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RFD. 153

Board of Governors of the Federal Reserve System

Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

December 5, 1950

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ɔember 5, 1950

NEW TRENDS IN THE DESTINATION OF U. S. EXPORTS

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Early this year it was evident that United States exports had gone through a complete post-war cycle. In the first phase of this cycle monthly exports had tripled in value between September-October 1945 and May 1947. The large and growing export surplus had been financed partly by United States aid under various programs and partly by the drawing down of foreign monetary reserves. In the second phase, which lasted nearly three years, there had been an almost continuous contraction of U. S. exports. As price increases had added to the rise in the value of exports, so price decreases contributed to the decline. The decline was interrupted -- after the inception of the ERP program -- only during the five-month period from December 1948 to April 1949. At first the fall in our exports had been largely enforced by import restrictions in foreign countries. By 1949, however, increased production abroad and the adjustment of currency values which took place in September of that year had greatly reduced the underlying demands for U. S. exports. The drop in U. S. imports in 1949 further reduced the effective demand for our exports, but it led also to imposition of new controls abroad.

The cycle ended in January 1950. U. S. export statistics for 1950, particularly when broken down according to destinations, show the beginnings of what may be a new upswing of exports. If this upswing becomes a reality, it will be based partly on United States aid to other countries for defense and for economic development. Apart from aid, our exports are likely to be financed by the world's current earnings from our imports rather than by transfers of gold and dollar reserves to the United States: beginning with the recovery from the 1949 recession of business activity in this country, U. S. imports have been rising steadily since August 1949 and in October the value of imports was 65 per cent larger than in October 1949.

Table 1
U. S. Exports, including Reexports, 1950

	Monthly	Quarterly	Annual Rate
	(in millions of dollars)		(billions)
January	743		
February	770		
March	864	2377	9.5
April	806		
May	828		
June	876	2510	10.0
July	774		
August	761		
September	910	2446	9.8
October	904		10.8

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In the first half of 1950 it was too early to look for clear trends either in total in U. S. exports or in exports to particular countries or regions. Although total exports in June were 18 per cent above the January level, there had been ups and downs in the intervening months. Partly because of seasonal factors, the third quarter again showed irregular movements and the three-month total fell actually below the figure for the preceding quarter. Thus, in the absence of a basis for making satisfactory seasonal adjustments, it is hardly possible to find an upward trend in the figures of monthly total exports through September. The nine-month data for exports to individual countries and regions show, however, that behind the monthly totals there has been a wide diversity of change. Strong forces of expansion were already at work in the first half of the year and by September and October these were beginning to outweigh the forces of contraction.

Exports to certain countries have shown unmistakable upward trends through the first three quarters of 1950. The principal examples are five Western Hemisphere Countries: Canada, Brazil, Colombia, Cuba, and Mexico. Switzerland, a European country with no controls on imports of dollar goods, provides another significant example on a smaller scale. In the United Kingdom and the rest of the sterling area and in some other countries in Latin America and the Far East, improvements in the reserve position and prospects of increased aid for defense and economic development suggest that takings of U. S. exports will rise in coming months. In some cases the beginning of such a rise is already evident in the third quarter statistics. On the other hand, U. S. exports to non-sterling countries in Europe, the Near East and Africa were still declining in the third quarter of 1950.

Segregation of "special category" exports.—The grouping in Table II of countries and regions according to the recent trend of U. S. exports to them is based on statistics which omit military equipment and some related types of exports. The omission tends to result in an overstatement of the decline of exports to Europe, but it does not appreciably affect the validity of other conclusions drawn from the analysis. Beginning with the third quarter of this year, U. S. export statistics show certain "special category" exports separately, without breakdown by country of destination. Comparable figures have been published for the first half of 1950 and the third quarter of 1949. These special category exports, which are principally certain electrical apparatus, munitions, military vehicles, special fuels, and tires, amounted to $172 million in the third quarter of 1950, as compared with an $88 million average for the first two quarters. This figure exceeds the amount of exports financed by the Military Defence Assistance Program, which were $100 million in the third quarter. Special category exports in the first half of 1950 (a period for which destinational data can be derived) were widely distributed among the regions of the world. The amount of such exports to ERP countries averaged only $30 million quarterly in the first half of the year. Since the amount of MDAP shipments to Europe in the third quarter has been given as $92 million, it may be inferred that the increase of special category exports in the third quarter was probably mainly in exports to Europe.

