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REVIEW OF FOREIGN DEVELOPMENTS

September 26, 1950

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THE MUTUAL DEFENSE ASSISTANCE PROGRAM

Caroline Lichtenberg

The Mutual Defense Assistance Program (MDAP) promises to be the largest U. S. foreign aid program ever undertaken in peacetime. Launched in October 1949 with the moderate sum of $1,314 million for fiscal year 1950, it was endowed this month with a total of $5,223 million for fiscal year 1951.1/ This figure includes the original appropriation of $1,223 million which was based on pre-Korean thinking and the $4 billion supplemental appropriation requested by the President after the outbreak of hostilities. The proposed distribution of these funds is shown in the table on the following page.

Allocation by area

The 1950/51 funds are to be allocated to three area programs: (1) About $4.5 billion, or 85 per cent will be distributed among the nine North Atlantic Treaty countries that have requested military aid, viz., Belgium, Denmark, France, Italy, Luxembourg, the Netherlands, Norway, Portugal and the United Kingdom. Canada and Iceland, the other two nations adhering to the North Atlantic Treaty, have not asked for military assistance; (2) About $325 million will be used for defense programs in Greece, Turkey and Iran; and (3) $394 million will be spent on behalf of Korea, the Philippines and the general area of China.

These allocations by area are specified in the appropriations Act, but Congress has given the President authority to transfer funds from one area to another or, in the event of emergency, to any European nation not a party to the North Atlantic Treaty whose "strategic location makes it of direct importance to the defense of the North Atlantic area." The amount which the President may shift in this way is limited to 10 per cent of each area program.

Form of aid

One of the more interesting aspects of the MDAP is the form in which assistance is to be rendered. All aid is to be on a grant basis except for a relatively small amount which will take the form of "reimbursable aid," 2/ and none of the funds will be "tied" to U. S. exports. In the language of

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1/ Authorizing legislation: Mutual Defense Assistance Act of 1949, (PL 329, 81st Cong. approved October 6, 1949) as amended (PL 621, 81st Cong., approved July 26, 1950)

Appropriation legislation: PL 430, 81st Cong., approved October 28, 1949; PL 759, 81st Cong., approved September 6, 1950; and HR 9526, as amended, passed by Congress September 23, 1950.

2/ Up to $100 million will be available for advance financing of procurement contracts to be paid fully by the purchasing country. The purpose of this type of "reimbursable aid" is to promote stardardization of military items by making it possible for countries important to the security of the U. S. to purchase U. S. equipment and supplies and to obtain procurement assistance in connection with these purchases.

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Distribution of Funds Appropriated to the President for Mutual Defense Assistance, by Area and Type of Aid

(In millions of dollars)

		Total	Direct Military 1/ Assistance		Financing Additional Military Production Abroad 2/		Administrative and Operating Expenses	
Total - All Areas		6,536.5		6,001.8		493.3		41.4
1950/51		5,222.5		4,714.9		475.0		32.6
Regular appropriation	1,222.5		1,124.9		75.0		22.6	
Supplemental estimate	4,000.0		3,590.0		400.0		10.0	
1949/50 - Revised estimate 3/		1,314.0		1,286.9		18.3		8.8
North Atlantic Treaty Area		5,504.0		4,969.3		493.3		41.4
1950/51		4,504.0		3,996.4		475.0		32.6
Regular appropriation	1,000.0		902.4		75.0		22.6	
Supplemental estimate	3,504.0		3,094.0		400.0		10.0	
1949/50 - Revised estimate		1,000.0		972.9		18.3		8.8
Greece, Turkey and Iran		525.3		525.3		-----		-----
1950/51		324.5		324.5		-----		-----
Regular appropriation	131.5		131.5			-----		-----
Supplemental estimate	193.0		193.0			-----		-----
1949/50 - Revised estimate		200.8		200.8		-----		-----
Korea, Philippines and General Area of China		507.2		507.2		-----		-----
1950/51		394.0		394.0				
Regular appropriation	91.0		91.0			-----		-----
Supplemental estimate	303.0		303.0					
1949/50 - Revised estimate		113.2		113.2		-----		-----

1/ Finished military items and training and technical assistance.

2/ Raw materials and industrial equipment.

3/ This includes \$500 million forward contract authority and \$814 million cash appropriation. The funds to cover obligations incurred under the contract authority (\$456 million) were appropriated in the regular appropriation for 1951.

Source: Hearings before a Subcommittee of the Committee on Appropriations House of Representatives 81st Congress, on the Supplemental Appropriation Bill for 1951, p. 337.

the Act, "military assistance may be furnished ... by the provision of any service, or by the procurement from any source and the transfer to eligible nations of equipment, materials, and services ... " There is thus full authority for offshore procurement.

This provision, however, together with another section of the Act, gives rise to a point of conflict. It is clearly the intent of Congress that MDAP funds be directly related to goods and services connected with military needs and that they not be used for general balance of payments purposes. It is specifically stated in the Act that MDAP funds may not be utilized "directly or indirectly" to compensate countries for any deterioration in their balance of payments resulting from increased military production. While the whole defense assistance program itself is in a sense general balance of payments assistance, this section was meant to prevent the Administration from giving defense dollars to Europe as an incentive to increase defense production. The architects of MDAP 1/ apparently feel, however, that rearmament is going to place such strains on European balances of payments that some dollars, if only a small part of MDAP, should be made available for general balance of payments and incentive purposes. To do this and still stay within the law the Administration has drawn up a program whereby MDAP funds will be used for "direct purchases of military equipment and components in Western European countries." This kills two birds with one stone -- it ties defense dollars to tangible goods directly connected with military needs and, at the same time, provides free dollars to Europe. Testimony presented in Congressional hearings 2/ makes this clear, for example:

1/ The Secretary of State, the Secretary of Defense and the Administrator of Economic Cooperation, who were appointed by the President as a Steering Committee. Primary responsibility and authority for the direction of the program is lodged with the Secretary of State.

