in the fiscal year 1949.

Paradoxically, exchange reserves, excluding gold, gained during the year. Sterling balances were protected by an increase in the 1948-49 allotment of drawing rights under the Marshall Plan. Dollar holdings rose following devaluation in consequence of the narrowing of the spread between official and free market dollar quotations although according to the most recent figures the margin has not held (Cf. Chart 1). In any event, because of the increasing note issue, there has been a marked decline in the note cover ratio (Cf. Table 4).

Expansion of money and credit

The mixed background gives evidence of a still critical range of problems confronting the economy at this interim stage of reconstruction. While external financing problems are being met by the European Recovery Program, internally great importance is attached to the State's use of its powers to create credit. Since the commercial banking system was destroyed by the inflation and is only slowly being reconstituted, the rate of progress and the general soundness of the financial structure depend very largely on the operations and loan policy of the Bank of Greece. All classes of commercial bank deposits have gained including savings although these latter are still quite small, amounting to 36 billion drachmae[1/] or about 4 per cent of sight deposits in November, as compared with 24 billions or 5 per cent of sight deposits at the end of 1948 (Cf. Table 1). Interest rates remain high, ranging from 12 to 16 per cent and reflect the scarcity of loanable funds.

1/ 15,000 drachmae = $1.

The assets of the Bank of Greece show an increasing amount of outstanding loans and advances, including advances to the state and the liabilities show an increasing total of notes and deposits, including deposits to the credit of the State, mainly in counterpart funds. For the purpose of observing the rate of change, the important items in the Bank's statement are shown on a logarithmic scale in Chart 2.

In the absence of a satisfactory means of sterilizing some of the rise in money supply by tax collections, control has been exercised by the use of the ERP counterpart funds, which are the sums paid in drachmae by the Greek Government and Greek importers for ECA-financed goods. A large part of these funds is being applied to the budgetary deficit, instead of being paid out to finance reconstruction projects, as was originally contemplated. In 1948-49, only 530 billion drachmae out of a total ECA counterpart accumulation of 1,360 billion was used for productive purposes (including housing reconstruction). In 1949-50 the increased total accumulation (estimated at 3,670 billion), due to a larger amount of aid as well as to the devaluation of the drachma in 1949, makes it possible to raise the sum available for productive uses to about 1,900 billion, but this sum also falls far short of the country's capital requirements. This policy thus slows up the rate of recovery but it appears necessary in order to mitigate the effects of the increased budget deficit (Cf. Table 2).

The practical application of this policy can be seen in the fluctuations of the note circulation, which are of peculiar current interest because of the past experience with inflation. At the end of 1949, there was the usual seasonal expansion in this element and it was immediately noted in the Greek press as "exceeding what under present conditions could be regarded as normal limits". Although complete data are not yet available, it would appear from Chart 2 that there was an important difference in the situation over 1948 in that the expansion was not backed by an increased volume of State paper. Because of the sterilization of counterpart funds, the net debit of the State to the Bank has been falling, notwithstanding the rise in the gross amount of advances to the State. It does not appear, therefore, that the year-end expansion of circulation can be related solely to the budget position; the Bank's general loans, including the non-government loans were an important influence. These latter have been rising somewhat more markedly since September, for agricultural and other purposes (Cf. Tables 2 and 3).

The commercial banks have also been expanding their loans. Apparently the Central Bank had reason to think that general credit was getting somewhat out of hand and at the end of January 1950 it raised reserve requirements from 10 to 12 per cent for private deposits and from 22 to 25 per cent for the statutory accounts of so-called legal entities (pension funds, municipalities and other public and quasi-public institutions).

Budget deficit and gold speculation

A policy which seeks to relate the loan structure to the prospects of budget balancing promotes currency stabilization but limits the credit supply which is a necessary stimulant to economic rehabilitation. In the present circumstances, the credit stringency seems fairly permanent because budget balancing without the use of the counterpart funds appears highly unlikely. In the fiscal year ending June 30, 1949, expenditures were reported at 3,858 billion drachmae, and receipts (excluding U.S. aid) at 3,043 billion, making a deficit of 815 billion. This sum was more than offset by 830 billion in ECA counterpart funds, which were either expressly allocated to cover budget expenditures (relief for refugees) or "sterilized" by being left unspent. In the current fiscal year, expenditures are estimated at 5,748 billion and receipts at 3,953 billion, making for a deficit of 1,795 billion. Against this amount, about 1,650 billion of counterpart funds are scheduled for "sterilization". The remaining 145 billion is to be covered by unexpended appropriations. The revenue estimates embody an increase in collections of 30 per cent over last year. The realization of such a large gain will depend upon an improvement in income tax collections as well as upon the success of a capital levy on "prosperous persons", budgeted at 140 billion.

The increase in expenditures by 49 per cent over last year poses the problem of whether the Government really is making a maximum effort towards economy. It must be conceded, however, that it may be just as costly to disband an army without causing economic disturbances as it was to maintain it. The struggle to put the Government finances in order cannot be won by a short-run effort, and may well outlast the life of the European Recovery Program.

