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August 1, 1950

COLIN CLARK ON INTERNATIONAL INVESTMENT

Lewis N. Dembitz

The July 1950 issue of Fortune has an article by Colin Clarke entitled "The World Will Save Money in the 1950's." The greater part of the article is devoted to an interesting and useful analysis of prospective savings and international capital flows during the next decade. At the end of the article, however, Clark puts forth a suggested "solution" of the problem which, in my opinion, is likely to confuse rather than to clarify the reader's understanding of the problem.

The main part of the article discusses the factors that cause a country to need capital: the need to provide for an increasing labor force and to bring about increases in the productivity of both the existing and the added labor force. Thus Clark derives for each country a projection of its investment needs. He also discusses the factors which determine the proportion of a country's national income that is saved. By comparing each country's needs with its prospective savings, he then reaches a figure representing its prospective surplus available for foreign investment, or its prospective deficit that it will need to cover by means of investment from abroad.

While many of Clark's figures are no better than illustrative, and while some of his hypotheses seem to be open to serious question, the article contains ample warning of these dangers. Thus, by producing a projection of surpluses and deficits which, at least in form, covers the whole world, Clark has provided a useful and interesting framework from which public thinking can proceed on the problem of how the surplus savings of some areas can be made available to finance the needs of others.

With this background Clark devotes the latter part of the article to his recommendations. He writes:

> "The facts and deductions set out above hold out the possibility of worldwide peaceful economic advance if we go the right way about it ...
>
> "What is proposed is something close to what was in the minds of the original participants in the Bretton Woods Conference, before they sank in a swamp of financial technicalities and political compromises. The project is to create a World Bank that deals only with the Central Banks of individual countries ... All countries with a capital surplus would be required to build up credits year by year in the World Bank, and undeveloped countries would be given overdraft rights. The amount each creditor country would have to deposit each year would be its surplus investible capital as estimated in the above table, less the amount already invested abroad by free enterprise or direct governmental action ...
>
> "The advantage of this system is that in each lending country its own Central Bank would have the duty of drawing the surplus resources out of the system in whatever way appeared to it most effective ... Likewise in a debtor country the Central Bank would have the duty of encouraging public and private investment up to (but not beyond) the point at which it could pay for imports, out of its overdraft rights in the World Bank."

Such a scheme raises the great problem of persuading the governments of lending countries that they should commit themselves to a program of capital exports, such as Mr. Clark's plan proposes. It also raises a very serious question of principle, but we may first comment on the political and practical difficulties which Clark ignores in his article. With the omission of these difficulties the whole idea looks deceptively easy.

As Mr. Clark points out, the original participants in the Bretton Woods Conference had in mind something along the lines that he suggests, in which international capital flows would be determined according to economic needs and availabilities, as determined by an international organization to which the lending countries would entrust full control. The experiences of the International Bank and Monetary Fund bring out clearly the difficulty of divorcing the control of investment funds from the influence of the country that supplies them, and they also bring out the technical problem of an under-developed country in making efficient use of any large amount of investment funds from abroad. Mr. Clark's article would be much more constructive if it pointed out ways in which these kinds of difficulties could be surmounted in the establishment and operation of his suggested new Bank.

It seems to me also that Clark rather exaggerates the benefits of using central banks, rather than intergovernmental transfers, as the channel for bringing about desirable capital flows. He says:

> "To organize these transfers through banks, while it will require governmental action, should be an infinitely simpler and smoother operation than any alternative proposal. Consider the slow and cumbrous movements, the bureaucratic elaboration and delays, the political bargaining, that would be the features of any system of direct loans between governments. Consider all these features, probably in an accentuated form, that would accompany any attempt to create some international organization that would make direct capital loans for approved projects."

Without disagreeing with Clark's idea of the central banks as the best and most efficient channel for carrying out the desired capital movements, it must be recognized that the arrangements in each country would require full coordination with all the basic economic policies and plans of the government. Hence, one could hardly hope for such complete obviation of red-tape and political bargaining as Clark seems to envisage.

The basic question of principle raised by Clark's plan arises from his idea that the amount of surplus investible capital for each creditor country to deposit annually should be based on someone else's decision. In this respect Clark's plan may be contrasted with the otherwise similar plan for international investment which was included in the report on "National and International Measures for Full Employment" issued in December 1949 by a group of experts under the auspices of the United Nations. The UN experts' plan would provide similarly for the regular flow of investment capital from the surplus to the deficit countries, channeled in this case through the existing International Bank for Reconstruction and Development. But the UN plan would start with the fixing of investment targets by the lending countries themselves. Those countries would be asked to make the necessary legislative and institutional arrangements to enable them to stabilize the total flow of lending at the planned level.