Table II

U. S. Exports, including Reexports, by Destination

(in millions of dollars)

Category 1/ and Destination	Third quarter 1950	Change from first and second quarter average 1950		Change from: Third quarter 1949	Change from: Third quarter 1948 2/
Exports, excluding special category, to:					
Major countries showing uptrend:					
Brazil, Colombia, Cuba and Mexico	417	+90	+28%	+ 44%	+ 17%
Canada	506	+51	+11%	+ 9%	+ 3%
Switzerland	32	+ 5	+19%	+ 15%	- 19%
Yugoslavia	15	+ 7	+78%	+206%	+856%
Areas showing no clear trend through third quarter:					
United Kingdom	125	+ 7	+ 6%	- 16%	- 28%
India	36	-27	-43%	- 13%	- 50%
Other Sterling Area countries 3/	90	- 7	- 7%	- 43%	- 61%
Far East* 3/	240	- 2	- 1%	- 18%	- 26%
Other Latin America*	279	-18	- 6%	- 19%	- 22%
Areas showing continued downtrend:					
France and Italy 4/	115	-79	-41%	- 12%	- 36%
Other E.R.P. countries 5/	190	-35	-15%	- 20%	- 26%
Europe, except E.R.P. countries and Yugoslavia	21	- 4	-15%	- 28%	- 43%
Near East and Africa*	88	-12	-12%	- 41%	- 10%
Germany, Greece and Austria	121	-62	-34%	- 53%	- 62%
Special category exports	172	+84	+95%	+ 47%	
Total	2,446	+ 2	0%	- 9%	- 17%

* Excluding Sterling Area.

1/ See text for discussion of "special category" exports, for which destinational data are not available.

2/ Figures for third quarter 1948 include special category exports, total unknown. Decreases in this column are therefore overstated and increases understated.

3/ Hong Kong has been excluded from "other sterling area" and included in "Far East." Eire and Iceland are included in "other E.R.P."

4/ Including Trieste.

5/ Excluding Switzerland, United Kingdom, France, Italy, Germany, Greece and Austria.

Note: First two columns do not add exactly to totals shown, because of rounding errors and revisions for first six months in totals but not in country figures.

Value and volume.—Aggregate value changes through the third quarter correspond fairly well with over-all physical volume changes. The average unit value of all exports in the third quarter, as measured by the Bureau of Census index, was only about 2% higher than in the first half of the year. There was a greater rise, however, in crude material and manufactured food unit values, while unit values of crude foods declined.

Exports to Brazil, Colombia, Cuba, Mexico, and Canada

In the third quarter, exports to four of the principal Latin American countries and Canada, as shown in Table II, were at a substantially higher rate than in the first half of 1950. This rise in the third quarter was a new and unusual development. In recent years there has been an apparently regular tendency for the third quarter's exports to these countries to fall below trend lines based on statistics for other quarters of the year. 1/ While the rise this year may have been partly due to buying in anticipation of future shortages set off by the Korean crisis, an upswing was already in progress by the second quarter of 1950 and this might have been expected to continue, in view of the fact that these countries' dollar positions--which, by the end of 1948, had already been stabilized after the outflow caused by heavy post-war buying--had become much stronger by the middle of 1950. None of these countries suffered serious losses of gold and dollar reserves during the recession of the first half of 1949. Thereafter they gained reserves and liquidated dollar debts, in consequence of the rapid rise in U. S. purchases from them. The rise in coffee prices at the end of 1949 contributed to the improvement of the position in Brazil and Colombia. In 1950 these countries, as well as Mexico, have relaxed their restrictions on imports to some extent. Increased purchasing of U. S. goods in Cuba and Canada, as well as in the other countries mentioned, stems directly from rising incomes influenced by the swing in business conditions in the United States, with heavy emergency purchases of sugar an additional factor in Cuba in recent months.