In the meantime, the unsettled budget situation continues to endanger public confidence in the currency. A recent report on the situation at the year end says: "The general financial situation is more stable than at any time since liberation. However, this stability is somewhat artificial since it is maintained only by the sterilization of ECA counterpart funds against a large budgetary deficit. Declining military and refugee expenditure should soon relieve some of the pressure on the Government budget. Strict credit control continues but some relaxation may soon be necessary to permit efficient operation of expanding commerce, industry, and agriculture."

This inherent instability is the basic reason for the recurrent demands for gold. At the first signs of renewed inflation, speculative transactions tend to supersede productive uses of credit. The authorities try to keep speculation under close scrutiny, but this very supervision may, by closing other avenues, drive up the demand for gold. The trend of commodity prices, for example (Chart 1) may have afforded a climate less favorable to quick profits by commodity speculation. Notwithstanding the currency devaluation in September, the Government had greater success with price control than at any earlier period. Speculators' profits in "black" foreign exchange markets have been limited by the more realistic legal rates resulting from the September devaluation (Chart 1). Thus gold has probably become a more important refuge of speculative interest.

The extent of the loss to productive use of resources which gold sales have entailed, is indicated by a recent estimate that the gold hoarded within the country amounts to as much as $76 million, at the official price of $35 an ounce. The record of net sales by the Bank of Greece since liberation, however, shows less than half this at the official price.

The renewed demand for gold may also be stimulated by the fact that basic conditions are better and more individuals have been able to accumulate small savings. Although purchases are not made exclusively by small savers, it is true that gold appeals especially to small operators. These are the people whose funds must eventually put the country on its feet, and there would seem to be no way to reach them in the economic field, at least, except by promotion of policies which will gradually make for growth of confidence in the stability of the currency. In this connection, the effect of political changes may play an important role.

