PUBLIC AS OF JANUARY 1, 2009

RESTRICTED

RFD. 143

Board of Governors of the Federal Reserve System

Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

July 18, 1950

Economic Survey of Europe - Some Fragmentary Comments
By J. Herbert Furth . . . . 6 pages

United States Export Surplus for January - April 1950
By Edward Marcus . . . . 15 pages

This review is intended primarily for internal circulation and should in no case be cited or quoted. It consists of personal and informal contributions by the authors, which in many cases represent tentative analyses of the subject considered.

RESTRICTED

July 18, 1950

ECONOMIC SURVEY OF EUROPE - SOME FRAGMENTARY COMMENTS

J. Herbert Furth

The publication of the Economic Survey of Europe by the Economic Commission for Europe is the most important event each year in the field of regional economics. The Survey's combination of abundant factual and statistical material with theoretical analysis of the highest order has set a standard never before reached by similar works. A thorough analysis would require a treatise not much shorter than the 300 folio pages of the Survey itself. The purpose of the following comments is merely to draw attention to some subjects treated in the Survey, which are also of importance for other regions than Europe and for periods other than 1949, and to criticize the few points from which in this reviewer's opinion a certain pro-planning bias may not have been completely eliminated. These few remarks cannot, however, give a full picture of the wealth of information and ideas presented in the pages of the Survey, and they do less than justice to the judicious treatment of most controversial problems. If more space appears to be devoted to criticism than to praise, such imbalance signifies only that a dissent is better material for discussion than a mere expression of admiration.

Prospects of expansion in European production

One of the highlights of the Survey is a new chapter, prepared by Mr. Ingvar Svennilson under a grant by the Rockefeller Foundation, modestly entitled "Prospects of Expansion in European Production." This chapter presents a highly abbreviated but nevertheless comprehensive theory of economic development. It compares and tries to explain the economic progress of various industrial nations in the prewar, interwar, and postwar periods. On the basis of an analysis of the problems of capital formation, productivity, and change in population, the author follows the precedent set by Colin Clark in boldly forecasting developments from 1950 to 1960. Based on a high rate of net capital formation which would eliminate the present obsolescence of capital equipment and thus make possible a rapid increase in productivity without leading to either overfull employment or underemployment of available manpower, he predicts an increase of industrial production by about 50 per cent for Western and Northern Europe (page 215). In the case of Germany, however, the author--sharing in this respect the prejudice of the other authors which will be discussed later on--is more pessimistic and predicts a level of production of only 10 per cent above prewar, but 60 - 70 per cent above 1949 (ibid.). In accordance with general experience in underdeveloped countries, the development of Eastern and Southern Europe is expected to proceed more rapidly. Assuming considerable sacrifice of consumers' goods, housing, and social services, industrial production could be expanded by 90 per cent, with even greater increases in manufacturing and mining (page 218). Such an expansion would enable the underdeveloped countries to bring their capital equipment in line with that of the older industrialized countries, and would also eliminate unemployment in countries like Italy, providing the problem of financing the necessary imports of capital goods could be solved (page 219).

The author believes that agricultural production could also be raised substantially, but probably not by the same proportion as industrial output. These rosy forecasts are based largely on a sound appreciation of

the long-run flexibility of the European economy, especially in regard to the adaptation of import requirements and export capacities (page 220). The author appears to be less concerned than many contemporary economists with the alleged danger of oversaving, and on the contrary, stresses the need for providing in time the savings necessary for increased investment, at least in the rapidly expanding economies of Southern and Eastern Europe (ibid.).

International equilibrium

Another chapter of more than current interest deals with the problem of international equilibrium; for this chapter and the rest of the Survey, Mr. Hal B. Lary, the new director of the Research and Planning Division, and his staff, are chiefly responsible. The authors show the drastic changes in trade patterns between the interwar and postwar periods, and especially in the current account balances of the major trading areas of the world (Tables 86-89). They explain the paradoxical behavior of U. S. imports (chart 4) and come to the conclusion that neither current transactions on service account nor the activities of international lending organizations can be expected to furnish an appreciably larger amount of dollars to the rest of the world (page 180). They conclude, therefore, that without extraordinary grants or investments the amount available for the purchase of U. S. goods would fall to about $9 billion, as compared with actual U. S. exports of $12.4 billion in 1949 (page 181).

The Survey refrains, however, from stating that such a reduction would have catastrophic consequences for the rest of the world and the United States itself, and from reiterating the well-worn phrases of a permanent dollar gap and the necessity of the United States continuing forever in its role of Lady Bountiful. Instead, it proceeds to examine the results of such a contraction of U. S. exports for the rest of the world, and Europe in particular. It assumes that Europe's share in those exports would amount to about $2 billion (page 181) and shows that even such a small figure--only two-thirds of the prewar volume at constant prices--would not be incompatible with the satisfaction of Europe's vital import needs since there are alternative sources of supply for those commodities for which the cuts would have to be most substantial (page 187). It also shows how Europe could, if necessary, balance its current accounts with the other areas to which it had to make dollar payments in 1949, especially Latin America, and therefore could completely eliminate its dollar deficit (page 184). The authors recognize, however, that the burden would fall unevenly on different countries and might prove intolerably heavy for some of them (page 191).