One may note a progression in principle from the Marshall Plan to the proposal of the UN experts and now to the plan suggested by Clark. In the Marshall Plan, the citizens of the United States, through Congress, decided on substantial capital exports to Europe. The decisions however were made for one year at a time; each year our ability to contribute and Europe's need of further contributions were to be reviewed. Under the UN experts' proposal a capital-exporting country would determine (and announce) a proposed level of capital exports for several years in advance. This would have obvious advantages in giving other countries a basis on which to plan, but it would also be open to objections, including the objection that it would greatly reduce other countries' incentives to take those steps which might otherwise be needed to attract funds. Clark's plan would go a step farther; it would not only call for a predetermined level of capital exports but it would have this level determined by an international organization, on the basis of technical analyses, rather than by policy decisions of the authorities of the country concerned.

One basic assumption that is implied in Mr. Clark's proposal is that mature countries must necessarily stagnate unless they export their savings. Programs of increased consumption relative to investment or of increased domestic investment would thus be excluded as a possible way of utilizing increases in income. Such views have been expressed by various other writers, but it hardly seems possible that the responsible authorities of any country could explicitly base national policy on fatalistic acceptance of such a principle.

In effect, Mr. Clark proposes to solve the question of capital transfers through the use of a technical formula as the basis for determining the amount of capital that each country should supply. No government could be expected to agree on such a basis for determining in advance the amount of its people's wealth to be shared with others. It will--and should--arrive at any such decision only after the most exhaustive public consideration of all the political, economic, and moral issues involved. As Clark is aware, a country's level of savings is not something that is determined solely by its resources and by natural forces; it is subject to being influenced very importantly by the decisions of the country's authorities, and these decisions involve vital questions of national economic policy. Likewise, its level of domestic investment and consumption, and the remainder available for investment abroad are also subject to being influenced by the country's authorities. It seems unfortunate, therefore, that his article does not give greater recognition to these facts.

August 1, 1950

SENATE COFFEE INVESTIGATION AND RECENT DEVELOPMENTS IN COFFEE PRICES

Harry A. Gillis, Jr.

From September to December of 1949, coffee prices in New York rose by about 60 per cent. This rapid increase, which was matched only by the price rise after OPA ceilings were removed in June 1946, led to an investigation by a Senate Agriculture Subcommittee headed by Senator Guy Gillette. The Subcommittee's findings were released on June 9, 1950 and immediately were vigorously challenged by all of the Latin American coffee-producing countries, as well as by most United States coffee associations and processors.

Throughout the war period and for a short time thereafter, coffee prices in the New York market were relatively stable at ceilings established by the Office of Price Administration. With the removal of the ceilings in June 1946, prices rose sharply and for more than a year were subject to wide fluctuations. From August 1947 through August 1949, however, New York prices of coffee, particularly the important Brazilian coffee, were comparatively steady at levels about double those quoted during the war. Some minor variations appeared to be due to seasonal factors, although the evidence is not conclusive.

Senate investigation and report. In December 1949, the Gillette Subcommittee began its investigations, gathering data from the coffee-producing countries and holding many hearings at which many responsible representatives of the coffee trade were interviewed. From the tenor of the press releases, issued by the Subcommittee during the course of the hearings, it was apparent that the group was searching for evidence of speculative activity. On June 9, 1950, the Subcommittee released its final report, which appeared to show that the withholdings of coffee stocks from the market and other speculative devices had been the principal causes for the substantial increase in coffee prices. Accordingly, nineteen specific recommendations were proposed. The most important were designed to limit future manipulations either by regulation or by retaliatory measures. Among the recommendations were some aimed at the New York Coffee and Sugar Exchange, and at the U. S. representatives of foreign coffee interests in general and of the National Federation of Coffee Growers of Colombia in particular. Other recommendations, if implemented, would directly affect in various ways the coffee-producing countries which export to the United States.