CHART 1.- COMMODITY PRICE AND NOTE CIRCULATION INDEXES AND UNITED STATES DOLLAR QUOTATIONS

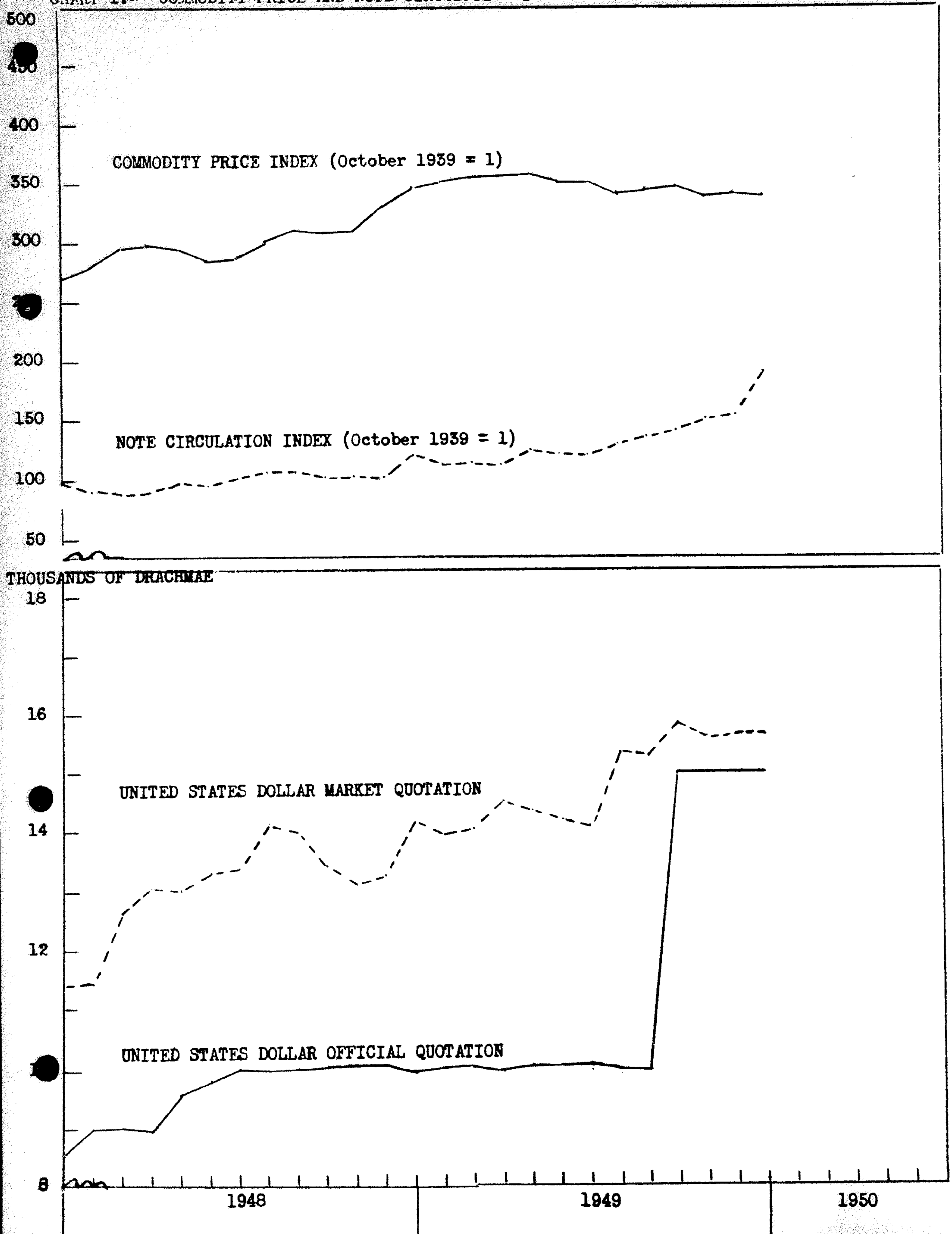

CHART 2.- BANK OF GREECE - LOANS AND ADVANCES AND NOTES IN CIRCULATION

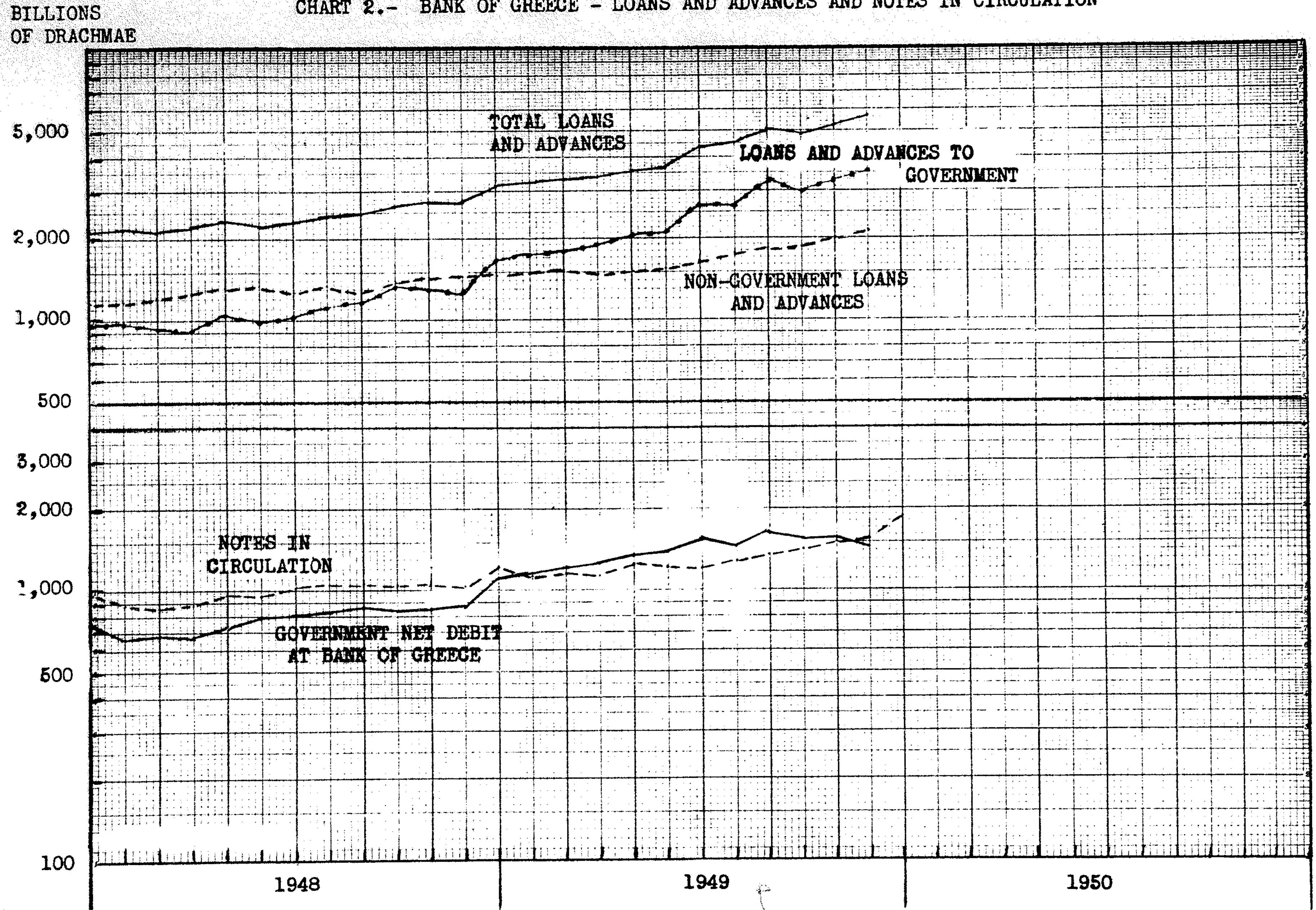

Table 1. Bank Deposits Excluding State Deposits
(Billions of drachmae)