2/ Hearings before a Subcommittee of the Committee on Appropriations, House of Representatives, 81st Cong., on the Supplemental Appropriation Bill for 1951. Hearings before the Committee on Appropriations, United States Senate, 81st Cong., An Act Making Supplemental Appropriations for the Fiscal Year Ending June 30, 1951 ...

"Increased military production in Europe will result in increased payments for wages and materials which in turn will generate an increased demand for consumer goods and imports. Provision should be made to support a portion of these requirements.

This kind of requirement can be met by using mutual defense assistance program funds to procure directly military equipment. The proceeds of such transactions might then be utilized by the producing country both to meet general economic requirements and to develop additional productive capacity for defense." 1/

It was also mentioned in the Hearings that the Administration intends to procure a certain amount of equipment in Western Europe even if at the time of purchase no MDAP country can effectively use it: it will simply be added to U. S. defense stocks. It is expected, however, that the bulk of it will either be used in the producing country or transferred to another country engaged in the common defense.

While legally there is no upper limit to the amount of MDAP funds which can be used in this way, the Administration has tentatively programmed only $153 million for direct purchases in Western Europe. 2/ However, it is probable that a large part of the $321 million allocation 3/ for raw materials and industrial equipment will also be used for offshore procurement so that total free dollars may amount to $475 million.

Types of aid

As shown in the table above, two general types of aid will be furnished: Direct Military Assistance and the financing of Additional Military Production in Western Europe (AMP). The AMP program consists of the two allocations discussed above in connection with free dollars. About $153 million will be used to procure military end items in Western Europe, and $321 million will be spent on raw materials and industrial equipment for European factories engaged in producing defense goods. Exactly how much of the latter amount will be spent outside the U. S. and where it will be spent is not known. Testimony in the Hearings indicates that the entire amount will probably be spent for non-U. S. supplies. Administration spokesman have also given some indication of where these funds will be spent. It is expected that steel will be procured in Western Germany, nickel in Norway, copper in Rhodesia and spare parts in the United Kingdom. In addition, procurement in the

1/ Ibid., Hearings (House), p. 368.

2/ Ibid., Hearings (House), p. 367.

3/ See next section for fuller discussion of this allocation.

Western Hemisphere is expected to increase. Defense dollars may thus serve to offset part of the decline in ECA-financed purchases in Canada and in some of the Latin American countries.

The second type of aid, however, will constitute the major part of the program. About $4.7 billion, or 90 per cent of funds appropriated for 1950/51 will be used for "direct military assistance" consisting of "military end items" procured in the United States and technical training and assistance. By statutory provision only a fraction of the funds will be used to buy U. S. excess equipment and materials. Congress set the upper limit at $700 million worth ($400 million for 1950/51) and defined "value" for the purposes of this provision as replacement cost. The MDAP, however, will be charged only the repair, rehabilitation and transportation costs so that considerably less than $400 million of the $4.7 billion will be used for the purchase of existing goods. The balance will consist of long-lead items which will take anywhere from 6 months to 2 years to get into position for export. Consequently, it is reasonable to suppose that only a small part of the $4.7 billion will be reflected in the U. S. balance of payments for the years 1951 and 1952. On the other hand, since orders will be placed with industry within a few months after the President signs the Act and production can be expected to begin immediately thereafter, the effects on the American economy will be felt earlier and probably as soon as the first half of next year.

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DIRECT INCENTIVES FOR DOLLAR EXPORT PROMOTION

Paul Gekker

The considerable narrowing of the postwar dollar gap of the ERP countries has been achieved thus far chiefly by reducing imports from the United States. Because of the limits of this process, an expansion of dollar exports by the participating countries is considered an important goal of economic policy.

By their efforts to further the general objectives of the ERP program, the participating countries can create the basis for an eventual increase in exports. Thus, the continued expansion of production will make larger supplies available for export, while the achievement and maintenance of internal financial stability will eliminate or reduce the diversion of these supplies to domestic markets.

In addition to this basic contribution to an expansion of exports, the ERP countries can apply - and have in fact applied - a wide range of devices specifically directed toward the promotion of exports in general. These include such measures as (a) allocations of domestic materials for export production, as well as priorities in the issuance of import licenses, (b) quotas of output which must be set aside for export, (c) taxation privileges for exporters, (d) labor recruiting for export industries, (e) the elimination of export formalities, and (f) official assistance in conducting information and promotional activities.

Apart from these measures for the encouragement of exports in general, dollar exports have been especially promoted by the provision of direct financial incentives, of which two are of particular interest. One consists of the privilege granted to exporters to retain a portion of their dollar earnings for their own use; the other relates to export credit and guarantee facilities.1/

Partial retention of dollar proceeds

A frequently used financial incentive device consists of the authorization permitting exporters to retain a portion of their dollar earnings, and to use these proceeds either freely or for certain specified purposes.