With respect to marketing procedures, for example, the report urged that the New York Coffee and Sugar Exchange discontinue the use of so-called "S and D" contracts for use in futures trading and to replace it with a "universal" futures contract. It is understood that the suggested substitute contract would lessen considerably the detailed specifications which buyers can demand under the present S and D contracts; this would result in lower prices since sellers could more easily satisfy the stated requirements. If use of the S and D contracts is not discontinued voluntarily, the report suggests that the United States Attorney-General be requested to seek injunctive action to force such discontinuance. The report further suggests that the Exchange immediately put into effect margin requirements amounting to 50 per cent of the value stated in the coffee futures contracts; if this suggestion is not adopted, Congress should place coffee trading under the Commodity Exchange Act.

In addition to the above-suggested changes in marketing procedures, the Subcommittee recommended that foreign interests trading in coffee, particularly the National Federation of Coffee Growers of Colombia, be requested, and if necessary forced by court order, to refrain from accumulating and withholding coffee stocks from the market. The Subcommittee also suggested that until the accumulated or new stocks of coffee become available to the consumer, thrift should be used in preparing coffee.

Although there were many other recommendations of varying importance, the following were probably the ones primarily responsible for the general resentment which the report aroused among the Latin American coffee-producing countries:

(1) "That the United States, through diplomatic channels, offer to assist the Brazilian and Colombian governments in such a way as may seem feasible to aid these countries in adjusting their official exchange rates of the cruzeiro and the peso to the . . . realistic value of these moneys.

(2) "That in view of the repeated statements from representatives of the principal coffee-producing countries in the Western Hemisphere that coffee consumption now exceeds production, the United States offer technical assistance to other friendly nations desiring to expand their coffee production.

(3) "That in view of the fact that the economies of certain South and Central American countries depend so heavily upon coffee exports, that it is too early to determine just how much consumption of coffee will permanently decline at present prices, and that any permanent decline as indicated over the first four months of 1950 would sooner or later bring a crash in coffee prices; it is recommended that the United States Government scrutinize most carefully any additional loans to these countries.

(4) "That the Economic Cooperation Administration refuse to authorize any further allocation of dollars for the purchase of coffee."

Reaction to Subcommittee's report. The Subcommittee's press releases put out during the course of its investigation had been the basis for political attacks and speeches in Latin America mostly by anti-United States interests. The report released in June, however, brought an immediate and outspoken reaction in numerous newspapers, both in Latin America and in the Unites States. The U. S. Embassy in Rio de Janeiro stated that the report had been the subject of unfavorable comment in both houses of the Brazilian Congress, where the least critical statements conjectured that the Gillette report did not constitute the views of the U. S. Government. The strongest statements were probably to be found in an editorial of the Rio de Janeiro newspaper, Correio, where the report was termed "intimidating, revoltingly brutal, imperialistic, and offensive".

On June 19, the Ambassadors or ranking representatives of fourteen Latin American coffee-producing countries[1/] called on Secretary of State Dean Acheson to protest the proposals contained in the report. A 1300-word, joint protest signed by representatives of eleven countries and separate protests from Mexico, Cuba, and Venezuela were turned over to the Secretary. The objections of the written and verbal protests appeared to be directed both to the principles underlying the recommendations and to the adverse effects which adoption of the specific recommendations would produce. In the first place, the proposals contained in the Subcommittee's report were declared to constitute "economic warfare", and if they were followed they would interfere with the internal affairs of Latin American countries. Secondly, and in somewhat the same connection, the protest declared that "the revaluation of currencies is an issue on which no sovereign government can accept dictation from another". And lastly, the offer to extend technical assistance in order to promote coffee production in other areas could be considered as an "unfriendly act" and one which "would impair the living standards of the people of those /South and Central American/ nations and could leave their economies prostrate".

These protests submitted on June 19 led to a meeting of the full Senate Agriculture Committee on June 20. The purpose of the meeting was to request the Subcommittee to make certain substantive revisions and to re-phrase or tone down some harsh wording in the report. The request was voiced principally by Assistant Secretary of State Edward G. Miller who very carefully and in considerable detail refuted many alleged statements of fact, emphasized many internal inconsistencies in the Subcommittee's recommendations,[2/] and referred to many incongruous passages which might lead to unfortunate misunderstanding or ill-feeling. Despite Secretary Miller's statement, the Subcommittee sustained the original version of the report without modification. Nevertheless, Secretary Miller's statement (which was given wide circulation and was accepted as the official U. S. Government position) served to allay animosity and to assuage public opinion throughout Latin America. Moreover, the full Committee's complete lack of action with respect to the Subcommittee's report probably reflects acceptance of the State Department's position.