These arguments seem open to criticism only insofar as they reveal a somewhat pessimistic attitude toward the possibilities of expanding European dollar exports, and especially of earning dollars by reaching an export surplus with Latin American countries which might be considered dollar earners. The authors themselves acknowledge that the trend in the first months of 1950 "may suggest that the preceding analysis has been based on unduly pessimistic assumptions" (page 192). If these assumptions are revised somewhat so as to allow for European imports from the United States of, say, $2.7 billion rather than $2 billion, the comparison with the prewar pattern indicates that the necessary adjustments of the European economy would be relatively minor, and actually smaller than the adjustment in the import level from the first to the second half of 1949. The United States might have to make an effort to spread the

burden of that adjustment over the entire economy in order not to force a few export industries to bear the entire impact of the change, but the results of the first five months of 1950 indicate that one-half of the U. S. export surplus of 1949 has already been eliminated without any deleterious effect on either the United States or the rest of the world.

This does not mean that either the authors or this reviewer feels that to eliminate completely the U. S. export surplus would serve any particularly useful purpose: from the point of view of economic policy, it might well be better for the United States as well as for the world at large to maintain a reasonably large export surplus, say, of the magnitude of the first half of 1950. This might be done by continuing foreign investment and perhaps in part even by public grants and subsidies. However, the calculations of the Survey should destroy the myth that such an export surplus would be an inevitable Act of God rather than the consequence of conscious U. S. political decisions.

Foreign trade

The other chapters of the Survey, while equally useful, are less spectacular and novel. The foreign trade of European countries, and especially their trade with the United States, is exhaustively analyzed, and the authors point out convincingly the role played by the lag in Germany's overseas exports (page 135) as well as the influence of the availability of ECA grants upon the rise in European imports of machinery and similar products from the United States (page 142); these two factors, both of them of a strictly temporary nature, account for almost one-half of Europe's entire trade deficit with overseas countries. The price effects of the devaluation of European currencies and its influence upon the balance of payments of the various nations are clearly demonstrated (pages 153 and 156).

It is particularly gratifying to observe that the Survey now looks at the problem of East-West trade in a more objective manner than previously: the authors have become convinced finally that the limiting factor in that trade is not the licensing policy of the United States, but "rather the ability of eastern European countries to increase the capacity of their agriculture and industry to supply goods of interest to western Europe" (page 92). The Survey still believes that the expansion of trade between Western and Eastern Europe would be more beneficial than "the integration efforts within either of these spheres" (page 91) and it exhorts the Eastern European countries not to neglect their agricultural exports in favor of industrialization (page 93); it realizes, however, that the roots of the problem are "largely political rather than economic" (ibid.).

Inflation and deflation

In only two points is there still apparent what this reviewer considers a pro-planning bias of at least some of the authors: (1) in the treatment of the anti-inflationary policies of some European countries and (2) in the comments to the abolition of trade controls. It so happens that the main target of the Survey's criticism is on both occasions the Federal Republic of Germany.

The Survey states that Western Germany may have "thrown away, by ending rationing and relaxing import controls, two of the weapons which experience suggests are necessary in dealing with [its] structural problems" (page 71); Germany "now finds it difficult to attain a high level of economic activity while maintaining monetary stability" after having removed "physical controls ... faster and more completely than in most other countries although consumption standards are still far below prewar" (page 56). It is true that in 1949 per capita consumption in Germany was still 15 per cent below 1936, but this relatively low figure obscures two important facts: first, that total consumption was 104 per cent of 1936, or relatively higher than in Belgium or France; and second, that in 1949 the rise in economic activity, as measured by industrial production, was greater in Western Germany than in any other European country, not excluding the padded figures of the Soviet satellites. According to the Survey (Table I), Western German production, on the basis of 1948 = 100, stood at 162 in the fourth quarter of 1949; the next highest figure was 150 for Austria--another country following a "liberalistic" economic policy similar to that of Germany. Comparing the fourth quarter of 1949 with the fourth quarter of 1948 (Table 2), Western Germany drops to second place--behind Austria--but still comfortably ahead of the totalitarian show-horses, Czechoslovakia and Poland, not to speak of the authors' model economy, the United Kingdom.

The Survey's belief in a high correlation between retention of controls and a high level of economic activity is the more surprising since the authors, almost in the same breath, acknowledge that controls "often have the incidental effect of increasing real costs" and that "the removal of physical controls over private business may thus contribute to higher efficiency" (page 57). The Survey's concept of an efficient economic system seems, however, to be modelled after the suggestions of Mr. Thomas Balogh: the Survey views with obvious sympathy, as a "buffer against a decline in activity," the maintenance of potential demand at such a high level that "controls prevent demand at existing prices from being fully satisfied" (page 58). It thus seems to evolve a new economic ideal: the artificial prevention of full satisfaction, instead of the old-fashioned idea of fullest possible satisfaction, of consumers' demand. The authors--whose addiction to the ideals of Western democracy is above suspicion--are apparently not troubled by the social, political, and psychological consequences of such a policy, which inevitably would lead to a general feeling of permanent frustration--excellent material for building up collective persecution mania and therefore aggressive fanaticism, but a poor basis for a rational and peaceful democracy. While overlooking that threat, the Survey is visibly worried by the dangers inherent in the recent attempts of European countries to return to a free economy: "postwar experience is as yet insufficient to provide a clear answer to the question whether full employment can be steadily maintained under a liberalistic [sic] economic policy"--and before a positive answer is assured beyond any doubt, the dangerous "liberalistic" experiments apparently should better not be undertaken.