General principles.- A distinction can be made between the restricted and the unrestricted forms of the retention scheme. In the one case, when the retained dollars may be spent only for specified purposes, the system is another means of furthering, in a more limited way, the objectives for which the British export-credits guarantees and similar arrangements have been established. The purposes for which these retained funds may be used are generally business travel, market research, advertising, or the purchase of necessary raw materials and equipment.

1/ For a general discussion of dollar export promotion, see Chapter 16, "Efforts to Increase Dollar Earnings," in Second Report of the O.E.E.C., Paris, February 1950, pp. 145-165.

In essence, the restricted use version of the retention arrangement is a simplification of the exchange control system. Instead of reviewing each separate application for a license to use dollars for the above specified purposes, the authorities extend a blanket authorization for the use of some fixed percentage of earned dollars for these same expenditures. As an additional safeguard, the funds are usually not transferable, but must be used by the exporter who earned them.

This arrangement has obvious advantages from the standpoint both of the authorities and of the exporter. While the purposes for which these funds may be spent are still regulated, the volume of work of the exchange control offices is reduced. If, for example, an additional $100 in sales requires the expenditure of $20 for travel, advertising, or raw materials, it is far simpler to extend a general authorization for the use of 20 per cent of earned dollars for these expenditures than to require a separate license application for each such transaction. As for the exporter, the system affords him assurance that his dollar costs will be covered. On the other hand, the system permitting unrestricted use of some percentage of dollar earnings comes closer to a differential devaluation vis-a-vis the dollar.

In the early postwar period, a "pure" example of this system was found in Italy, and similar arrangements were in use in France. Italian exporters, for example, were required to surrender 50 per cent of their proceeds in dollars (and in certain other "hard" currencies), but were permitted to dispose of the remaining one-half in a free market. For these freely disposable funds they received a higher local currency equivalent than was given them for the surrendered portion of their proceeds. Although the exchange rate was higher in this free market, the rate was controlled in practice. The buyer required an exchange permit and the authorities regulated the demand for these free dollars, chiefly by varying the rate at which exchange permits were granted. At the same time the exchange rates for all other currencies, fixed in bilateral agreements, were based on the "official" rates of exchange. As a result, the free market rates were continually higher than the rates established for bilateral settlements. It became profitable, therefore, to import from the bilateral area and export to the hard currency area.

By permiting disorderly cross rates of exchange, the Italian and French systems violated the principle of a unitary exchange rate. These arrangements have now been abandoned, or at least adapted so that cross rates are no longer broken. These systems, however, have now crept back in the form of unrestricted use retention arrangements designed as incentives for the promotion of dollar exports. They differ from the earlier French and Italian systems in that (a) they are on a smaller scale, the percentage of retained funds being far less than 50 per cent and (b) they are more disguised versions, as free transferability of these retained funds is generally not permitted.

Since these retention arrangements are modified examples of the Italian and French systems already described, some of the objections which were often raised to these systems are again applicable. The unrestricted use of dollar proceeds implies the existence of disorderly cross rates of exchange. By giving the exporter the privilege of purchasing articles whose importation is generally forbidden, the exchange control authorities grant him an assured extra profit which means in effect that the exporter receives for every dollar earned more local currency than appears from the official conversion rate.

From the standpoint of exchange rate policy, however, justification for the adoption of the unrestricted use retention device can be found on three grounds. In the first place, these systems involve only a small deviation from the principle of the unitary exchange rate. Secondly, no open violation of the principle occurs, because there is no market for these funds. For these two reasons, the system is not likely to lead to the reappearance of commodity arbitrage, which was the most objectionable consequence of the earlier "50 per cent systems." Finally, it may be argued that a certain amount of non-essentials is likely to be imported in any case. Unless these imports are handled by a Government monopoly, any importer will earn windfall profits. If this is so, it seems an advantage to permit the dollar exporter to earn these profits, thereby maximizing his contribution to the reduction of the country's dollar deficit.

At the present time, both the restricted and the unrestricted versions of the dollar retention device are in operation in a number of the participating countries, while the adoption of variations of these schemes is under consideration in a few others.

Survey by countries.- The dollar incentive scheme adopted by the Netherlands permits the unrestricted use of 10 per cent of net dollar receipts. Although this bonus is not transferable, nor permitted to be used for investment in American shares and securities, it may be freely spent anywhere for the importation of goods or for travel expenses. According to a recent review of the operation of this scheme,1/ its effectiveness as an incentive in dollar export promotion has been overshadowed by its indirect effects on the Dutch internal economy, as a good portion of these proceeds has been used to import luxury items from the United States. According to this source, the regulations prohibiting transferability of the bonus and its use for purchases of securities have also been relaxed in practice.

Norway's version of the dollar retention device is quite opposite from the one in use in Holland. The Norwegian exporter is permitted to retain 10 per cent of his dollar proceeds; but these funds must be used for the purchase of capital goods, such as machinery and certain raw materials. It is reported, however, that applications received by the authorities have been largely for automobiles.

1/ W. A. Everitt, "The Dutch and Dollar Incentives," in The Banker, June 1950, pp. 187-190.