1/ Canada, Mexico, Cuba and Colombia are among the countries for which U. S. export statistics have shown regular patterns of apparent seasonality in recent years. The Canadian pattern has differed from those of the three Latin-American countries: although, as in the other cases, the third quarter has tended to be relatively low, the contrast in the statistics for Canada has been not with the rest of the year as a whole but rather with the second quarter, which has stood out as a high quarter. In 1950 exports to Canada rose more sharply than usual in the second quarter; the third quarter showed a drop, as usual, but one of slight dimensions. Exports to Colombia also fell in the third quarter of 1950; however, this followed a very sharp rise in the second quarter, and the third quarter remained well above the first. Two other important cases of apparent seasonality in U. S. exports have been those of France and Italy.

Exports to sterling area countries

U. S. exports to the United Kingdom rose in the third quarter, but this increase followed a sharp decrease in the second quarter and it therefore cannot be regarded as marking the beginning of a new trend. Total non-special category exports in January-September 1950 were 25 per cent smaller (on an annual basis) than total exports to the United Kingdom in 1948. 1/

In July 1949 the sterling area countries, faced with a serious decline in dollar reserves, had agreed to curtail their imports from the dollar area, the goal in general being a cut of 25 per cent below 1948. So far as exports from the United States are concerned, this curtailment was still being effectively maintained in the third quarter of 1950, despite an extraordinary improvement in the gold and dollar reserves held by the United Kingdom for itself and the rest of the sterling area. To some extent, of course, the devaluation of sterling currencies has tended to restrain purchases of U. S. goods and to reduce the need for discriminatory controls. Certain relaxations of official restrictions on imports from the dollar area were made in India in July.

Table III
U. S. Exports to Sterling Area Countries

	Decrease (-) from 1948 quarterly average			Dollar value 2/
	First Half 1950		Third quarter 1950 2/	Third quarter 1950 (millions)
	Including special category	Excluding special category		
India	- 14%	- 16%	-52%	36
South Africa	- 73%	- 75%	-77%	29
Australia	+ 1%	- 12%	-25%	21
New Zealand	- 22%	- 29%	-16%	7
Pakistan	+145%	+107%	+24%	5
Malaya	77%	- 79%	-75%	5
Others, excluding ERP members and Hong Kong	- 49%	- 54%	-54%	22

1/ In the first half of 1950, a period for which destinational data for special category exports can be derived, special category exports formed 3% of total U. S. exports to the United Kingdom.

2/ Excluding special category exports.

As Table III indicates, U. S. exports in the third quarter of 1950 to India, South Africa and the British dependencies were much farther than 25% below the 1948 rate. Exports to India, which had fallen sharply in the second half of 1949, increased in the first half of 1950, but this rise is explained by Indian Government purchases of raw cotton to substitute for cotton usually obtained by India from Pakistan. In the third quarter exports to India fell off again, but because of emergency grain purchases they were still somewhat above the level to which they had been cut at the end of 1949. The combined effects of devaluation and of restrictions on commercial imports, in the case of India, may be measured by the 62% reduction of U. S. exports other than cotton and grain since 1948. 1/

Exports to other non-European areas

Earlier downtrends in U. S. exports to Latin American countries (other than the four countries discussed above) and to the Far East appear to have leveled off in the third quarter of 1950. Exports to the Near East and Africa continued to decline.

In Latin America, Peru and the Caribbean and Central American countries increased their takings in the third quarter, while exports to Venezuela showed little change and those to Chile continued to drop off. An earlier modest recovery in U. S. exports to Argentina, which had been evident from the middle of 1949 to the early part of 1950, was reversed in the third quarter. Some of these developments can not be fully explained in terms of changes in available dollar resources.