Period	Total 2/	Bank of Greece: Total 3/	Bank of Greece: Bank deposits	Bank of Greece: Other deposits 3/	Commercial banks 1/: Total	Commercial banks 1/: Sight deposits 1/	Commercial banks 1/: Savings bank deposits	Commercial banks 1/: Time and blocked deposits 1/
1947-December	583	217	32	185	398	349	14	36
1948-March	656	240	44	196	460	401	15	43
June	762	287	58	229	533	472	19	42
September	833	317	80	237	596	1/ 445	21	1/ 130
December	934	360	84	276	658	488	24	145
1949-March	1,096	488	204	284	812	602	28	182
June	1,330	529	101	428	902	675	29	198
September	1,409	734	253	481	1,018	777	32	210
November	1,759	824	235	589	1,170	907	36	227

1/ Beginning July 1948, certain deposits of persons at public law previously classified as sight deposits were defined as time deposits.
2/ Ex cluding inter-bank deposits.
3/ Excluding State deposits.
Source: Bank of Greece Monthly Bulletin.

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Table 2. Greek State Accounts at Bank of Greece
(Billions of drachmae)

Period	Credit: ECA drachmae deposit (counterpart)	Credit: Other deposits	Credit: Total deposits	Debit: Advances on budget account	Debit: Advances on other account	Debit: Total	Net debit
1947-December	-	177	177	689	246	935	756
1948-March	-	235	235	664	259	923	688
June		216	216	492	526	1,018	802
September	241	233	474	663	653	1,316	842
December	220	361	581	738	951	1,689	1,108
1949-March	200	443	643	879	1,030	1,909	1,266
June	331	811	1,141	822	1,842	2,664	1,522
September	838	625	1,463	1,142	1,838	2,980	1,517
November	1,119	937	2,056	1,284	2,224	3,508	1,453

Source: Bank of Greece Monthly Bulletin.

Table 3. Loans and Advances to Agriculture, Commerce, and Industry
(Billions of drachmae)

Period	Total	By Bank of Greece 1/						By other banks
		Total	To agriculture	To industry	To tobacco trade	To other trade	To all other	
1947-December	1,469	1,186	888	47	140	23	88	283
1948-March	n.a.	1,258	984	66	81	33	95	n.a.
June	2/1,656	1,292	1,005	88	40	55	105	2/ 364
September	n.a.	1,352	844	127	189	65	127	n.a.
December	2,051	1,456	871	128	264	58	134	595
1949-March	n.a.	1,486	955	131	188	63	149	n.a.
June	2,635	1,689	1,068	134	202	135	151	946
September	n.a.	1,860	1,057	156	344	146	156	n.a.
November	3,174	2,116	1,162	174	381	236	162	1,058

1/ Includes loans made by other banks with funds loaned to them by Bank of Greece.
2/ Estimated.
Source: Bank of Greece Monthly Bulletin (except for loans and advances "By other banks").

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Table 4. Ratio of Net Gold and Foreign Exchange Holdings to Note and Deposit Liabilities
(Billions of drachmae)

Period	Gold and foreign exchange	Liabilities in foreign exchange	Net gold and foreign exchange	Liabilities			Ratio of net gold and foreign exchange to note and deposit liabilities
				Notes in circulation	Deposits (excluding State deposits)	Total	(Per cent)
1947-December	1,051	415	636	974	217	1,191	53.4
1948-March	1,021	407	614	888	240	1,128	54.3
June	1,044	399	645	1,012	287	1,299	49.7
September	1,082	408	674	1,018	317	1,335	50.4
December	1,078	667	411	1,202	360	1,562	26.3
1949-March	1,057	694	363	1,125	488	1,613	22.5
June	836	715	121	1,218	529	1,747	6.9
September	949	732	217	1,404	734	2,138	10.1
November	972	745	226	1,535	824	2,359	9.6

Source: Bank of Greece Monthly Bulletin.

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March 14, 1950

A NOTE ON SCANDINAVIAN TRADE

Paul Gekker

In the course of the discussions relating to the "integration" of Western Europe, renewed attention has been given to closer regional arrangements among the Scandinavian countries. While the intermittent discussions on the formation of a Scandinavian Customs union have not been marked by any progress, arrangements for some relaxation of payments restrictions have been agreed upon among the Scandinavian countries and the United Kingdom ("Uniscan"). The following paper provides some factual background for the appraisal of the various proposals in this field, and covers postwar developments with respect to the foreign trade of the Scandinavian countries, particular attention being given to inter-Scandinavian trade and Scandinavian trade with the United Kingdom, Germany, and the United States.