In fact, the authors seem convinced that the example of Western Germany proves the answer to be in the negative. The Survey is fully aware of the structural reasons of the persistence of unemployment in that country. However, it seems equally sure that, whatever the illness, the remedy invariably must be controlled inflation, namely, "the adoption by the authorities of an expansionist policy, whether through an increase in the supply of credit to the private

sector or through direct deficit spending by the Government" (page 67). It does not seem to matter that, in order to keep the resulting inflation under repression, it may then "prove necessary ... to retreat from the liberal principles of economic policy hitherto followed" and to reverse "the recent policy of liberalizing western Germany's import trade" (ibid.). The maintenance of internal, and the process toward international, equilibrium in the German (and therefore the European) economy; the restoration of Germany's industrial and agricultural production; the rapid increase in the level of consumption; the improvement in labor relations--all these consequences of the German monetary reform, which put an end to twelve years of "repressed inflation" and poverty amidst overfull employment, seem to count for nothing in comparison with the possibility that unemployment might drop somewhat faster in case of renewed inflation than in case of reliance on more "liberalistic" measures.

While minimizing the dangers of inflation, the Survey frequently brings up the spectre of deflation. For instance, if "liberalists" should advocate non-inflationary methods (e.g., substituting long-term for short-term credit without inflating the total volume of credit) leading to a higher rate of investment and voluntary savings, they would be told that under present conditions in Germany "any increase in the rate of savings is less likely to lead to an increase in the rate of investment than to a deflationary spiral" (page 49). In fact, the authors openly assert that Germany (and Italy) have pursued "deflationary policies" (page 71). This accusation would have some validity if any policy stabilizing prices and wages were called deflationary; but under that definition, the Survey's favorite policy, that of repressed inflation, would also be guilty of "deflationism". If the usual definition is accepted, which involves a reduction in the supply of money, the charge is completely unfounded at least in the case of Germany: in 1949 the volume of money (currency and deposits) rose from 18 billion to 22.5 billion marks, and that of bank credits from 4.8 billion to 10.1 billion--a pretty queer deflation indeed.

Trade liberalization

The Survey's lack of faith in the possibilities of a free economy is also apparent in its skeptical attitude toward trade liberalization. It rightly emphasizes the crucial importance of the revival of German trade for the restoration of equilibrium in both the overseas and the intra-European trade relations of the area. It states, however, that developments in 1949 "do not give promise of a ready absorption of anything approaching the prewar level of exports from western Germany without serious disturbance to other European suppliers" (page 96). And it apparently shares the apprehension of the "expansionist" countries lest further trade liberalisation, and especially the establishment of EPU, might expose them to losses in reserves and force them "to abandon their expansionist policies in favor of the more restrictive policies followed in a number of other European nations" (page 105). Finally, it fears that "the immediate effects [of trade liberalization] on the overseas balance of payments may be negative rather than positive" (page 107).

These fears are in strange contrast to the faith in the flexibility of Europe's economy, expressed in the Survey's chapter on economic development. Expansion of trade, like economic progress in general, always forces a readjustment of the allocation of economic resources, and in the course of that

reallocation some members of the community are inevitably exposed to losses. Every "liberalistic" economist should be willing to concede that without government intervention these losses may not be distributed in the most equitable and least burdensome way, and that it is the duty of the Government to take measures making the transition less troublesome for those sectors of the economy that otherwise would have to bear the greatest losses. Such an attitude would be neither socialistic nor particularly modern; it was already fully expressed 150 years ago by J. B. Say, the grandfather of economic liberalism. There is however a great difference between advocating a more equitable distribution of individual losses accompanying social progress, and trying to hamper social progress in order to minimize individual losses. The physical controls of domestic and international relations, the removal of which the Survey seems to regret, have the second effect. The authors are correct in asserting that the problems of liberalization will be minimized "if there is a high rate of growth in economic activity throughout the area" (page 104); but they do not seem fully to realize how intimately this growth is connected with the restoration of greater internal and external economic freedom.

The Survey's pessimism as to the effects of trade liberalization is also reflected in dire predictions that any increase in German exports, production, and income would lead to new increases in imports, which would complicate Germany's balance-of-payments problems and would have to be "counteracted in some measure by import restrictions and consumer rationing" (page 95). This pessimism can best be refuted by looking at the most recent developments. German exports increased from $1.1 billion in 1949 to an annual rate of $1.7 billion in the period from February through May 1950, when the effects of liberalization first became apparent. Imports, on the other hand, have remained at the 1949 level of $2.1 billion annually--despite the continued rise in national income and industrial production (which in April 1950 for the first time surpassed the level of 1936). Germany would thus achieve over-all balance (although not a balance of its dollar account) as early as in the fourth quarter of 1950 if the trend which became apparent between the second half of 1949 and the first half of 1950 merely continued for another half year. It would be rash to venture a prediction that this will actually come to pass; however, it would be equally foolish to assert with any degree of assurance that such a development is impossible.

RESTRICTED

July 20, 1950

UNITED STATES EXPORT SURPLUS FOR JANUARY-APRIL 1950 Edward Marcus

The United States export surplus for the first four months of 1950 was at an annual rate of $2.2 billion 1/ which was only a third the rate in the corresponding period of 1949 and 40 per cent of the surplus for the full year 1948. 2/ This adjustment was due primarily to a decrease in the volume and value of U.S. exports, although a part was also due to increased imports. Exports were at the annual rate of $9.6 billion in January-April 1950, compared with $13.5 billion for the corresponding period of 1949, and $12.7 billion for all of 1948. The index of export volume dropped by 22 per cent compared with January-April 1949, and by 14 per cent compared with 1948. The rise in the value of imports was only about 4 per cent over 1948--about a third of a billion dollars 3/--partly because of price decreases for most imported goods. The U.S. import price index in January-April 1950 was 4 per cent lower than January-April 1949, and 5 per cent below 1948. In volume, imports in the first four months of 1950 were 10 per cent over January-April 1949 and at an annual rate by a similar percentage over 1948.