Argentina, like Brazil, has increased its dollar reserves substantially over the past year or more. The failure of U. S. exports to Argentina to show a steady advance must be due largely to such factors as an improved competitive position of European exporters in the Argentine market, in which their prewar share was relatively large, and reluctance of U. S. exporters to push their sales in Argentina so long as there was a large backlog of unliquidated commercial obligations to the United States. At the end of August new changes in Argentina exchange rates made some U. S. goods more expensive locally. The continuing decline of

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1/ In 1948, U. S. exports to India averaged $74.5 million per quarter. This included $10.8 million of wheat and wheat flour. Raw cotton exports to India in 1948 were negligible. The following figures (in millions of dollars) show recent quarterly totals of U. S. exports to India with and without raw cotton and "grains and preparations."

	4th Q 1949	1st Q 1950	2nd Q 1950	3rd Q 1950
With	31.4	66.5	61.8	35.6
Without	31.4	32.8	27.4	23.9

U. S. exports to Chile is partly to be explained by official restrictions which still affected most U. S. trade with that country in the third quarter but it may also reflect competition from other countries in South America or Europe. In anticipation of a rise in Chilean dollar reserves, which in fact occurred in the third quarter, import exchange quotas were increased in July. During 1948 and the first half of 1949, U. S. exports to Venezuela had been far in excess of our imports from Venezuela. Nevertheless, through sales of crude petroleum to American and European companies operating refineries in the West Indies and through an inflow of petroleum company investments, Venezuela accumulated large dollar reserves. A decline in the inflow of capital in the second half of 1949 brought this growth of reserves to an end and was accompanied by a sharp decline in U. S. exports, particularly of capital equipment, to Venezuela. The level reached at the beginning of 1950 was maintained through the first three quarters of the year.

In the Far East, Japan's dollar reserve position has steadily improved over the past two years. Since the beginning of this year there have been progressive relaxations of Japanese exchange controls affecting dollar imports, but it was not until the third quarter that U. S. exports to Japan rose much above the level of the preceding nine months. Exports to Siam, Hongkong and Formosa, which had dropped sharply in the second quarter, rose somewhat in the following period. Under the influence of the import controls imposed at the beginning of 1950, U. S. exports to the Philippines declined to a new post-war low in the third quarter. At this level of its import trade and with a rise in the value of its exports of primary products, the Philippines was only then beginning to show some improvement in its dollar reserve position.

U. S. exports to the Near East and Africa (excluding Sterling Area countries) have been declining steadily since the middle of 1949. During 1949 exports to Israel had been large. Israel's purchases and petroleum equipment shipments to Near Eastern countries brought the total U. S. exports to this region to an all-time peak in 1949. Even after the decline of the past 15 months, exports to the Near East and Africa are almost as large now as in 1948.

Exports to ERP countries

Analysis of exports in the third quarter is necessarily limited to shipments not included in the special categories. Special category exports to Europe probably increased in this period.

Other U. S. exports to Germany, France, Italy and other continental ERP countries declined again between the second and third quarters of 1950. This decline was particularly striking and significant for Germany, Austria and Greece. Very sharp declines also occurred in exports to France and Italy but these resulted chiefly from seasonal factors. (In the second half of each year from 1947 to 1949, exports to these two countries have been smaller than in the following half year, even though the general trend has been downward throughout this time.) Exports to Belgium and the Netherlands continued to follow the downtrend of the past year and a half. This persistent decrease in non-special category exports to Western Europe finds an explanation in the continuing improvement in European production and intra-European trade. At the same time, however, governmental restrictions on dollar imports still play an important role. Only in our exports to Switzerland, where the use of dollars is unrestricted, was there a significant rise in the third quarter of 1950.

December 5, 1950

THE CENTRAL BANK AND THE GOVERNMENT IN DENMARK Paul Gekker

On two occasions within the past half year the National Bank of Denmark has increased its official discount rate, previously unchanged since January 1946. In view of the fact that the use of this traditional instrument of central banking control in the postwar period had been opposed by the Government because of its expected consequences for the policy of full employment, the Bank's action raises interesting questions regarding the relations between the central banking institution and the Danish Government.

The first part of this paper reviews the chronology of the most recent monetary developments in Denmark. The second part gives some background of the legislative provisions which govern relations between the central bank and the State, including a few examples of the part played by the Bank in the coordination of monetary policy.