Trade of the Scandinavian Group

A study of the relative trading importance of the three Scandinavian countries indicates that Sweden held first position in both total exports and imports from 1938 to 1948. In 1928, however, Denmark and Sweden were almost of equal importance in the foreign trade of the group. Over the ten-year period 1938-1948 Norway's share of both total exports and total imports shows the least variation, and Sweden's relative gain in the foreign trade of the group was at the expense of Denmark. In 1948, Swedish exports accounted for over one-half of the group's total exports and something less than one-half of total imports. Denmark furnished slightly more than one-quarter of total exports in 1948, while Norway's share was roughly 20 per cent, and these two countries almost equally divided the other one-half of total Scandinavian imports.

As shown in Table I below, the United Kingdom has recovered its prewar position as a source of supply for the northern countries without, however,

Table I

Direction of Scandinavian Trade

	1928 (Mill. of dollars)	%	1938 (Mill. of dollars)	%	1947 (Mill. of dollars)	%	1948 (Mill. of dollars)	%
Total Scandinavian Imports	2021	100.0	1041	100.0	2542	100.0	2501	100.0
U.K.	322	15.9	171	16.4	354	13.9	478	19.1
Germany	565	28.0	238	22.9	53	2.1	59	2.4
U.S.	272	13.5	116	11.1	646	25.4	257	10.3
Other	862	42.6	516	49.6	1489	58.6	1707	68.2
Total Scandinavian Exports	1771	100.0	991	100.0	1755	100.0	2085	100.0
U.K.	672	37.9	352	35.5	329	18.7	419	20.1
Germany	287	16.2	178	18.0	26	1.5	69	3.3
U.S.	109	6.2	62	6.3	135	7.7	145	7.0
Other	703	39.7	399	40.2	1265	72.1	1452	69.6

Source: ECE, Economic Survey of Europe in 1948 absorbing any portion of previous German exports to Scandinavia, which are still at a very low level. Although the United States was the main supplier in 1947, it now furnishes roughly the same proportion of total Scandinavian imports as before the war. A considerable portion of Scandinavian needs are now being supplied by other Western European countries.

The United Kingdom remains the principal market for Scandinavian exports, but other European countries are gradually becoming important markets for Scandinavian products. The proportion of total Scandinavian exports to the United States is somewhat higher than prewar, while postwar exports to Germany are an insignificant portion of the total.

Imports and exports of the individual Scandinavian countries to each other and to the United Kingdom are shown in Table II. This table, which must be interpreted in relation to the significant decline in Germany's trade with the area, does not show evidence of any considerable degree of, or tendency toward, "integration" among the "Uniscan" countries. A definite expansion of postwar Scandinavian trade has on the other hand, taken place with the Western European countries so that the evidence of "integration" is rather in their direction. 1/ Inter-Scandinavian trade, which shows some increase since prewar, amounts to only 10 to 15 per cent of the total trade of the individual Scandinavian countries. As to trade with the United Kingdom, each of the three Scandinavian countries now takes a somewhat larger percentage of its total imports from the United Kingdom than was the case before the war. However, Sweden, Denmark, and Norway each sells a smaller than prewar share of its total exports to Great Britain. Only in the case of Denmark, moreover, is the prewar relationship being restored as exports of agricultural products recover their traditional share of the total.

In the inter-Scandinavian trade picture, the shares of the other two Scandinavian countries in total Swedish and Danish imports have hardly changed since prewar, but Norway is more dependent on its two neighbors for imports than in 1938, which reflects Norway's emphasis upon capital goods imports for reconstruction purposes. A good part of this increased dependence is represented by imports of ships and machinery. Accordingly, both Sweden and Denmark have increased the portion of their exports going to the other Scandinavian countries. Larger exports of metals and metal manufactures, as well as of machinery and vehicles to Denmark and Norway, contribute to the increased share of these countries in Swedish export trade. In Denmark's case, exports of ships and of food products account for most of the increased dependence on Norway and Sweden. On the other hand, the ratio of Norway's total exports to Denmark and Sweden is virtually unchanged from prewar. In spite of the expansion in inter-Scandinavian trade for each country, it remains below the level of Scandinavian trade with the United Kingdom.

These shifts in trade, as well as many of the changes in the composition of imports and exports, reflect the disappearance of Germany from this traditionally triangular trading relationship. In common with other European countries, Norway, Denmark, and, to a lesser extent, Sweden, have been dependent in the postwar period upon imports for reconstruction. These necessary goods were obtainable only in the United States, and this fact has been reflected in the proportion of total imports coming from the dollar area. In Norway's

1/ See in particular, pp. 4, 6, below.