Because of the devaluations of last September, it is impossible to judge the effectiveness of this incentive in promoting exports. In the Netherlands, its only visible effect has been to remove in part the disparity between the supply of and demand for a number of luxury imports. In Norway the scheme was not expected to yield results quickly because all reasonable requests for dollar exchange for necessary imports and even for business travel and advertising are ordinarily granted to the extent deemed requisite by the central bank.

Effective July 1, the Federal Republic of Germany adopted an export bonus scheme, under which the exporter is permitted to use 20 per cent of the proceeds of dollar exports for the purchase of goods - except those presently prohibited - and for business travel and sales expenses. The bonus may not be used for the payment or service of debts, nor is it transferable, except that the German exporter may share it with his manufacturers or subcontractors. It is interesting to note that one announcement of this scheme points out that the relatively unrestricted use of the bonus "may open trade opportunities to American exporters who have not heretofore been able to sell so-called non-essential goods in the West German market."1/

In France, the existing system has recently been extended. Prior to the latest change, 15 per cent of dollar earnings was set aside in special accounts, of which certain portions could be used for specified export promotion purposes, such as foreign commissions, advertising, business travel and purchases of raw materials and equipment. In addition to this 15 per cent bonus, most exporters were permitted to use 10 per cent of export proceeds for the importation of equipment.2/ In all, therefore, 25 per cent of dollar export earnings could be retained and used for certain purposes.3/ Under the terms of the recent change, one-fifth of the 15 per cent portion, or 3 per cent, may be used freely for any purpose, except that their use for the creation of "unauthorized funds abroad" is prohibited.

The adoption of a somewhat different retention scheme is currently being considered in Denmark. According to a recent press report, the proposed Danish system would involve varying retention rates, e.g., 5, 10, 20 or 30 per cent, applied according to the purposes for which retained funds would be used. Import licenses would still be required. The main purpose of the system is said to be to increase purchases of raw materials required by the Danish export industry.

1/ U. S. Department of Commerce, Foreign Commerce Weekly, August 14, 1950, p. 16.

2/ A special concession is given to automobile exporters, who are permitted to retain 50 per cent of their dollar earnings, and to use these proceeds mainly for equipment purchases.

3/ Other "retention percentages" are established for export proceeds in all other currencies.

The final example of this type of device is found in Austria, where the system is one of individually determined "free quotas." The exporter exchanges a pre-determined percentage of his export proceeds at the basic rate of exchange. The remainder is credited to an account of the exporter at the National Bank, after which it must be used within a specified time, or sold back to the central banks. This "retention quota" may then be used, upon application, to import specified raw materials and equipment which are necessary to production. The average percentage quota is 50-60 per cent, but may reach 80-90 per cent in some cases.

Under the Austrian system, as is the case in the Netherlands, the foreign trader can earn extraordinarily high profits from the sale of luxury imports purchased with the retained portion of export proceeds. Although the "free quota" is not transferable, in practice it often becomes so, the owner in his own name undertaking the purchase for the account of a third party to whom he has sold these proceeds.

Two of the OEEC countries operated export retention schemes before devaluation and have since abandoned them. In Sweden a number of dollar retention devices were experimented with, but they appear to have been discontinued in favor of the recently established export credit arrangement. Prior to the most recent devaluation in March, the Icelandic Government permitted exporters of canned fish to the United States to use a portion of their dollar exchange for imports, but the practice has been discontinued.

Among the OEEC countries four have not yet established any dollar retention system as a device for export promotion. Since free dollars are relatively easy to acquire, the need for a retention scheme is not felt in Belgium. The Governments of Greece, Ireland, and Turkey are not in favor of these arrangements because they are not felt to be significant as incentives to promote dollar exports.

Finally, in the remaining two countries - Portugal and the United Kingdom - a decision has not yet been reached regarding the adoption of this type of incentive measure.

Export credits and guarantees

Export credit facilities comprise all special arrangements for credit accommodation for exporters. Export guarantees permit the exporter to insure against losses arising out of expenditures connected with export promotion. The expenses incidental even to a trial entry into the American market are very high and most small or medium-sized export firms stand in need of financial assistance for the expenses connected with the dollar export drive, such as publicity, travel, market research, and the maintenance of inventories in the United States.

The need for export credit and guarantee facilities, however, is not equally pressing in all of the OEEC countries. Those countries whose traditional exports to the United States consist of raw materials or semi-finished goods are largely dependent for their dollar export earnings on the general level of business activity in the United States rather than on the efforts they could make to increase the volume of their dollar sales.1/ This export promotion measure is therefore more likely to be adopted in those countries which hope to expand the volume of business in industrial manufactured articles and consumers' goods.

The pioneer in the use of these measures is the United Kingdom. The British system of export-credit guarantees, first established in 1919 and recently extended with the express purpose of stimulating dollar exports,2/ has served as the model for similar schemes which have been adopted by other OEEC countries. The latest revision of the British system announced on October 20, 1949, provides for the use of guarantees against risks arising out of expenditures on (a) market surveys, (b) new production or merchandising techniques, (c) advertising campaigns, (d) the holding of inventories abroad, and (e) the risks involved in sales to local buyers for resale. These new features are in addition to existing facilities providing for coverage against risks arising out of insolvency of the buyer, overdue payment, exchange restrictions, war damage, extra unforeseen charges and certain other contingencies beyond the control of either the exporter or the buyer.