Sterling Area

For the Sterling Area as a whole, U.S. exports for January-April 1950 decreased by $657 million from January-April 1949 and by $606 million as compared with 1948, while our imports, which had dropped $75 million from 1948 to January-April 1949, showed no appreciable net change between then and the January-April period of this year. As a result, U.S. imports from the Sterling Area for 1950 equalled 94 per cent of exports, compared with 64 per cent for January-April 1949 and 69 per cent in 1948. In 1934-38 the corresponding import coverage figure had averaged 68 per cent, about the same as in 1948 or early 1949.

Between early 1949 and early 1950, the Sterling Area reduced its share of the U.S. export surplus proportionately much more than did the world as a whole. Although the total U.S. surplus dropped by two-thirds from the year before, this area reduced its deficit by almost 90 per cent. The improvement among Sterling Area countries and dependencies was fairly general except for the United Kingdom itself. Although the latter reduced its deficit by $121 million (26 per cent) from January-April 1949, the 1950 rate is only 3 per cent below 1948. A considerable readjustment had already been made by the United Kingdom from 1947 to 1948, however, mainly because of a 40 per cent reduction of U.S. exports, so that our active balance was reduced from $898 million in 1947 to $355

1/ All figures for January-April 1950 and January-April 1949 have been converted to an annual basis.

2/ Because of the American recession in 1949 and the currency devaluations in September, only the first four months of 1949 were selected for comparison with 1950. It was felt, however, that the yearly data for 1948 were more free from such distorting influences.

3/ At annual rates, U.S. imports in January-April 1950 were $7.4 billion, compared with $7.0 billion in January-April 1949, and $7.1 billion in 1948.

million in 1948. All other important Sterling Area members either reduced their 1950 deficits sharply below 1949 and 1948, or like India had replaced a deficit by a surplus.

The mid-1949 tightening of import restrictions had much greater effects in the overseas members of the Sterling Area than in the U.K. This can be seen in the upper part of Table I (Appendix); column 3 shows the dollar reduction from January-April 1949, and column 5 the percentage drop.

Although the physical volume and value (in pounds Sterling) of total British imports from all sources in the first four months of 1950 (annual rate) has risen about 10 per cent over both January-April 1949 and 1948, the equivalent dollar value shows a drop since the sterling import price increases were not proportionate to the decrease in the dollar value of the pound. As a result of the recent shifts in the direction of trade, the share of United Kingdom expenditures for imports from the United States has returned to the 1948 proportion of about 9 per cent, as compared with 10 per cent in January-April 1949. Since the decrease in value of U.S. exports to the United Kingdom reflects a drop in the physical volume as well as in the value, while the decrease in dollar value of total British imports from all sources was accompanied by a rise in the physical volume as well as sterling value, the drop in our share on a volume basis is considerably greater than these percentages would suggest.

Unlike the United Kingdom, India curtailed its imports from other sources as well as from the United States, though less so from us. The decline in total Indian imports was 38 per cent from January-April 1949 and 22 per cent from 1948, when measured in rupees, or 57 per cent from 1949 and 46 per cent from 1948 when measured in dollars 1/, whereas our 1950 exports to India valued in dollars dropped by only 31 per cent from January-April 1949 and by 18 per cent from 1948. The U.S. export surplus with India which had prevailed prior to mid-1949 has been replaced by a small import surplus during the first four months of 1950.

Australia experienced what might be termed a more healthy adjustment—that is, relatively little of her improvement was because of smaller U.S. exports but more from increased U.S. imports, which exceeded in the first four months of 1950 (annual basis) both January-April 1949 and 1948. Total Australian imports (whether measured in dollars or Australian pounds) held up better than U.S. exports to that country—for which the 1950 dollar value was 28 per cent below January-April 1949 and 1 per cent above 1948—so that our relative share decreased.

1/ The available statistics for India's imports in 1948 exclude overland imports from Pakistan.

Severe import restrictions enabled the Union of South Africa to improve markedly her trade balance with the world as a whole and also with the United States, but the resulting reductions in our shipments were much greater percentagewise than in total South African imports from all sources, whether measured in dollars or South African pounds. As a result, the 1948 U.S. export surplus to South Africa of $357 million was halved in the first four months of 1949, and reduced to a negligible figure during the first four months of 1950.

ERP countries (excluding the United Kingdom)

On an annual basis, the U.S. export surplus with the ERP countries (excluding the United Kingdom) had increased after the Marshall plan started, to $3,262 million in the first four months of 1949 as compared with $2,851 million in 1948. By the first four months of 1950, however, there had been a reduction of $1398 million in the rate of our exports to these countries, as compared with the first four months of 1949, and they were $977 million below 1948. Our imports rose slightly, only 2 per cent to 3 per cent on the average, so that the resultant reduction in the rate of our export surplus was only $1411 million, from $3262 million in January-April 1949 to $1851 in 1950. (See Table II, Appendix.)

The greatest relative improvement in the export balances of individual countries was shown by Germany, Greece, Portugal, and Switzerland. With the exception of Greece, 1/ these countries reduced their deficits with the United States to less than half of what they were in 1948 or 1949, and the proportion of imports coming from the United States dropped sharply. For Portugal and Switzerland, the decrease in our shipments was greater relatively than the drop in their total imports 2/. (See Table III, Appendix.)