Table II

Inter-Scandinavian Trade

	Share in Total Imports of Imports		Share in Total Exports of Exports	
	From 2 other Scand. countries	From U. K.	To 2 other Scand. countries	To U. K.
Sweden				
1938	7.4	12.1	11.4	24.4
1948	6.6	18.7	13.2	17.0
Jan.-June 1949	7.7	16.3	15.9	16.5
Denmark 1938	10.1	24.8	7.8	55.2
1948	10.8	20.2	14.1	29.2
Jan. - June 1949	10.0	29.8	10.4	41.8
Norway 1938	15.3	14.5	14.0	28.0
1948	20.7	18.9	14.7	15.9
Jan.-June 1949	18.3	19.5	15.9	19.0

Source: ECE, Economic Survey of Europe in 1948, and national trade statistics.

case, however, one vital import - ships - could be secured from Denmark and Sweden, thus increasing the share of Norway's imports coming from the Scandinavian group. The development of exports, on the other hand, was in part the result of a response to price and demand and, in part to postwar diversification in production. Sweden and Norway produce and export primary commodities for which the market is determined by world conditions - timber, wood pulp, ores - and exports of these goods responded to price considerations. In addition some change in traditional market distribution is a result of industrial diversification. This is a partial explanation of the development of Denmark's exports to the other Scandinavian countries and to Belgium-Luxembourg, France, and Switzerland. In Sweden's case also, there was some shift, for example, in exports of finished steel as more pig iron was used for the production of high-grade steel, and in exports of pulp and paper, as production and export of higher grades of paper were substituted for exports of the basic raw material.

Foreign trade is of such great importance to the Scandinavian countries that they must attempt to adjust to altered trade conditions with the greatest possible flexibility. Diversification of production, in general away from basic materials to more highly finished articles, is one means by which Sweden and Norway are attempting to meet the problem of their dollar imbalance. Denmark must seek a solution to its dollar gap by the rationalization of agriculture with a view to reducing its dependence upon imported feedstuffs, and of increased export of high quality food preparations and manufactured articles to the United States market. For each of the three countries, it is to be expected that the United Kingdom will remain the largest single trading partner, but the future position of Germany both as a source of supply and as a market will be of great importance for the character and composition of Scandinavian trade.

Sweden

Sweden is a creditor vis-a-vis its Scandinavian neighbors, whose combined exports to Sweden, by value, are just half Sweden's exports to them. This creditor relationship has been fortified since prewar years, but the relative increase in Swedish exports is represented almost entirely by an increase in exports to Norway. The largest components of this increase has been ships, machinery, and metals.

The United Kingdom has recovered its prewar position as a source of supply for Sweden, but as a market for Swedish goods has been replaced to a considerabl extent by other European countries. Swedish trade with the United States illustrates the effect of the disappearance of Germany as a source of supply for Sweden. In 1947 Sweden took double its prewar share of total imports from the United States, although in 1948 and the first half of 1949 the percentages dropped to less than the prewar figures. This rise in imports in 1947 was occasioned by the release of wartime pent-up demand for goods, which could be purchased only from the United States, by an expansionary domestic policy, and by the upward revision of the krona in 1946. The subsequent decline was due mainly to the deliberate curtailment of imports, made necessary after accumulate wartime reserves had been practically liquidated. Exports to the United States, on the other hand, show no shartling changes from 1938 to 1947. Because of the decline in pulp sales, exports to the United States dropped sharply in 1948 and the first half of 1949.

The commodity composition of Sweden's imports has not significantly altered since before the war, but the distribution of these imports by areas of origin follows the previously mentioned shifts in the direction of total imports. Thus, the large increase in imports from the United States in 1947 affected all commodity groups, but in 1948 the United States resumed roughly its prewar share in all groups except textiles and foodstuffs. The decline in textile imports from the United States was the reflection partly of a shift to other European sources, partly of a recovery of the British share in this market. In vegetable products, particularly grains, the United States was replaced in 1948 by Eastern European countries. There has been an increase in the proportion of liquid fuels to total fuel imports relative to prewar, reflecting the continuing changeover from solid to liquid fuels. Some indication of this trend is given in Table III below. Both the United States and the United Kingdom now furnish smaller shares or total Swedish fuel imports than before the war, and the same in true for other European countries. Imports of fuel from Germany, however, have made a substantial recovery. Larger shares of total fuel imports are now purchased from South American and Middle East sources.

Wood pulp, paper and paper manufactures are Sweden's most important export commodities, and now contribute a larger share of total export value than before the war. Virtually all of this rise, however, is accounted for by price

Table III
Sweden - Imports of Fuel
(thousand tons)

	1938	1946	1947	1948	1949 (a)
Liquid Fuels	1322	1820	3085	3215	2811
Solid Fuels	7713	3455	5064	7015	5639

(a) Annual rate based on figures for January-November, 1949.
Source: Kommersiella Meddelanden, December, 1949.

increases. Table IV, below, shows that the volume of pulp exports in 1947, the peak postwar year, had not recovered to the 1938 level, which in turn was low in relation to the record year, 1937. In the country distribution of pulp exports, the largest decline is accounted for by reduced shipments to the United States, offset by an expansion of pulp exports to the United Kingdom and to other European countries, especially from 1947 to 1948. Paper and cardboard exports, on the other hand, have risen above prewar in volume as well as in value, reflecting in part the shift from the export of pulp to the export of the more remunerative finished products.