Under the special provisions relating to developing dollar exports, the exporter submits each individual proposal for official approval. When approved, the exporter arranges for bank financing and he is required to repay his bank an agreed percentage of gross new sales each month; it is expected that the debt will be liquidated over a fixed number of years. If the exporter finds that he cannot meet the regular repayments out of his earnings, he is to be relieved of further liability; the obligation will then be settled by agreement between the official body and the financing institution. The upper limit of the government's commitment is specified when the project is approved.

Sweden's recently established export credit guarantee scheme is founded on the British model. The Swedish arrangement, which is to be applied experimentally in the budget year 1950-51, is specifically intended to encourage exporters whose business requires the maintenance of inventories in this country. The State will share in the risk of these commercial ventures through its guarantee against losses on stocks of export goods abroad, and will also participate in the profits through the premiums it will collect, the latter involving periodic payments of a percentage of new sales. As in the British system, the terms upon which guarantees will be granted are to be determined in each individual case.

1/ See Economic Commission for Europe, Economic Survey of Europe in 1949, Geneva, May 1950, pp. 129-130, where it is shown that, among the OEEC countries, the proportion of total exports taken by the United States is greatest for Turkey, Greece, Sweden and Norway, in whose exports raw materials predominate.

2/ See this Review, issues of May 24 and December 6, 1949.

The latest example of a guarantee system designed especially to promote dollar exports is found in France. Under the terms of legislation enacted in mid-July of this year, the Government has the authority to grant guarantees to exporters to cover risks connected with market research, advertising, and the maintenance of stocks abroad. In addition, privileged terms have been provided for export credits. Henceforth, commercial banks are authorized to rediscount commercial paper, for export financing only, over and above the rediscount ceilings in force. At the same time, the rates for acceptance commissions will be lowered. Finally, because tourism is so important as a foreign exchange earner, sellers may take advantage of an arrangement under which they are permitted to refund the purchase tax on certain goods sold to tourists.

Apart from the above three countries, in which definite use has been made of export guarantees, a number of other countries have facilities of a more general nature, often not especially directed to encourage dollar exports. These usually consist of a fund which provides for the issuance of guarantees for export transactions, or simply for insurance against certain customary risks. They are intended to provide easier financing for the ordinary operation involving the export of goods abroad, such as the guarantee of the exporter's bills of exchange. In some cases, such funds are also used to provide working capital loans when an increased output of exportable goods is thereby made possible. These existing systems, however, can be expanded to provide guarantees covering "unusual business risks" as is done in the United Kingdom, where the principle has been established that the "unorthodoxy" of any export promotion idea will not be considered a bar to consideration.

In Austria an export fund for the provision of short-term credits has just been established. The fund will assist small manufacturers in producing for sale abroad by granting credits to cover the interval between the firm's outlay for working capital and the receipt of foreign exchange in payment for its goods. In addition, pending legislation in Austria would authorize the Minister of Finance to issue guarantees for the financing of middle- and long-term export transactions. Although the latter feature of the proposed system is intended to eliminate the handicap for the financing of exports to South America, where extended payment terms are quite usual, the scheme can serve to facilitate exports to the United States as well. There are no provisions in the legislation, however, for guarantees against any of the risks covered under the British arrangements. The essence of the Austrian system is that the exporter would accept a bill drawn on him by his commercial bank, which would then discount the bill at the National Bank. Payment would be guaranteed by the Federal Government. In two of the participating countries guarantees to exporters are provided for under the terms of existing legislation, but the facilities have not proven very important.

In Denmark legislation enacted in 1940 providing for guarantees is still in force, and proposals to extend the amount and scope of coverage are now pending. If approved, funds will be made available for guarantees against losses arising from shipments on consignment and also for the active promotion of Danish products abroad. Similarly, in Italy legislation dating back to 1927 provides for insurance against losses by default or inability to transfer foreign exchange earnings. The possibility of extending the scope of this law is now being studied by an Italian parliamentary committee.

Comments

Not enough information about the operation of dollar-retention systems is available to permit judgment concerning the effectiveness of the measure as an export promotion incentive. Where the use of retained dollar funds is restricted to specified uses, either for the purchase of raw materials and equipment for export production, or for business travel, advertising and other services related to export promotion, this arrangement can at least assist the exporter in concrete ways. The restricted form has advantages for both the authorities and the exporters. The unrestricted retention arrangement can be an effective incentive in small doses but, because of its dangerous implications, is likely to be disruptive to orderly exchange rate arrangements in large ones.

As has been shown, the establishment of export credit guarantees, in appropriate cases, is undeniably a great encouragement to the many medium-sized and small exporters and manufacturers who must be counted upon to bring the export goals to fruition. The system in use in the United Kingdom has proved successful in the past and will undoubtedly continue to be the most important incentive system in the dollar drive.

For some countries, it was noted, the adoption of an export credit system does not seem practicable. In these cases, there are a number of devices which can supplement the efforts that individual exporters are making. These measures can be undertaken even if the incentive of the export proceeds quota is not adopted. They include systems of import priorities allocated on the basis of dollar exports, the elimination of export formalities for dollar exporters, official export promotion funds, a more liberally administered allocation of dollar exchange for export promotional expenses, and research and informational activities carried on under official auspices.