France too, reduced her deficit with the United States markedly. Our active balance, which had decreased by a third from 1947 to 1948, dropped again by almost 40 per cent for the first four months of 1950. Total French imports from non-European countries shrank in relation to France's intra-European imports.

The Netherlands' deficit, which had been reduced to one-fourth from 1947 to 1948, was slightly greater in the first four months of 1949, but for the first four months of 1950 decreased by 22 per cent from early 1949. As in the case of France, our share in total Netherlands imports dropped along with the shares of other non-ERP countries. Increases in the volume of total imports were primarily due to expansion of intra-European trade.

1/ In the case of Greece, the 1950 deficit with the U.S. was 54 per cent below 1948, but only 32 per cent below the first four months of 1949. Data on total Greek imports by individual countries are lacking.

2/ Whether measured in dollars or their own currencies.

Belgium and Turkey maintained fairly stable trade balances with the United States in 1950, which is not surprising since neither had devalued in 1949. (Moreover, our special aid to Turkey also operated to sustain the flow of our exports to that country.) For both, the 1950 balances were below 1948 but not greatly different from January-April 1949.

Swedish import restrictions had already significantly reduced imports from the United States by 1948, the U.S. active balance in that year being less than a fifth of 1947. Since 1948 there has been some further shrinkage of trade in both directions, and our export surplus in 1950 was about the same as in 1948.

Austria and Italy made the least improvement of the ERP countries in their U.S. trade position. Although their deficits were reduced from the level of the first four months of 1949, they were still about as large as in 1948. While Italy curtailed the proportion of its imports from the United States below that of 1948 and of January-April 1949, the decreased proportion was mainly the result of an expansion in the dollar value of total imports from ERP countries, rather than decreased U.S. shipments.

Latin America

With a return of the U.S. business upswing aiding our imports and import restrictions abroad (and, to some extent, currency devaluation) reducing our exports, the U.S. export surplus with Latin America has dropped sharply. In the first four months of 1950, we even had an import surplus with this area. Panama was the only exception; our active balance with this country increased mainly because of a sharp rise in our exports of merchant vessels. (See Table IV, Appendix.)

Particularly marked improvements in their trade balances with the United States have been shown by Argentina, Brazil, Colombia, Cuba, and Venezuela.

Argentina, which had already reduced her deficit by over 60 per cent from 1947 to 1948 (mainly because of a $200 million reduction of our shipments) achieved an active balance in January-April 1950. The 1949 improvement was due primarily to a continuation of the decline in U.S. exports; the 1950 improvement was because of increased Argentine exports to the United States.

The Brazilian improvement was mostly via import restrictions, although the value of its exports to this country also increased somewhat, primarily because of coffee. The dollar value of her total imports dropped by a third from the first quarter of 1949 to the first quarter of 1950, whereas her imports from the United States dropped by almost half.

The increased value of U.S. imports of coffee was the primary aid to Colombia's balance. Our rising petroleum imports aided the Venezuelan balance along with a decline in exports of machinery and iron and steel products, as U.S. investments in oil development slackened. Increased sugar imports aided the Cuban balance.

Asia

The disturbed conditions in the Orient as an aftermath of the war have dominated the foreign trade of this region. Thus, the sharp decline in Chinese exports to this country, and the replacement of our export surplus by an import surplus, can be attributed to the sweep of the Chinese Communist army. Indo-China, on the other hand, despite the internal strife, appears to have increased available supplies of goods for export to the United States during 1950; from small (or negligible) quantities in the previous two years, the first four months' imports into the United States in 1950 were running at an annual rate of $17 million, and thus replaced a U.S. export surplus by an import surplus. (See Table V, Appendix.)

The 1950 position for Indonesia is slightly better than in 1948 mainly because of somewhat higher exports to us 1/. The 1949 deterioration in trade was due primarily to increased imports from the United States; total Indonesian imports (from all sources) for the first four months of 1949 were but $49 million above 1948, whereas our shipments for this period were up $62 million. Although our exports to Indonesia for the first four months of 1950 dropped back to 1948 levels (valued in dollars), our relative position improved, since total Indonesian imports (valued in dollars) were down by over 25 per cent (although up 1 per cent in Indonesian Guilders).

Japan's total imports, which had been increasing since the end of World War II, levelled off in 1950, with the first four months being about equal to the same period of the previous year. Since U.S. exports for the same periods had dropped 23 per cent, while the total dollar value of Japanese imports was stable 2/, this decrease would indicate a shift to other sources. Japanese exports, too, were gradually recovering and shipments to all destinations during the first four months of 1950 exceeded the preceeding January-April by 24 per cent. Its shipments to the United States for the same period were up by 35 per cent. As compared with all of 1948, exports in the first four months of 1950 at an annual rate rose 138 per cent (in dollars) while those to the United States doubled.

The main improvement in the Philippine trade balance with the United States came through curtailed imports, mainly because of new import controls; our exports, which had been running at the same level in January-April 1949 as in 1948, dropped by over 45 per cent in January-April 1950.

1/ This increase is attributable, in part, to Indonesian Government efforts to channel at least half her rubber exports directly to this country.

2/ Since Japan's import prices were somewhat lower, the physical volume of imports was higher in 1950 than in 1949.