Recent price developments. There is an interesting coincidence of timing but not of causality in the trend of coffee prices and the course of the Subcommittee's investigations. The increase in coffee prices during the fall of 1949 reached its peak around the turn of the year--shortly after the Subcommittee was formed. Thereafter and throughout the period of hearings, coffee prices sagged somewhat until the end of May, little more than a week before release of the Subcommittee's report. At that time, coffee prices again began to shoot upward as indicated in the table below. This latter price increase, however, was not as unique as that of the preceding fall since it tended to be submerged in the general price rise which has taken place since the end of June.

1/ Brazil, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Peru and Venezuela.

2/ He pointed out, for example, the anomaly of expending coffee production in non-Western Hemisphere countries at the same time a decline in demand is assumed. See the recommendations quoted under (2) and (3) above.

Coffee Prices in New York Spot Market
(cents per pound)

Average for indicated period:		Brazilian "Santos 4"	Colombian "Manizales"
Month of:			
1949:	September	30.24	35.70
	October	35.98	39.00
	November	49.60	54.25
	December	49.22	56.22
1950:	January	49.63	54.27
	February	48.73	51.85
	March	47.22	49.70
	April	47.30	50.01
	May	46.24	47.85
	June	47.14	51.25
Week ending:			
	July 1	50.00	53.50
	July 8	52.00	54.00
	July 15	52.40	54.40
	July 22	56.00	56.25
	July 29	55.20	55.65

President Truman's announcement on June 26 that the United States would intervene in the invasion of South Korea was followed almost immediately by an accelerated rise in spot coffee prices. By the middle of July these prices had reached new all-time highs and continued upward until the end of July, when some evidence of possible stabilization appeared.

It is noteworthy, however, that during the same July period the coffee supply in the futures market exceeded demand and prices dropped steadily. By mid-July, the pessimistic atmosphere engendered by successive retreats in South Korea was associated in this market with the maximum daily declines permissible. The President's statement to Congress on July 19, which explicitly did not ask for price controls or rationing in the immediate future, is credited with checking to some extent the downward pressure on futures prices as well as the upward pressure on spot prices. The permanency of this effect remains to be seen.

RESTRICTED August 1, 1950

THE DANISH BALANCE OF PAYMENTS FOR 1950 Paul Gekker

This paper attempts to find some basis for judging the validity of present Danish balance of payments estimates for 1950. Since devaluation official and unofficial Danish sources have spoken of a deterioration in the external accounts for the current calendar year. The formal estimate, presented in the National Budget for 1950 and in Danish submissions to the OEEC, envisages a current account deficit of 714 million kroner, or slightly over two and one-half times the deficit for 1949 which amounted to 266 million kroner. The expected larger deficit will be the result of an estimated increase in the value of imports of goods and services of approximately 14 per cent while the value of exports of goods and services is expected to increase only about 6 per cent.

The Danish forecast

The Danes support their present forecast of a deterioration in the balance of payments chiefly on the evidence of recent price developments. As Table I of the appendix shows, import prices from May to September 1949 exhibited a falling tendency while export prices were rising slightly. After devaluation, on the contrary, a market deterioration of the terms of trade set in. By May 1950 the import price index had risen by 14.4 per cent and the index of export prices dropped 7.1 per cent.

The rise in import prices, reflecting increases in prices of goods purchased in the dollar area and from countries whose currencies were devalued to a lesser extent than the Danish crown, has been intensified by price increases on imports of a number of commodities from the United Kingdom. The fall in export prices mirrors price reductions for butter and eggs which took effect in accordance with long-term contracts under which the bulk of Denmark's agricultural exports goes to Great Britain. In both these instances, therefore, the terms of trade have deteriorated vis-a-vis Denmark's principal supplier and major export market, yet the exchange ratio between sterling and the Danish crown was unaltered by devaluation.

While price movements are the major basis for the Danish forecast 1/the Danes feel that the easing of quantitative trade restrictions at present involves an additional drain on their external resources, and this belief explains their reluctance fully to implement their obligations under the various programs of trade liberalization. In the present context the argument appears to run somewhat as follows: achievement of the goal of viability requires an increase in sales of the principal Danish export commodities, but expansion of agricultural output, in the next few years at any rate, depends in turn upon increased imports of grains and feeding stuffs. It is admitted, however, that in the long run a combination of increased domestic output of feedstuffs and of improved land utilization and feeding methods may reduce these external requirements.