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UNITED STATES FOREIGN TRADE IN THE FIRST HALF OF 1950

Arthur B. Hersey and
Gretchen H. Fowler

The rise in United States imports which started in the middle of last year was continuing in July, the latest month for which over-all data are available. Merchandise imports in July were at an annual rate of $8.3 billion as compared with $5.9 billion in the third quarter of 1949 and $7.1 billion in the year 1948. The export surplus, which had fallen by the first quarter of 1950 to $2.0 billion (annual rate), rose slightly in the second quarter but in July it fell to a new postwar low as exports failed to continue the upward movement shown in the first half of the year.

Table 1

Export Surplus 1/, 1948-50
(Billion dollars, annual rate)

Quarters	Export surplus	Exports	Imports
1948 - I	6.0	13.3	7.2
- II	6.1	13.0	6.8
- III	4.8	11.7	6.9
- IV	5.2	12.7	7.5
1949 - I	6.1	13.3	7.2
- II	7.0	13.4	6.4
- III	4.8	10.7	5.9
- IV	3.5	10.5	7.0
1950 - I	2.0	9.5	7.6
- II	2.3	10.0	7.7
1950 - July	0.8	2/9.3	8.5

1/ Recorded merchandise trade; exports of U. S. merchandise and reexports; general imports.

2/ Exports as reported for July include "$47 million of Mutual Defense Assistance Program shipments which were excluded from the export statistics for April, May, and June." If this amount is deducted from total exports in July, the annual rate for exports other than MDAP shipments in July becomes $8.7 billion.

The following analysis relates to the composition of trade in the first six months of 1950. The trade figures through June do not reflect either the start which has been made in implementing the North Atlantic

Pact 1/ or new developments following the Korean crisis. In particular, the import data discussed here do not reflect the recent rise in commodity prices: the BLS index of domestic prices of basic commodities rose 24 per cent from the last week of June to mid-September. Even the earlier price advance in April and May—about 8 per cent in the BLS basic commodity index—was only partially reflected in rising import values during the second quarter.

The rise in average unit values for all imports from the first to the second quarter was 3 per cent.

The total of recorded exports for the first six months of 1950 was $4,898 million as compared with $6,711 million for the like period of 1949 and $6,553 million for the first six months of 1948. Thus, in the first half of 1950, exports were 27 per cent below those of 1949 and 25 per cent below 1948. Price changes accounted for a considerable part of the decrease, unit values being 8 per cent below 1949 and 13 per cent below 1948. Adjusted for price changes, the volume of exports in the first half of the year was 21 per cent under the first half of 1949 but only 14 per cent under the first six months of 1948.

Total imports for the first six months of 1950 were $3,815 million compared with $3,390 million for the first half of 1949 and $3,520 million for the first half of 1948. Thus 1950 imports were 13 per cent above those in 1949 and 8 per cent over 1948. The change between the first half of 1948 and the first half of 1950 was due to a 12 per cent rise in volume while there was a 3 per cent decline in unit value. Coffee, down in volume and up in price, was a striking exception to the general rule. The six-month volume of imports other than coffee rose about 18 per cent from 1948 to 1950, the average unit value having dropped about 8 per cent.

Commodity composition of second quarter trade 2/

Total exports in the second quarter rose, as shown in Table I, above the low level of the first quarter of 1950 but remained well below the level of 1948 and the first half of 1949. There was not much change in the pattern of commodity exports between the first and second quarters (see Table II). Shipments of raw cotton, the only commodity which had shown an important rise over the earlier years, were again at about the first quarter level. There was a moderate further decline in grain exports. The most notable increases from the first to the second quarter were in coal and sugar. Coal exports, which had reached a very low level in the first quarter, rose sharply as the result of larger bituminous coal shipments to Canada. The increase in exports of sugar was due to unusually large shipments to Germany.

1/ Exports as reported for July include "$47 million of Mutual Defense Assistance Program shipments which were excluded from the export statistics for April, May, and June."
2/ See this Review, June 20, 1950, for an analysis of the changes in commodity composition of U. S. foreign trade from 1948 to the first quarter of 1950.

After a temporary drop in April, U. S. imports rose in May and June and total imports in the second quarter of 1950 were slightly higher than in the first quarter. There were considerable differences among the changes for various economic classes (see Table III). Imports of crude foodstuffs declined sharply, due to the much smaller volume of coffee imported in the second quarter. Imports of crude materials also showed a decline, for which special factors affecting raw cotton and raw wool imports were largely responsible. In the case of cotton, imports in the first quarter of 1950 had been exceptionally large, because of the raising of U. S. quotas on cotton imports in February. The value of wool imports was seasonally reduced in the second quarter, but remained well above the 1948 quarterly average because of price advances since then. These decreases for cotton and wool were partly offset by a sharp rise in crude rubber imports. The tonnage of rubber imported rose by 24 per cent and the unit value by 14 per cent. This rise, however, was very small in relation to the price increases which will affect future imports. The average unit value of rubber imported in April-June was still 4 per cent below the 1948 average. By the latter part of September, New York prices for crude rubber rose to 2.7 times their 1948 average.

Imports of manufactured foodstuffs were 15 per cent higher in the second quarter of the year than in the first. Semi-manufactures also rose by about 15 per cent over the first quarter, with imports of sawn lumber and copper showing the largest increases. Among imports of "finished manufactures", newsprint imports rose 17 per cent, while the remainder of the class increased by 11 per cent.