I. Notes on Recent Monetary Policy in Denmark

The serious deterioration in the Danish balance of payments in 1950 1/ has given rise to a general re-examination of Danish economic policy. In its Annual Report for 1949, the National Bank of Denmark expressed concern over the deterioration and suggested an adjustment of the country's economic program so as to meet the requirements for the achievement of equilibrium in the balance of payments. The Report called attention to the decreasing importance of adjusting the balance of payments by the imposition of quantitative restrictions attributable to the trade liberalization programs, and concluded that "it will therefore be imperative by other means to provide the necessary equilibrium in the balance of payments." 2/ This opinion, which favored measures in the direction of a disinflationary program, was by no means confined to the Bank, but was shared by important opposition elements and to some extent within the Government itself.

A series of policy debates, coinciding with introduction of the Government's budget bill for fiscal 1950-51, reflected the profound disagreement over the appropriate economic program to be adopted in the face of continued deterioration in the external position and the renewal of inflationary pressures in the domestic

1/ See this Review, August 1, 1950.

2/ Danmarks National bank, Report and Accounts for the year 1949, Copenhagen, February 28, 1950, p. 25.

economy. The Government favored an intensification of import restrictions and higher excise taxes as measures to restrain consumption, whereas the opposition demanded a disinflationary financial policy as a necessary condition to further trade liberalization. The Government rejected any measures which it considered incompatible with the full employment policy, and specifically signified its opposition to any rise in the rate of interest or to any general restriction of credit.

These debates resulted for the time being in a compromise among the four major political parties, involving some concessions on the part of the Government. The Government was obliged to withdraw its proposals for increases in certain excise taxes, and to agree to a bond issue to offset the expansionary effect of the release of part of the ERP counterpart deposits for investment purposes. Following the compromise, the Government in early May announced its intention to pursue what was generally referred to as a "wait and see" policy.

The annual economic survey ("The National Budget"), released on April 5th, reflected the Government's position on economic policy. The central aim of that policy - the maintenance of a high and stable level of employment and investment - was again emphasized. Interesting were the statements that "...the Government will counteract any tendencies towards a higher rate of interest," and that "....a more austere monetary and fiscal policy is no longer a suitable means of counteracting balance of payments deficits." 1/ The report expressed the Government's intention of meeting the external difficulties by measures promoting a long-term increase in the export volume through increased productivity and raising the level of production, by calling a halt to further liberalization of trade, a continuation of rationing and caution in the issuance of import licenses. A concluding section of the report contains the further statement that "the Danish Government is anxious to avoid a development in interest rates and liquidity tending to reduce the investment activity...and the Danish Government will therefore take compensatory action in the event that tendencies may appear for credit to tighten and for the rate of interest to increase." 2/

The National Bank's position in this debate was first signalized when the Chairman of the Board of Governors, speaking publicly in late May and again early in June, questioned the wisdom of the policy of official indecision in the face of continuing deterioration

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1/ Economic Survey of Denmark (National Budget for 1950), p. 51.

2/ Ibid., p. 86.

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in the external position. On these occasions he warned against speculative hoarding which he associated with rumors of devaluation then current, and urged the banks to pursue a cautious lending policy.

A spokesman for the Conservative opposition, referring to the Governor's remarks, first suggested the possibility of independent central bank action. He emphasized the view that the responsibility for maintenance of the country's monetary system rested with the National Bank. In reply, the Government signified its intention of adhering to the "wait and see" decision until August, giving as its reasons the desire to await the outcome of (a) the discussion preliminary to the establishment of the European Payments Union, (b) the negotiations over the price of butter in the long-term agreements with Great Britain, and (c) more accurate estimates of the 1950 crop yields.