1/ Economic Survey of Denmark, National Budget for 1950, p. 54.

The Danes do not dispute the benefits of trade liberalization, but they feel that liberalization at this time would disturb the most desirable composition of imports without apparent compensating advantages. The principal support for this claim is that while the level of Denmark's tariff is the lowest in Europe, several Danish export commodities are subject to import embargoes or high tariff rates in other countries.

The recent liberalization of trade, whose scope is expected to be extended in the present calendar year, is an additional argument used by the Danes for the present forecast of a larger balance of payments deficit. They are careful, however, to emphasize the margin of error that may be present in their estimates, but they do not rule out the possibility that the deterioration in the balance of payments may be larger than estimated because of the results expected to follow from any further removal of quantitative restrictions.

Balance of payments 1948 and 1949

Table 2 in the attached appendix affords a comparison of the balance of payments for 1948 and 1949, and shows the forecasts for 1949 and 1950. Comparing the 1949 forecast with the actual results, it is clearly shown that the decline of 321 million kroner anticipated in 1949 did not in fact occur, but that the balance of payments deficit remained practically at the 250 million kroner level of 1948. Now again a deterioration in the balance of payments of the current year is forecast, this time in an amount of 448 million kroner over 1949.

The improvement in the 1949 balance of payments over the estimate was due primarily to a 10 per cent larger harvest than is generally considered normal. This substantial increase in agricultural output permitted larger exports than had been anticipated at the beginning of the year. Since average export prices in 1949 were practically unchanged from 1948, the improvement in the balance of payments was due almost entirely to an increase in the value of agricultural exports. Volume indices are shown in Table 3 of the appendix.

A breakdown of the 1949 balance of payments by currency areas is given in Table 4 of the appendix. The overall deficit was the result of deficits with the dollar area and with "other countries" which were partically offset by surpluses in relation to the sterling area and other OEEC countries. Denmark's trade position in 1949 was somewhat characteristic of a number of other European countries that achieved surpluses on non-dollar account, chiefly with the OEEC participants or the sterling area.

Since ERP aid exceeded the deficit on current account, the National Bank of Denmark was able to improve its foreign exchange position by almost 300 million kroner in 1949. The debt to the United Kingdom was reduced by 179 million kroner and the currency position in relation to Western Germany improved by about 100 million kroner during the year. The dollar holdings of the Central Bank were virtually unchanged, but a deterioration in net currency positions in relation to Argentina and Brazil accounted for an increase in indebtedness on dollar account.

1950 balance of payments and January - April trade

The balance of payments in 1950 is expected to show a current account deficit of 714 million kroner ($103.2 million). ERP aid and other capital receipts are expected to come to 545 million kroner ($78.8 million) which will leave an uncovered deficit of 169 million kroner ($24.4 million) or a deterioration in the foreign exchange position of that amount. This shortfall of 169 million kroner increases the net indebtedness in various currencies as follows: 19 million kroner ($2.8 million) on dollar account, 107 million kroner ($15.5 million) in currencies of participating countries, exclusive of the sterling area, and of 43 million kroner ($6.2 million) in all other currencies. Transactions with the sterling area are expected to be in approximate balance. (See Table 5).

The only present basis for judging the 1950 estimate is an analysis of the trade figures for the first quarter of the year. The quarterly movement of Danish trade, shown in Table 6, illustrates the fact that import surpluses tend to be concentrated in the first half of the year and are reduced significantly with the expansion of exports in the last six months. It is true that there has been a substantial increase in the trade deficit - in kroner - during the first three months of 1950 as compared to the corresponding period in 1949. Nevertheless the forecast appears overly pessimistic even in the light of those figures. In 1949, the first quarter deficit amounted to 48 per cent of the annual import surplus. Inasmuch as the first quarter figure is only 36 per cent of the estimated deficit for 1950, the final deficit for this year may well be smaller than anticipated.

While in terms of kroner the overall trade deficit has increased, the trade deficit in terms of dollars had declined in the first quarter over the same period last year. This was due entirely to a very substantial reduction in the deficit with the United States and other Western Hemisphere countries. (See Table 7). In the case of the United Kingdom, the value of imports has risen more than the value of exports. The most significant deterioration, however, has occurred in the movement of trade with OEEC countries. This deterioration is best measured in terms of kroner. (See Table 8). In the first quarter of 1950 imports from the participating countries rose by 35.2 per cent, while exports to them increased by only 21.6 per cent, resulting in a deficit on trade account roughly three times as great as in the corresponding quarter of 1949.