Table IV

Sweden - Exports of Pulp and Paper
(thousand tons)

	1937	1938	1946	1947	1948	1949 (a)
Wood Pulp	2552.5	1980.5	1804.3	1797.5	1683.4	1788.0
Paper and Board	662.95	473.16	320.95	604.56	681.95	703.92

(a) Annual data based on figures for January-November, 1949.

Source: Kommersiella Meddelanden, December, 1949.

Among remaining exports, mineral ores comprise a much smaller percentage of total exports than was the case before the war. Even with the postwar recovery in European steel production, exports of ores have not regained prewar importance, due to the substantial increase in domestic consumption and investment, which has had the effect of diverting ore from export markets to home uses.

Denmark

The United Kingdom, is of course, Denmark's largest single trading partner. Although the share of total Danish exports sent to Britain in 1938, namely 55.2 per cent, has not yet been restored, it has risen to 41.8 per cent in the first six months of 1949. This recovery is due to the revival of production and export of agricultural products, particularly eggs, bacon, and butter, the major export of which Denmark is bound under the terms of long-range agreements to sell to the United Kingdom. Germany's share of Denmark's total exports, which was 19.7 per cent in 1938, has not recovered, but as in Sweden's case, Germany is on the road to regaining the important place once occupied in this trading area. The shares of total Danish exports going to Norway and Sweden increased from 7.8 per cent in 1938 to 10.4 per cent for the period January - June 1949. Finally, exports to the United States have increased relative to prewar, but they still comprise a very small portion of total Danish exports. When compared with Sweden in the degree of dependence upon dollar imports, for example, the magnitude of the dollar imbalance for Denmark is at once apparent.

On the import side, the United Kingdom has more than recovered its prewar position as a source of supply for Denmark. Germany's share of total Danish imports has remained at the low level of 3 per cent over the past two years, except that as in Sweden's case, shipments of German coal have almost recovered prewar proportions. Danish imports from Norway and Sweden are unchanged from the prewar position. Imports from the United States were very nearly the same proportion of the total in 1948 as ten years earlier, but for the period January to June 1949 they rose to more than double the prewar share of all imports.

The most significant change in the commodity composition of Danish imports has been the diminished importance of both grains and fodders in total imports. These developments are a result of Danish plans to achieve greater self-sufficiency in feedstuffs by growing larger proportions of their grain requirements themselves, and by reducing the proportion of oil cakes in the feeding ration, so as to reduce dependence upon dollar imports. Together with the change in grain imports, there has been a shift to larger imports of grains from European countries, whose share rose from 36.7 per cent of total grain imports in 1938 to 54 per cent in 1948, while the United States furnished the major portion of the remainder. Fodder imports, on the other hand, have been redirected to non-U. S. Western Hemisphere sources. In 1938, 37.5 per cent of total fodder imports came from continental Europe, 15.8 per cent from Great Britain, 8.3 per cent from the United States, and 14.2 per cent from the other Western Hemisphere countries. In 1948, the United Kingdom and continental Europe together supplied only 21.8 per cent of total fodder imports, 7.9 per cent came from the United States, and 62.3 per cent from other Western Hemisphere sources.

Apart from grains and fodders, in the country distribution of Danish imports there is a general pattern of displacement of the United Kingdom by other European countries. This is true of imports in the two largest commodity groups, coal and petrol, and textiles. Before the war the major suppliers of coal and petrol were Britain (74 per cent), and Germany (17.9 per cent). In 1948, Britain supplied 33.8 per cent, Germany 12.9 per cent, other European countries 27.5 per cent and the United States, 25 per cent. In textiles, the same development is observable. In 1938, the United Kingdom and Germany furnished 54.5 per cent and 26.8 per cent, respectively, of total Danish textile imports. Ten years later, the United Kingdom supplied 39.4 per cent of the total, Germany only 3 per cent, while the share of other European countries rose from 11.5 per cent to 40.1 per cent in this period.

The commodity composition of Denmark's exports is shown in Table V below. Exports of agricultural products still comprise the largest portion of the total, but industrial goods are now of greater importance, the result largely of speedier recovery in industrial than in agricultural production. Of agricultural exports, however, dairy products have exceeded prewar shares of the total, whereas meat and meat products account for less than prewar proportions. Early postwar recovery in cattle stocks made possible the production and export of dairy products, while the greater relative loss in pigs has meant that pork production and exports have been more retarded. Finally, exports of fish now contribute a larger share of total exports than was the case in 1938, due to an improved fleet, intensified fishing, and higher prices obtainable after the war.