The increase on July 4th of from $3\frac{1}{2}$ to $4\frac{1}{2}$ per cent in the discount rate of the National Bank was an important incident in this debate on economic policy. The fact that the Bank's action had been preceded by a statement that the Government would not be a party to an increase in the discount rate is clearly evidence that the National Bank took action over the objections of the Government representative on the Board of Directors. Official statements by the Prime Minister and the Finance Minister to the effect that the action had been taken by agreement with the Government, and explaining the increase as motivated by the Government's desire to curb unessential imports in view of the adverse balance of payments position, were widely interpreted as attempts to meet the situation created by this fait accompli. More significant, however, was a demand put forward in August in the Social Democrat journal, calling for a thorough revision of the National Bank's relations with the State. Criticism was especially directed at the Bank's powers to set the rates of discount, and it was alleged that the position of the Royal Bank Commissioner on the Bank's Board of Directors was that of a figurehead - presumably a reference to the fact that this official has no voting rights on questions of discount rate changes. Writing in the Social Democrat press, the Minister of Trade, Industry and Shipping, who also acts as the Royal Bank Commissioner, called for restricting the powers of the National Bank, that is, for an extension of the powers possessed by the Government's representative in the Bank.

Late in July the Government announced a parliamentary session for August 8th, at which its economic proposals were to be discussed. When the legislature convened, the Government introduced a bill calling for increased defense appropriations, to be covered by special taxes on incomes and compulsory loans. The Government's proposal for meeting the foreign exchange difficulties involved the transfer of some liberalized commodities to the controlled list. Failing to secure support for any measure with the exception of the additional defense appropriation, the Government resigned and called general elections for September 5th.

The election, however, proved indecisive as the virtually unchanged minority Government was returned to power. Its precarious existence was ended in a second defeat on October 26 on a matter of relatively minor importance. Two days later, a Conservative - Liberal Agrarian coalition took office. Initially, its only move was to set up a inter-ministerial committee to formulate an economic program.

Effective November 2nd, the National Bank raised its discount rate from $4\frac{1}{2}$ to 5 per cent; two days earlier, the private banks had been advised that the Bank would no longer rediscount building loans. In commenting on these moves, the new Finance Minister stated that the Danish Government was in full agreement regarding the necessity for the increase in the discount rate and the partial restriction of credit.

Apparently the new Danish Government is attempting to administer a substantial disinflationary dose by means of both general and selective measures of credit restriction, and is thereby giving a new direction to Danish economic policy. A similar transition may lately be observed in a number of other countries, e.g. the Netherlands and Sweden, which have hitherto relied chiefly on direct controls and where it appears that fiscal and monetary measures are well suited for dealing with current inflationary situations.

The previous Danish Government sought to explain the continued deterioration in the balance of payments primarily on the basis of the unfavorable repercussions of external factors - the undeniably acute worsening of the terms of trade and the less defensible argument regarding the harmful effects of trade liberalization. The new Government appears to be convinced that the balance of payments can be improved by dealing with the domestic inflationary pressures. This may be the wisest course to pursue, for current international developments do not provide much hope that Denmark's terms of trade will be improved.

II. The Central Bank and its Relation with the Government in Denmark

From 1818 until it was taken over by the State in 1936, the National Bank of Copenhagen was a privately owned joint-stock institution. It was founded in the period of general monetary reorganization which followed the Napoleonic upheavals, in order to take over the business of the Rigsbank, a State institution; its principal duty was to bring the outstanding notes up to par. The National Bank of Copenhagen originally received a charter for 90 years, which in 1908 was extended for a further period of 30 years. In 1936 this institution was replaced by the Danmarks Nationalbanken, a "self-owned", Government-controlled central bank.

The National Bank of Denmark Act, 1936.

This basic legislation represented a complete reorganization of the administration of the Bank. The older institution, under the codified regulations of 1908, was managed by a Board of Directors of 17 members elected by the general meeting of shareholders. By an amendment to these regulations in 1919, the Board of Directors was increased by two members appointed by the Minister of Trade. In addition, a body of four or five managers was responsible for transacting the affairs of the Bank. Two of the managers were appointed by the King, and the others by the directors.

The management of the present institution is divided among three administrative bodies:

(a) The Board of Governors, three in number, of whom one (the Chairman) is nominated by the King. The remaining two members are appointed by the Board of Directors upon recommendation of the Committee of Directors. Their term of service is indefinite, but retirement is mandatory upon completion of the 70th year. The Board of Governors directs the daily management of the Bank under the supervision of the other boards.