The only figures extending beyond the first quarter of 1950 are those reported monthly by the Bank for International Settlements, summarizing the net payments positions of countries participating in the Intra-European Payments Agreement.

The most recent of these reports shows a continuation of the tendency toward a serious deterioration in Denmark's position with the other countries participating in the Intra-European Payments Scheme. In the quarter January to March 1949 Denmark's net deficit position on total current account transactions with OEEC countries was $5.6 million. In the second quarter, April to June 1949, Denmark earned a net surplus not quite three times as large, or $15.7 million. For the first three months of this year, on the other hand, Denmark's net deficit position, which amounted to $13.5 million, was almost two and one-half times greater than in the first quarter of 1949, and the results for April to June show a deficit of $18.9 million, which is even larger than the surplus for this period last year.

One explanation for the increased deficit in Denmark's OEEC accounts is undoubtedly the shift in some imports from dollar sources to European countries. Two examples of such shifts are Danish purchases of tobacco from soft currency sources and of oil seed supplies from Portugal - both instances of commodities previously obtained in the dollar area. An additional explanation for the expansion in imports is to be found in the rising trend of industrial production. In April the production index was 12 per cent higher than a year ago, and since the end of last year the increase has been both absolutely and relatively greater than in the same months of 1949. It is also probable that some speculative buying of imported commodities has taken place during recent months, in consequence of rumors of a possible further unilateral devaluation of the currency. Indications of the existence of a speculative demand have led to official warnings stressing the need for curtailing these purchases. In addition, the rumors of devaluation have been repeatedly denied by the Governor of the National Bank.

Finally, a portion of the increased deficit is clearly due to the recent liberalization of trade. To the extent that high tariffs for agricultural protection still exist in many European countries, liberalization is for the time being a one-way street for Denmark. An examination of Danish imports in the first four months of 1950 shows substantial increases, over the same period in 1949, not only in raw materials but in almost all other categories. This movement is reflected in the index of import volume which stood at 134 (1937 = 100) for the first quarter of 1950 against 112 for the first three months of 1949 and 111 in the last quarter of 1949. (See Table 3). At the same time, exports of Danish dairy products to OEEC countries have risen hardly at all because of the existence of duty schedules on agricultural products, which tend to exclude Denmark from the beneficial effects of the recent liberalizations of quantitative restrictions.

Conclusions

As the preceding sections show, there has been a more than seasonal deficit in Denmark's trade and payments with the OEEC participating countries during the first six months of this year.

Some measure of the magnitude of this deficit is afforded by a comparison with the credit facilities established for Denmark under the European Payments Union. Denmark receives a quota of $195 million in units of account of the Union, of which the first 20 per cent, or $39 million, is gold-free line of credit. For any portion of a second equivalent tranche, 20 per cent is payable in gold. For example, a deficit of $78 million, amounting to 40 per cent of Denmark's quota, would call for settlement of $7.8 million in gold.

According to the Bank for International Settlements, Denmark's OEEC deficit for the first six months of 1950 was $32.5 million. There are some indications, however, that the trend in Denmark's European deficit may not be persistent, and there is some likelihood of improvement. The Bank for International Settlements figures for June show a substantial increase in credit transactions and a correspondingly large decrease in the net deficit position for the month. The usual expansion of exports during the second half of the year should reduce this deficit considerably. Therefore, the possibility that Denmark might face gold payments in any substantial amount (more than 20 per cent of the deficit) appears to be remote.

Two possibilities of further improving Denmark's trade position should be noted. One would follow from a renegotiation of the contract prices for butter, eggs, and bacon which Denmark delivers to Great Britain under long-term agreements. However, prospects of a more favorable arrangement are uncertain at the present time. The second development that would contribute to an improvement in Denmark's position would be a movement to reduce the degree of agricultural protection still existing in the form of high tariffs on imports of these commodities by other OEEC countries.

In addition to these specific measures, there are a number of more general conditions which would improve Denmark's external position. For Denmark, as for most European countries, the devaluation of last September was, in the first instance, expected to encourage a substitution of imports from other than the dollar area. As a result of this process the "hard" currency deficit would then be replaced by a larger imbalance in relation to "soft" currencies. The related problem, that of reducing the deficit, depends upon an expansion of exports. These in turn may be expected to increase during the last half of 1950, both because of their seasonal character and as an eventual result of the current high level of industrial production.