Other Areas

Among the developments affecting the other areas of the world, a few have been singled out for special comment. (See Table VI, Appendix.)

Canada has been most notable of the countries in this group. A determined Canadian drive to correct the imbalance with the United States has resulted in our exports to Canada during the first four months of 1950 being only 5 per cent more than our imports, a smaller proportion than before World War II. United States exports to Canada in the first four months of 1950, however, dropped below both the rate in the corresponding period of 1949 and in the year 1948; at the same time, our imports rose above both previous periods. Essentially, the Canadian improvement came about through a shift in her export destinations, the proportion going to the United States rising from about 50 per cent in 1948 (and January-April 1949) to 65 per cent in January-April 1950, despite a general slackening in her total exports.

Because of the "cold war", Eastern European trade has seen a steady shrinkage in our exports with a somewhat irregular behavior in imports, thus tending to replace our export surplus by an import surplus.

The change in the African 1/ balance with the U.S. is due primarily to the special influence of Egypt. Egyptian import restrictions have curtailed our shipments, while the increase in our imports from Egypt in 1950 is due to the change in our import quota year for cotton, which shifted Egyptian cotton shipments forward to February and March and was thus a factor which will not hold for the year as a whole.

Our exports to the Middle East 1/ for the first four months of 1950 dropped as compared with the same period of 1949, but were 12 per cent above 1948. January-April 1950 imports, however, were below both preceding periods. Hence, our 1950 export surplus, although 21 per cent below January-April 1949, was still 23 per cent above 1948.

Comparison with 1936-38

For comparison with pre-World War II, the period 1936-38 was selected, the last three complete peaceful years. This period encompasses one complete business cycle—the prosperity of 1936-37, the recession of 1937-38, and the recovery of 1938—and thereby avoids distortions arising from comparisons with but a single cyclical phase.

The United States export surplus in the first four months of 1950 was mainly with the ERP countries (including the United Kingdom), and on an annual rate amounted to $2,194 million. We also had an export surplus with Japan amounting to $257 million while we had an import surplus with all others of $289 million. As compared with 1936-38, the export surplus

---

1/ Excluding the Sterling Area members.

with ERP countries and with Japan continues to be relatively large. The average annual export surplus with the ERP countries during those years was $522 million and $77 million with Japan, while the import surplus with all others averaged $121 million.

If the price factor is eliminated, 1/ a few countries show an improved ratio of U.S. exports to imports in 1950 compared with 1936-38; that is, the ratio of our exports to imports was lower in January-April 1950 than in 1936-38. These were the United Kingdom, thanks to her sustained post-war export drive; the Union of South Africa, Australia, and New Zealand, mainly as a result of severe import restrictions in the last twelve months; Eastern Europe, as a direct result of the "cold war" drive for autarky; Canada, again because of conscious efforts to achieve such improvement; and a few Latin American countries (Argentina, Brazil and Venezuela). The Sterling Area as a whole also showed such an improvement, primarily because of the United Kingdom figures, although the Dominions also aided.

Several countries show a marked worsening, compared with 1936-38. Most prominent in this group are the ERP countries (other than the United Kingdom), Japan and Indonesia. 2/ This, of course, is a direct outgrowth of the war, and explains the need for the aid that our country has been giving. Most countries merely increased the proportion of our export surplus, but for a few—Austria, Greece, Switzerland, and Turkey—pre-war U.S. import surpluses have been replaced by export surpluses. With Indonesia and with India (including Pakistan) the U.S. had import surpluses before the war. The pre-war ratios of our import surpluses have been reduced, and U.S. trade with these countries during the first four months of 1950 is almost in balance. However, as both will require increased imports for reconstruction and industrialization, the margin arising from their favorable trade balances, which would be available for such programs is obviously very small.

1/ See Table VII, Appendix.

2/ The Middle East, exclusive of the Sterling Area, also shows a much higher ratio than before the war, primarily because of Iran, Israel, and Lebanon.

STATISTICAL APPENDIX

TABLE I

U. S. Trade with Sterling Area
(In millions of dollars)

	Jan.-Apr. 1950 1/	Change		Percentage change	
		Jan.-Apr. 1949 1/ to Jan.-Apr. 1950 1/	1948 to Jan.-Apr. 1950 1/	Jan.-Apr. 1949 to Jan.-Apr. 1950	1948 to Jan.-Apr. 1950 1/
U. S. exports to:					
United Kingdom	569	-142	-75	-20	-12
India	245	-111	-53	-31	-18
Australia	116	-46	+1	-28	+1
Union of South Africa	110	-178	-383	-62	-78
New Zealand	26	-11	-8	-29	-23
Others	332	-170	-88	-34	-21
Total - Sterling Area	1,397	-657	-606	-32	-30
U. S. imports from:					
United Kingdom	226	-21	-64	-9	-22
India	254	-17	-11	-6	-4
Australia	149	+41	+20	+38	+15
Union of South Africa	107	-2	-29	-2	-21
New Zealand	52	+37	+21	+251	+70
Others	526	-37	-13	-7	-2
Total - Sterling Area	1,313	+1	-75	2/	-5
U. S. export surplus (+) or import surplus (-) with:					
United Kingdom	+343	-121	-11	-26	-3
India	-9	-95	-42	-111	-128
Australia	-33	-86	3/-18	-163	3/-122
Union of South Africa	+3	-176	-354	-98	-99
New Zealand	-26	-47	-29	-216	-789
Others	-195	-132	3/-76	3/-212	3/-64
Total - Sterling Area	+83	-658	-531	-89	-86

1/ Annual rate.
2/ Less than 0.5 per cent.
3/ Increase in import surplus.