(b) The Board of Directors, twenty-five in number, chosen as follows:

8 elected by the Parliament (Riksdag) from its membership.

2 appointed by the Ministry of Trade, Industry, and Shipping. One of these must be an economist, the other a legal expert.

15 elected by the other Directors; they must be representative of the various trades (including employees as well as employers) and of the geographical divisions of the country.

The Directors serve for five-year terms, and elect a chairman and Vice-Chairman for one-year terms. The Minister of Trade, Industry and Shipping, in his capacity as Royal Bank Commissioner, presides over meetings of the Board of Directors. This body regulates and supervises the business of the Bank and, with its presiding officer, outlines policy.

(c) The Committee of Directors, which consists of seven members - the two members of the Board of Directors who are appointees of the Ministry of Trade, and five others elected by the Board of Directors from among its own members for one-year terms.

Relations with the State.

The following sections give some comparison of the relations between the State and the central banking institution under the earlier and present systems.

(a) The National Bank of Copenhagen - Article 2 of the codified regulations of the National Bank of Copenhagen, 1908, dealt with the Bank's relations with the State, and read as follows:

Art. 2. The Bank is a private company whose management shall be separated from the finances of the State. No order from the Government shall ever directly or indirectly interfere with the Bank's management, nor shall any encroachments on the means or money held by the Bank by permitted.

The language of this provision appears somewhat strong when compared with other regulations governing relations with the State. In other sections of the 1908 regulations (articles 61,62,63), under the heading "Royal Bank Commissioner", provision was made for the participation of this Government representative in some part of the management of the Bank. He was to supervise the business of the Bank on behalf of the State; specifically he was directed to see "that the Bank fulfils the duties imposed upon it regarding the State and the national finances, and particularly that the metallic reserve is kept in the prescribed proportion to the circulation." He presided at meetings of the directors, without the right to vote, had access to the managers' meetings and to the Bank's books and documents, but was not to take part in the daily administration of the Bank.

These regulations further specified a procedure for the resolution of conflicts. In the event the Bank Commissioner was of the opinion that the managers were acting in violation of the charter, he was to deliberate with the directors; failing agreement with the latter, the Bank Commissioner was entitled to take the matter to the Supreme Court.

The only other provision touching the area of Bank and State relationship referred to contemplated changes in the rates of interest and discount. Article 33 of the 1908 code specified that these rates, and lending conditions, were to be fixed by the managers; in addition, moreover, "when (the managers) wish to make any change in the rates of interest or discount, the Minister of Finance must be notified, and has the right to participate in the negotiations without being entitled to a vote."

(b) The National Bank of Denmark - A considerable strengthening of Governmental influence in the affairs of the Bank was effected by the 1936 Act. 1/ That this legislation represents a historical

1/ Amended By-Laws of the National Bank of Denmark were adopted in April 1942, but the newer regulations do not change any of the provisions discussed in this paper.

process is shown by the incorporation of some features of the earlier system. For example, the amendment of 1919 to the codified regulations of 1908, adding two appointees of the Ministry of Trade to the Board of Directors of the then-existing institution (see page 5, above) is continued. Moreover, these two Directors are members of the smaller Committee of Directors in the present Bank, where they are in practice senior by virtue of their tenure of five years, whereas the others rotate for one-year terms.

In addition to the provision, continued from the earlier law, that the Royal Bank Commissioner shall preside at meetings of the Board of Directors, section 7 of the Law of 1936 further provides:

Decisions of particularly far-reaching character cannot be taken at a meeting of the Committee of Directors when the Royal Bank Commissioner is not present, unless he has been informed in advance that the case will be dealt with at the meeting.

The Royal Bank Commissioner annually appoints the auditors of the Bank's accounts. He confirms the by-laws and amendments thereto drawn up by the Board of Directors.

Regarding discount and interest rate policy, the 1936 Act provides that these rates be set by the Board of Governors. When changes are contemplated, both the Minister of Finance and the Bank-Commissioner are to be notified; they may take part in the negotiation, but have no voting right.