Table V

Denmark - Commodity Composition of Exports

	1938		1948		1949	
	Mill. Kr.	%	Mill. Kr.	%	Mill. Kr.	%
Total Exports	1533.9	100.0	2730.7	100.0	3563.6	100.0
Agricultural products	1089.3	71.0	1580.3	57.9	2240.3	62.9
Meat and meat products	412.4	26.9	286.5	10.5	617.2	17.3
Dairy products	545.4	35.5	1008.4	37.0	1439.6	40.4
Industrial products	382.8	25.0	945.5	34.6	1102.6	30.9
Fisheries products	35.7	2.3	169.6	6.2	172.5	4.8
Others	26.1	1.7	35.3	1.3	48.2	1.4

Sources: Danmarks Statistik, Statistisk Aarbog, 1939; Vareomsaetningen med Udlandet, December 1949.

The United Kingdom is Denmark's most important customer for dairy and meat products. In 1948, Britain's share in these commodity groups had not yet recovered to prewar magnitude, but in 1949 a further advance was recorded, 62 per cent of dairy products and 76 per cent of meat products being supplied to the United Kingdom market. The share of total Danish fish exports taken by the United Kingdom has now recovered almost to prewar, when 47 per cent of the total was sold to Britain, and was 44 per cent in 1949.

In the country distribution of Danish commodities, the Scandinavian countries are important as markets for ships, vehicles and for machinery. In 1946, 77.6 per cent of total export value in ships and vehicles went to Norway and Sweden, in connection with the large programs of fleet replacement in these countries. In 1947 and 1948 Norway took even larger portions of the total, whereas Sweden reduced its purchases; but in 1948 the value in this category for both countries was still 54.2 per cent of total Danish ship exports, against 29.2 per cent in 1938.

In 1938, Germany took over 90 per cent of total Danish live animal exports, 30.6 per cent of Denmark's fish, and 24.4 per cent in dairy products. This trade hasof course been almost completely disrupted; roughly one-third of a much diminished export of live animals has continued to go to Germany, in exchang for German coal. Dairy products to Germany remain insignificant. The magnitude of Germany's postwar shares of Danish fish exports is not determinable, inasmuch as figures for Allied purchases of Danish fish for Germany are entered under exports to Britain and the United States.

By 1948, other European countries had increased their shares in all Danish commodity groups by very considerable proportions, compared with prewar. As for the United States, whose position as a market for Danish products was negligible ten years earlier, there has been a net increase in the share of total Danish exports of dairy products, in spite of a barrier against American butter imports, and a decline in the proportion of ships and vehicles taken.

Norway

The pattern of Norway's postwar trade must be seen against the background of an economy whose recovery is dependent upon essential reconstruction of war damage, which was among the most severe in Europe. Consequently, the composition of imports shows the emphasis upon capital goods for reconstruction and industrial recuperation. Imports have been strictly controlled and efforts have been made to supply the domestic market by the production of substitutes, a practice often resulting in the uneconomic allocation of resources badly needed for expansion of export capacity.

The shares of total Norwegian imports coming from the other Scandinavian countries, the United Kingdom, and the United States have all increased relative to prewar. On the other hand, exports to Denmark and Sweden show a very slight increase, exports to the United Kingdom are a smaller share of the total than before the war, while the proportion of exports taken by the United States has barely remained constant. Finally, Germany is recovering as a market for Norwegian exports faster than as a source for imports into Norway.

Changes in the composition of imports reflect the direction given to imports for reconstruction purposes. Imports of ships, machinery, and iron and steel all take larger portions of the total, whereas imports in the consumers' goods categories, notably clothing, are less than prewar. The peak in imports of ships, so badly needed for their contribution to the balance of payments, has probably passed with the almost completed restoration of wartime losses. For some years, however, it is to be expected that ships will take a somewhat larger share of the total, because as a result of the greater average age of the vessels the normal replacement pattern will take some time to re-establish. Larger imports of iron and steel are also connected with the program of ship replacement, the increases being concentrated in imports of ship plates and bar iron.

These increases are of course reflected in the breakdown of imports by country of origin. Imports of ships, iron and steel and electric machinery from the United Kingdom have all increased over prewar. On the other hand, the United Kingdom as a supplier of fuels and oils has been replaced by other European countries, and, in addition, there is a larger proportion of liquid fuels in the total in this category than before the war. Finally, the United States supplies the major portion of Norwegian imports of cereals and cereal products, and a considerably larger share of total imports of iron and steel. It is in this last group that imports of ship plates and bar iron account for a good portion of the total.

The principal Norwegian export groupings have greatly increased their shares of total exports in the postwar period. Together, the three categories of fish and fish products, fats, oils and waxes, and pulp and paper accounted for 42.9 per cent of total exports in 1938 and 64.6 per cent of the total for the first five months of 1949. If timber products were added, these groups would account for almost three-quarters of total exports, by value. Exports of ores and of fertilizers, on the other hand, are lower than prewar, as shares of the total. The decline in ore exports is due to low output levels, the recovery of which is geared to the restoration of war-damaged capacity. Expande domestic use of fertilizer accounts in turn for the decrease in exports in this category.