TABLE II
U. S. Trade with ERP Countries (Other Than the United Kingdom)
(In millions of dollars)

	Jan.-Apr. 1950 1/	Change		Percentage change	
		Jan.-Apr. 1949 1/ to Jan.-Apr. 1950 1/	1948 to Jan.-Apr. 1950 1/	Jan.-Apr. 1949 to Jan.-Apr. 1950	1948 to Jan.-Apr. 1950 1/
U. S. exports to:					
Germany	435	-479	-428	-52	-50
Greece	126	-57	-111	-31	-47
Portugal	36	-41	-40	-53	-52
Switzerland	111	-76	-61	-41	-35
France	398	-278	-194	-41	-33
Netherlands	255	-64	-57	-20	-18
Belgium	287	-18	-24	-6	-8
Turkey	96	+6	-6	+6	-5
Austria	136	-45	-10	-25	-7
Italy (including Trieste)	409	-204	-19	-33	-5
Sweden	95	+5	-23	+5	-19
ERP countries (excluding United Kingdom)	2,561	-1,398	-977	-35	-28
U. S. imports from:					
Germany	60	-1	+29	-1	+90
Greece	26	-10	+7	-27	+34
Portugal	16	+1	-4	+4	-22
Switzerland	89	-6	-17	-6	-16
France	79	+9	+6	+13	+8
Netherlands	41	-2	-2	-5	-5
Belgium	112	-15	+8	-12	+8
Turkey	68	+4	+18	+6	+37
Austria	11	2/	+2	+3	+23
Italy (including Trieste)	83	+9	-11	+13	-12
Sweden	71	+27	-20	+60	-22
ERP countries (excluding United Kingdom)	710	+13	+23	+2	+3
U. S. export surplus (+) or import surplus (-) with:					
Germany	+374	-478	-457	-56	-55
Greece	+100	-47	-118	-32	-54
Portugal	+21	-41	-36	-67	-63
Switzerland	+22	-70	-44	-76	-67
France	+319	-287	-200	-47	-39
Netherlands	+213	-62	-55	-22	-21

1/ Annual rate.
2/ Less than half million.

TABLE II (Contd.)
U. S. Trade with ERP Countries (Other Than the United Kingdom)
(In millions of dollars)

	Jan.-Apr. 1950 1/	Change		Percentage change	
		Jan.-Apr. 1949 1/ to Jan.-Apr. 1950 1/	1948 to Jan.-Apr. 1950 1/	Jan.-Apr. 1949 to Jan.-Apr. 1950	1948 to Jan.-Apr. 1940 1/
Belgium	+175	-3	-31	-2	-15
Turkey	+28	+2	-24	+7	-46
Austria	+125	-45	-12	-27	-9
Italy (including Trieste)	+326	-214	-8	-40	-2
Sweden	+24	-22	-3	-48	-10
ERP countries (excluding United Kingdom	+1,851	-1,411	-1,000	-43	-35

1/ Annual rate.
2/ Less than half million.

TABLE III
Percentage of Imports Coming from the United States

	Jan.-Apr.		1948
	1950	1949	
United Kingdom	8.8	9.8	8.9
Germany	19.4	40.9	55.7
Portugal	1/13.0	1/18.0	22.7
Switzerland	15.5	23.5	19.1
France	14.0	19.0	16.6
Netherlands	1/14.4	1/17.6	17.6
Belgium	16.7	17.6	18.0
Turkey	1/34.5	1/12.4	23.4
Italy	27.9	37.1	37.6
Sweden	1/9.8	1/9.9	14.1

1/ Three months.

TABLE IV
U. S. Trade with Latin America
(In millions of dollars)

	Jan.-Apr. 1950 1/	Change		Percentage change	
		Jan.-Apr. 1949 1/ to Jan.-Apr. 1950 1/	1948 to Jan.-Apr. 1950 1/	Jan.-Apr. 1949 to Jan.-Apr. 1950	1948 to Jan.-Apr. 1950 1/
U. S. exports to:					
Argentina	145	+3	-235	+2	-62
Brazil	251	-274	-246	-52	-49
Colombia	205	-10	+8	-5	+4
Cuba	380	-25	-61	-6	-14
Mexico	451	-88	-70	-16	-14
Venezuela	414	-188	-103	-31	-20
Other Latin American Republics except Panama	415	-200	-105	-33	-20
Panama	155	+80	+63	+106	+69
All Latin American Republics	2,416	-702	-750	-23	-24
U. S. imports from:					
Argentina	221	+116	+41	+112	+23
Brazil	551	+65	+38	+13	+7
Colombia	278	+50	+42	+22	+18
Cuba	381	-59	+6	-13	+1
Mexico	284	-5	+38	-2	+15
Venezuela	327	+61	+56	+23	+21
Other Latin American Republics except Panama	549	-60	+29	-10	+5
Panama	9	-1	2/	-11	+4
All Latin American Republics	2,601	+167	+249	+7	+11
U. S. export surplus (+) or import surplus (-) with:					
Argentina	-76	-113	-276	-300	-138
Brazil	-300	-339	3/-284	4/	5/
Colombia	-73	3/-61	3/-34	3/481	3/86
Cuba	-1	6/+34	-67	6/	-101
Mexico	+167	-83	-109	-33	-39
Venezuela	+87	-249	-159	-74	-65
Other Latin American Republics except Panama	-134	-140	3/-134	4/	5/
Panama	+146	+81	+63	+126	+76
All Latin American Republics	-185	-869	-999	-127	-123

1/ Annual rate.
2/ Less than half million.
3/ Increase in U. S. import surplus.
4/ Shift from small export surplus to considerably larger import surplus.
5/ Considerable increase in import surplus.
6/ Decrease in U. S. import surplus.