Coordination of policy

It is perhaps not correct to regard the regulations governing relations between the Government and the central bank as representing an intensified encroachment by the Government on the duties and responsibilities of the Bank. Older accounts of the Bank of Copenhagen speak of the intimate relationships between it and the State; and the Bank, although a private institution, did have a kind of semi-official status by virtue of its functions as public depository and fiscal agent.

The management and administrative provisions are no doubt intended to provide the machinery for inter-governmental consultation looking toward the coordination of the Bank's monetary policy with the economic program of the Government. One important example of this collaboration is that Bank experts are present on working groups of the Ministerial Committee for Economics and Supply, the body responsible for the drafting of the annual Economic Survey (the National Budget). Within the Bank itself, the Board of Directors and the Bank-Commissioner (as presiding officer) outline Bank policy.

There is some evidence in published documents that coordination of Bank policy with Government programs extends beyond this. The examples given below, however, all date from the period of German occupation (1940-1945); it may be, therefore, that the intimate collaboration then achieved only reflects the heightened sense of common responsibility which one would expect in such abnormal circumstances.

Monetary policies during and after the war.

(a) Occupation Period - The evidence of common policy in the wartime period centers around the measures, first introduced in 1942, to sterilize excess purchasing power arising from advances by the Bank on account of the German indebtedness on clearing account and of expenditures by the occupation authorities within Denmark.

In April 1942 the Board of Directors took the initiative, by letter and documents submitted to the Bank Commissioner, in proposing measures designed to neutralize the inflationary pressures arising from the expanded means of payment in the hands of the Danish public. The proposals, which were enacted with some modifications, requested legislation covering increased commercial bank reserve requirements and suggests that the Ministry of Finance be given authority to issue additional Government loans.

Reserve requirements - The Basic commercial bank law (1930) specified very moderate cash reserve requirements. The legislation enacted in 1942 established a detailed system of extraordinary obligatory cash reserves - later extended to cover savings banks as well - based upon varying percentages of the increase in different classes of deposit liabilities since August 1940 in most cases. In addition, the National Bank was permitted to accept interest-bearing six-month time deposits from commercial and savings banks.

Government loans - The Bank proposed that authority be given the Minister of Finance to issue Treasury bills, both intermediate and long-term bonds, and savings bonds. In most categories, this paper was not eligible for purchase by banks. Receipts from the sale of these bills and bonds were deposited into special blocked accounts at the National Bank, and their release, except for interim amortizations, could be effected only with the agreement of the parliamentary budget commission. The receipts from the sale of certain long-term bonds, which were also blocked, were to serve for the creation of employment after the war.

In addition to these measures, adopted upon the recommendation of the Bank, the Danish Government enacted a number of tax measures. These included increased excise and sales taxes, a surtax on war profits, and requirements for the holding of obligatory reserves by private firms.

With the exception of one sales tax, the proceeds of taxes were also blocked in a special account with the National Bank.

(b) Post-liberation period - Following the liberation of Denmark, the Bank was engaged in an exchange of notes and the blocking of deposits, the details of which it had proposed in July 1945. Early in 1946 the Board of Directors, in a letter submitted to the Bank Commissioner, expressed their concern over the inflationary dangers arising principally from the release by the Government of considerable amounts of the funds which had been blocked in accounts at the Bank. These inflationary pressures were particularly acute in 1945 and through the first half of 1946, when certain extraordinary expenditures on account of German refugees added to the Government's burden. From mid-1946 through 1948, on the other hand, a generally deflationary policy was pursued. The statutory cash reserve requirements were continued, although partial relaxations were effected in 1947 and 1948, and were finally permitted to lapse at the end of 1949. A budgetary surplus was achieved for the financial years 1947-1949. Furthermore, in contrast to its Scandinavian neighbors, Denmark eschewed a cheap money policy. There was no peg on Government bonds, although the Bank supported the market on some occasions, but more often refrained from exercising its influence. As a result the yield on Government bonds has been gradually permitted to rise, and at present it is slightly above the prewar level.