The National Budget publication, as well as the annual report of the National Bank of Denmark, note that the possibility of restoring balance by the imposition of quantitative restrictions is now limited. Hence, the adjustment to equilibrium in the balance of payments will have to be effected by other means. 1/ In the long run, the goal is to expand export capacity by raising productivity through a program of rationalization of production. In the immediate future, if the deterioration thus far apparent proves persistent, the intention is apparently to resort to measures of domestic monetary policy. The recent increase in the discount rate from 3 1/2 to 4 1/2 per cent has actually been assigned the "classical" task of reducing imports.

While there has been some worsening of Denmark's external position during the past six months, the balance of payments situation need not give rise to undue concern. The dollar deficit is being reduced in accordance with plans. Although the soft currency deficit has recently increased, it financing seems assured under present circumstances, and there are grounds for hoping that it will be possible to reduce it. Finally, the Danish authorities seem determined to use all available means to hold the balance of payments deficit within manageable proportions.

1/ Economic Survey of Denmark, National Budget for 1950, p. 62; Danmarks Nationalbank, Report and Accounts 1949, p. 25.

Statistical Appendix

Table 1

Denmark - Import and Export Price Indices
(1935 = 100)

Date	Imports	Percent change	Exports	Percent change	Ratio exports over imports
May 1949	295	-	304	-	103
August 1949	285	- 3.4	308	+1.3	108
May 1950	326	+14.4	286	-7.1	88

Source: Danmarks Statistik, Statistiske Efterretninger, June 10 and June 13, 1950.

Table 2

Denmark - Balance of Payments, 1948, 1949, 1950

Items	1948 Results (mill Kr)	1949 Budget (mill Kr)	1949 Results (mill Kr)	1950 Budget (mill Kr)
Current account				
Receipts:				
Exports	2783	3204	3648	3874
Shipping	630	680	650	733
Tourism	60	65	127)	
Interest and dividends	23	23	20)	535
Other	347	371	395)	
Total receipts	3843	4343	4840	5142
Expenditures:				
Imports	3475	4288	4275	5001
Shipping	170	175	199	230
Tourism	90	93	164)	
Interest and dividends	100	100	113)	625
Other	260	260	355)	
Total expenditures	4095	4916	5106	5856
Current account deficit	-252	-573	-266	-714
Capital account				
ERP	+220	-	+560	+545
Other capital items	+ 32	-	-294	+169
Capital account surplus	+252	-	+266	+714

Source: Economic Survey of Denmark, National Budget for 1950, pp. 12, 58, 60.

Table 2-a

Denmark - Balance of Payments, 1948, 1949 and 1950 (Budget)
(In millions of dollars)

Items	1948 Results	1949 Budget	1949 Results	1950 Budget
Current account				
Exports	578.6	615.4	700.6	559.8
Imports	722.4	823.5	821.0	722.7
Trade Balance	- 143.8	- 208.1	- 120.4	- 162.9
Invisibles, net	+ 91.5	+ 98.0	+ 69.3	+ 59.7
Current account deficit	- 52.3	- 110.1	- 51.1	- 103.2
Capital account				
ERP	+ 45.7	-	+ 107.5	+ 78.8
Other capital items	+ 6.6	-	- 56.4	+ 24.4
Capital account	+ 52.3	-	+ 51.1	+ 103.2

Source: Same as Table 2.

Note - Conversion rates as follows: 1948 - $ = Kr. 4.81; 1949 - (3/4 of year), $ = Kr. 4.81, (1/4 of year), $ = Kr. 6.92; and 1950 - $ = Kr. 6.92.

Table 3

Denmark - Volume Indices of Exports and Imports
(1937 = 100)

Year	Quarters	Exports	Imports
1948	I	72	69
	II	62	81
	III	65	88
	IV	79	100
1949	I	80	112
	II	88	115
	III	84	101
	IV	109	111
1950	I	99	134

Source: International Monetary Fund, International Financial Statistics, Vol. II, No. 11; Vol. III, No. 6.