TABLE V
U. S. Trade with Selected Far Eastern Countries
(In millions of dollars)

	Jan.-Apr. 1950 1/	Change		Percentage change	
		Jan.-Apr. 1949 1/to Jan.-Apr. 1950 1/	1948 to Jan.-Apr. 1950 1/	Jan.-Apr. 1949 to Jan.-Apr. 1950	1948 to Jan.-Apr. 1950 1/
U. S. exports to:					
China (including Formosa)	50	-145	-224	-74	-82
French Indochina	8	-11	-6	-56	-43
Indonesia	91	-86	-1	-48	-1
Japan	380	-114	+55	-23	+17
Philippines	254	-213	-213	-46	-46
U. S. imports from:					
China (including Formosa)	104	-21	-16	-17	-13
French Indochina	17	+16	+13	+2,650	+385
Indonesia	96	-18	+11	-16	+13
Japan	123	+32	+60	+35	+96
Philippines	195	+8	-33	+4	-15
U. S. export surplus (+) or import surplus (-) with:					
China (including Formosa)	-54	-124	-208	-178	-135
French Indochina	-8	-26	-19	-147	-177
Indonesia	-5	-67	-12	-108	-169
Japan	+257	-146	-5	-36	-2
Philippines	+60	-221	-180	-79	-75

1/ Annual rate.

TABLE VI
U. S. Trade with Other Regions
(In millions of dollars)

	Jan.-Apr. 1950 1/	Change		Percentage change	
		Jan.-Apr. 1949 1/ to Jan.-Apr. 1950 1/	1948 to Jan.-Apr. 1950 1/	Jan.-Apr. 1949 to Jan.-Apr. 1950	1948 to Jan.-Apr. 1950 1/
U. S. exports to:					
Canada	1,689	-293	-225	-15	-12
East Europe	95	-26	-73	-21	-43
Africa (excluding Sterling Area) 2/	209	-122	-42	-37	-17
Middle East (excluding Sterling Area)	218	-58	+24	-21	+12
U. S. imports from:					
Canada	1,607	+107	+53	+7	+3
East Europe	136	+43	-21	+47	-13
Africa (excluding Sterling Area) 2/	210	+109	+84	+108	+66
Middle East (excluding Sterling Area)	52	-14	-8	-22	-13
U. S. export surplus (+) or import surplus (-) with:					
Canada	+82	-399	-279	-83	-77
East Europe	-41	-69	-51	-247	-485
Africa (excluding Sterling Area) 2/	-1	-230	-126	-101	-101
Middle East (excluding Sterling Area)	+166	-44	+31	-21	+23

1/ Annual rate.
2/ First quarter, 1949 and 1950.

TABLE VII
Ratio of U. S. Exports to Imports
(Selected Countries and Regions)

	Jan.-Apr. 1950	Jan.-Apr. 1949	1948	1936-1938 1/
United Kingdom	2.52	2.88	2.22	2.74
Australia	0.78	1.49	0.88	1.45
Ceylon	0.13	0.50	0.37	0.09
India	0.96	1.31	1.12	2/0.39
New Zealand	0.51	2.49	1.12	1.64
Union of South Africa	1.03	2.66	3.64	2.14
Kuwait	0.10	0.98	2.64	3/
Other Sterling Area	4/0.39	4/0.87	0.86	3/
Total - Sterling Area	1.06	1.93	1.44	5/1.47
Belgium	2.57	2.38	2.98	1.35
France	5.04	9.79	8.10	2.15
Netherlands	6.12	7.38	7.12	2.07
Austria	12.58	3.00	16.59	0.68
Germany	7.21	15.00	27.14	1.41
Italy	4.94	8.18	4.45	1.80
Sweden	1.34	2.03	1.29	1.11
Switzerland	1.25	1.97	1.62	0.48
Greece	4.87	5.16	12.26	0.21
Portugal	2.33	5.14	3.83	2.12
Turkey	1.41	1.40	2.03	0.60
Argentina	0.66	1.36	2.12	0.75
Brazil	0.45	1.08	0.97	0.47
Colombia	0.74	0.94	0.83	0.57
Cuba	1.00	0.92	1.18	0.51
Mexico	1.58	1.86	2.12	1.40
Venezuela	1.27	2.26	1.91	1.94
Panama	16.65	7.14	10.31	5.18
Other Latin-American Republics	0.77	1.05	1.10	3/
China	0.48	1.56	2.37	6/0.58
French Indochina	0.49	62.00	4.21	0.52
Indonesia	0.95	1.55	1.47	0.26
Japan	3.09	5.43	5.18	1.49
Philippines	1.31	2.51	2.05	0.74
Canada	1.05	1.32	1.23	1.20
East Europe	0.70	1.30	1.07	6/1.08
Egypt	0.37	19.58	1.21	6/1.28
Africa (excluding Sterling Area)	1.07	3.27	1.98	3/
Middle East (excluding Sterling Area)	4.19	4.16	3.26	6/1.70

1/ First quarter average. 3/ Not available. 5/ 1934-38 annual average.
2/ Includes Pakistan. 4/ Three months. 6/ Annual average.