Geographical distribution of trade in the first half of 1950 1/

After a brief period of import surpluses in our trade in the early months of 1950 with Canada and the Latin American Republics, export surpluses appeared again with these areas in the second quarter of 1950, although on a smaller scale than in 1948 or 1949. On the other hand, the import surpluses which had developed with the Sterling Area outside Europe and with the dependent territories of ERP countries grew larger in the second quarter. Export surpluses continued with the ERP countries and with the rest of the world (see Table IV).

Because of a sharp rise in U. S. exports to Canada, which brought the second quarter value of this trade almost back to the peak quarterly figure of 1947 and 1949, the cumulative position for the first six months of 1950 was a small U. S. export surplus ($47 million) with Canada.

With the Latin American Republics, the over-all cumulative position for the first half of 1950 was a very small import surplus ($36 million), as compared with a substantial export surplus $316 million) in the corresponding period of 1949. In comparison with 1949, U. S. imports from many of the countries were larger, the advance being particularly striking in the case of Argentina, a wool supplier. Exports to Latin American countries were generally

1/ See this Review, July 18, 1950, for an analysis of changes in the area distribution of U. S. foreign trade through April 1950.

smaller than a year ago, but an upturn was evident in the second quarter's exports to some countries, particularly to Brazil, Colombia, and Venezuela, all coffee suppliers. Country by country there were wide variations in the direction and size of U. S. trade balances in the first half of 1950. Changes from the first six months of 1949, however, were generally toward smaller export surpluses or increased import surpluses. The only major cases of a U. S. import surplus smaller than last year were those of Cuba, where U. S. sugar purchases were lower this year than last, and Colombia, where U. S. exports rose considerably in the second quarter of 1950.

The import surplus with the Sterling Area (excluding the United Kingdom and other sterling members of ERP) rose to $160 million for the first half of 1950. U. S. exports continued far below those of a year ago, in consequence of the import restrictions introduced in the summer of 1949 and the subsequent devaluations of sterling currencies. The value of U. S. imports from this area in the second quarter was 8 per cent larger than in the first quarter and for the six months as a whole imports were 10 per cent larger than in 1949. Similar changes occurred in our smaller trade with Dependent Overseas Territories of continental ERP countries, except that the rise from the first half of 1949 in the total value of imports from these territories exceeded 30 per cent.

Only minor changes occurred in trade with the ERP countries in the second quarter of 1950, except with the United Kingdom. For the first six months of the year the export surplus with all ERP countries was $1,070 million, as compared with $1,909 million in 1949. Exports to the United Kingdom declined sharply in the second quarter of 1950 and there was also a moderate rise in U. S. imports from Britain. The export surplus with the United Kingdom thus fell from $83 million in the first quarter to $34 million in the second quarter. For the six months as a whole, the export surplus with the United Kingdom was only 42 per cent of the amount in the first half of 1949 and the value of U. S. exports became less than two times the value of U. S. imports. While our trade with the United Kingdom has never been as close to balance as our trade with Switzerland (U. S. export-import ratio in the first half of 1950, 1.2), or Sweden (1.3), the position in the first half of 1950 represented a closer balance than existed with the United Kingdom in 1936-38, whereas U. S. exports to France, Italy, and the Netherlands were still about 5 times our imports from them as compared with a ratio of about two-to-one in prewar years.

With most countries in the Rest of the World, including Far Eastern and Middle Eastern countries not members of the sterling area, U. S. trade in the second quarter of 1950 continued to shift toward smaller export surpluses or larger import surpluses. U. S. exports to these countries were a little smaller than in the first quarter, while imports from the group rose. For the six months January-June the aggregate export surplus was $168 million, as compared with $589 million in the first half of 1949.

Table II

U. S. Merchandise Exports
by Economic Class and Commodity
(In millions of dollars)

Economic class and commodity	Second quarter 1950	Increase or decrease (-) as compared with: First quarter 1950	Increase or decrease (-) as compared with: Quarterly average 1948
Exports of U. S. Merchandise	2,477	118	-656
Crude Materials	506	74	133
Unmanufactured cotton	297	-4	169
Unmanufactured tobacco	45	14	-9
Coal	79	54	-41
Other crude materials	85	10	14
Crude Foodstuffs	181	-19	-136
Corn	31	-7	20
Peanuts	3	--	-17
Other grains	8	-6	-18
Wheat	111	-12	-116
Other crude foodstuffs	30	6	-4
Manufactured Foodstuffs	154	12	-175
Sugar and related products	22	19	15
Soybean flour, edible	*	--	-11
Milled rice	7	-9	-14
Dairy products	26	5	-26
Wheat flour	22	-1	-99
Other manufactured foodstuffs	76	-2	-40
Semimanufactures	270	15	-80
Industrial chemicals	25	3	-10
Gas and fuel oil	11	-1	-12
Coal tar products	12	-1	-14
Iron and steel semimanufactures	61	9	-18
Other semimanufactures	162	5	-27
Finished Manufactures	1,367	36	-398
Medicinal and pharmaceutical preparations	54	11	5
Airplanes	9	-10	-3
Lubricating oil	40	1	-10
Rubber manufactures	18	--	-13
Rayon, nylon, and other synthetic textile manufactures	38	4	-14
Iron and steel advanced manufactures	37	3	-15
Steel mill manufactures	66	-4	-18
Electrical machinery and apparatus	101	-2	-26
Passenger cars	39	5	-31
Motor trucks and busses	54	14	-33
Merchant vessels	26	-26	-38
Industrial machinery	277	9	-40
Cotton manufactures	57	10	-57
Other finished manufactures	550	21	-106

* Less than $500,000.