Table 4

Denmark - Balance of Payments, 1949, by Currency Areas

Current Account	$Area (mill Kr)	£Area (mill Kr)	Other OEEC (mill Kr)	Others (mill Kr)	Total (mill Kr)
Imports	849	1453	1325	648	4275
Exports	178	1655	1309	506	3648
Trade Balance	-671	+202	- 16	-142	-627
Invisibles, net	+ 83	+ 55	+ 154	+ 69	+361
Current account	-588	+257	+138	- 73	-266

Current Account	$Area (mill $)	£Area (mill $)	Other OEEC (mill $)	Others (mill $)	Total (mill $)
Imports	163.1	279.0	254.5	124.4	821.0
Exports	34.2	317.8	251.4	97.2	700.6
Trade Balance	- 128.9	+38.8	- 3.1	- 27.2	- 120.4
Invisibles, net	+ 15.9	+ 8.8	+29.6	+ 13.2	+ 69.3
Current account	- 113.0	+ 47.6	+ 26.5	- 14.0	- 51.1

Source: Economic Survey of Denmark, National Budget for 1950, p.20.

Note - Rates for conversion into dollars: January - September, $ = Kr. 4.81; October - December, $ = Kr. 6.92.

Table 5

Denmark - Balance of Payments, Estimate for 1950

Items	$Area (mill Kr)	£Area (mill Kr)	Other OEEC (mill Kr)	Other (mill Kr)	Total (mill Kr)	1949 Total (mill Kr
Current receipts	457	2307	1832	546	5142	4840
Current expenditures	998	2312	1932	614	5856	5106
Current account deficit	- 541	- 5	- 100	- 68	- 714	- 266
Capital items, net	+ 522	+ 5	- 7	+ 25	+ 545	+ 563
Decline in foreign exchange position	- 19	-	- 107	- 43	- 169	+ 297

Items	$Area (mill $)	£Area (mill $)	Other OEEC (mill $)	Other (mill $)	Total (mill $)	1949 Total (mill $)
Current receipts	66.0	333.4	264.7	78.9	743.0	929.5
Current expenditures	144.2	334.1	279.2	88.7	846.2	980.6
Current account deficit	-78.2	- 0.7	-14.5	- 9.8	-103.2	-51.1
Capital items, net	+75.4	+ 0.7	- 1.0	+ 3.6	+ 78.8	+108.1
Decline in foreign exchange position	- 2.8	0	-15.5	- 6.2	- 24.4	+ 57.0

Source: Economic Survey of Denmark, National Budget for 1950, p. 61.

Table 6

Denmark - Imports, Exports and Trade Balance, by Quarters
(millions of Kroner)

	1949 I	1949 II	1949 III	1949 IV	1949 Year	1950 I	1950 Budget	Jan. -Mar. '50 % of Budget
Imports	1076	1083	932	1114	4205	1398	5001	27.9
Exports	769	841	848	1106	3564	996	3874	25.7
Trade Balance	-307	-242	-84	- 8	-641	-402	-1127	35.7

Source: OEEC, Statistical Bulletin, Foreign Trade, No. 2, May 1950, and Vareomsaetningen med Udllandet, March, 1950.

Table 7

Denmark - Imports, Exports and Trade Balance, First Quarters, 1949 and 1950
(millions of dollars)

	U.S.	OWH	U.K.	Other OEEC	Others	Total
Imports						
1st quarter 1949	39.2	7.1	65.5	75.0	37.0	223.8
1st quarter 1950	22.1	3.8	70.1	76.2	30.2	202.3
Exports						
1st quarter 1949	8.0	2.2	54.2	69.4	26.0	159.8
1st quarter 1950	3.5	3.5	56.6	63.4	16.9	143.9
Trade Balance						
1st quarter 1949	-31.2	-4.9	-11.3	- 5.6	- 11.0	- 64.0
1st quarter 1950	-18.6	-0.3	-13.5	-12.8	- 13.3	- 58.4

Source: OEEC, Statistical Bulletin, Foreign Trade, No. 2, May 1950, and ECA, Division of Statistics and Reports (unpublished summaries of trade in dollars).

Table 8

Denmark - Trade with United Kingdom and OEEC Countries
(millions of Kroner)

	United Kingdom	Other OEEC
Imports		
1st quarter 1949	315	361
1st quarter 1950	485	488
Per cent change	+54.0	+ 35.2
Exports		
1st quarter 1949	261	334
1st quarter 1950	391	406
Per cent change	+49.8	+ 21.6
Trade Balance		
1st quarter 1949	-54	- 27
1st quarter 1950	-94	- 82
Per cent change	+74.1	+203.7

Source: Danmarks Statistik, *Vareomsaetningen med Udlandet,* March 1950.