Table III

U. S. Merchandise Imports
by Economic Class and Commodity
(In millions of dollars)

Economic class and commodity	Second quarter 1950	Increase or decrease(-) as compared with: First quarter 1950	Increase or decrease(-) as compared with: Quarterly average 1948
Imports for consumption	1,905	33	135
Crude Materials	514	-23	-22
Crude petroleum	89	-6	18
Unmanufactured wool	90	-14	13
Crude rubber	88	26	10
Ferroalloying ores	21	2	4
Hides and skins	28	6	1
Unmanufactured cotton	3	-27	-8
Oilseeds	21	-2	-17
Undressed furs	17	-9	-23
Nonferrous ores and concentrates	24	-6	-13
Other crude materials	132	6	-8
Crude Foodstuffs	346	-76	28
Coffee, raw or green	179	-83	5
Bananas	16	4	4
Cattle, except for breeding	18	3	2
Cocoa or cacao beans	45	3	-4
Vegetables, fresh and dried	7	-8	-5
Other crude foodstuffs	82	5	26
Manufactured Foodstuffs	213	28	30
Cane sugar	99	12	20
Meat products	25	6	2
Whiskey and other spirits	19	3	1
Molasses	9	4	-2
Other manufactured foodstuffs	60	4	8
Semimanufactures	480	64	72
Sawed boards, planks, deals, etc.	63	23	25
Gas and fuel oil	47	2	15
Copper	57	12	13
Tin	37	1	11
Fertilizers and materials	17	1	7
Expressed oils, inedible	14	6	-3
Wood pulp	55	-2	-13
Other semimanufactures	190	22	18
Finished Manufactures	352	40	27
Newsprint	119	17	16
Machinery and vehicles	43	10	5
Non-commercial imports	23	6	2
Cotton manufactures	14	-1	3
Works of art	5	-5	---
Burlaps	23	2	-10
Other finished manufactures	125	10	11

Table IV

U. S. Merchandise Trade - January-June
by Major Trading Area and Country 1/
(In millions of dollars)

Major trading area and country	Excess of exports or imports (-)		Imports		Exports 2/	
	1950	1949	1950	1949	1950	1949
17 E.R.P. Countries	1,070	1,909	483	440	1,553	2,349
Germany	208	418	31	28	239	445
Italy	165	271	41	35	206	305
France	155	299	41	31	196	330
United Kingdom	117	279	126	112	243	391
Netherlands	107	127	26	27	133	154
Belgium and Luxembourg	82	105	59	55	141	160
Austria	63	83	5	5	68	88
Greece	52	89	11	13	64	102
Denmark	24	49	5	2	29	52
Switzerland	11	39	44	45	55	84
Sweden	10	22	35	24	45	46
Others	76	128	59	63	134	192
Sterling Area, excluding Sterling E.R.P. countries	-160	132	559	506	399	638
India	7	50	122	127	129	177
Union of South Africa	7	103	59	51	65	154
Northern Rhodesia	-8	2	10	*	1	2
Australia	-13	18	70	62	58	79
New Zealand	-16	10	29	9	13	19
Kuwait	-18	-6	20	19	2	13
Ceylon	-21	-9	25	21	4	12
British Malaya	-110	-82	120	105	9	23
Others	12	47	104	112	118	157
Dependent Overseas Territories other than Sterling Area	-9	72	125	95	116	167
Netherlands Antilles	-35	-12	71	53	36	41
Others	26	84	54	42	80	126
Latin America, excluding all D.O.T.'s	-36	316	1,282	1,176	1,246	1,491
Mexico	80	118	147	140	226	258
Venezuela	44	158	159	133	203	291
Republic of Panama	64	33	5	5	69	38
Peru	13	28	20	22	32	50
Cuba	2	-28	193	219	195	191
Honduras	1	14	9	7	10	21
Bolivia	1	-3	9	25	10	22
Colombia	-1	-8	122	109	121	101
Uruguay	-24	-4	39	25	16	21
Argentina	-28	13	103	49	75	62
Chile	-36	-24	74	100	37	76
Brazil	-134	5	267	233	133	238
Others	-17	13	135	109	119	122

Table IV - Continued

Major trading area and country	Excess of exports or imports (-)		Imports		Exports 2/	
	1950	1949	1950	1949	1950	1949
Canada, including Newfoundland and Labrador	47	281	882	761	929	1,043
Rest of world	168	589	485	413	654	1,002
Japan	122	211	74	42	196	254
Israel and Palestine	42	25	3	3	45	28
Republic of the Philippines	22	120	107	106	129	225
Korea	17	29	2	1	19	30
Formosa	15	27	1	1	16	27
Iran	13	33	7	9	20	42
Saudi Arabia	11	33	11	13	21	46
Liberia	2	20	7	5	9	25
Poland	-1	12	6	1	5	14
Spain	-2	11	21	15	19	26
Egypt	-10	31	25	2	15	32
Indonesia	-10	19	53	60	43	79
China	-36	20	58	54	21	74
Others	-17	-2	110	101	96	100
Total	1,080	3,299	3,815	3,391	4,895	6,690

* Less than $500,000.

1/ Within each major trading area the countries are arranged according to the size of the U. S. excess of exports in the first half of 1950.

2/ Exports include reexports.