Some Considerations

in the

TRADE OF THE WESTERN UNION

(United Kingdom, France, Belgium, Netherlands)

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By

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A C K N O W L E D G E M E N T S

In a study of this sort material from primary sources is necessary. In spite of the co-operation of the libraries in this province, such documents were unavailable in this country on short notice. Consequently there are sections of this thesis which receive inadequate treatment for lack of reliable information.

The Information Services of the United Kingdom, Belgium, France, and the Netherlands in this country, as well as the government statistical departments of these various countries in Europe gave me excellent co-operation in my search for material. I am indebted to them for a great deal of the material in Chapter II and V. Unfortunately, due to lack of time in which to investigate the bases of the data to make them comparable, I was unable to make fuller use of the material supplied to me.

This thesis was prepared under the sympathetic guidance and careful supervision of Mr. C. L. Barber, who was as meticulous about style as the economic arguments. It is due to his direction and advice that the tedium in this thesis has been minimized.

I wish to acknowledge my indebtedness to the whole library staff and in particular to Miss Helen Ferguson on the inter-library loan who spared no pain to locate the books and documents I needed and who graciously overlooked overdue returns. Finally my thanks go to Mr. Edward Lyons who read most of the work and advised me on style.

K. M. I.

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Chapter I

THE BASIS FOR WESTERN UNION
an introduction

In March, 1948, the Brussels Pact was signed by Great Britain, France, Belgium, the Netherlands and Luxembourg to "co-operate loyally and co-ordinate their efforts to create in western Europe a firm basis of European recovery." These countries form the natural nucleus for a Western European Union since they are the more powerful and stable of the countries to come out of the war. Since that date several more countries have joined the original group but this paper will deal only with the trade of the original "Western Union".

Although most of the publicity about this pact has been from the defense angle, the economic co-operation agreed upon is no less spectacular. The first article of the treaty states that, "the high contracting parties will so organize and co-ordinate their economic activities as to produce the best possible results by elimination of conflict in their economic policies, by co-ordination of production and development of commercial exchanges." This seems like a large order, but it is a conscious affirmation of relationship which existed in part before the war. Since the war the trend seemed to be away from this co-ordination. Perhaps the emphasis has been on the disharmony since when a planned economy co-ordinates with another planned country, the result must be a master plan for the group and so far no European country has shown any inclination for an economic plan of such scope.

This recognition for a need for regional co-operation is a result of the changing pattern of world trade. The immediate inspiration was the dollar shortage combined with the restrictions on trade between eastern and western Europe. Industrial Europe depended on the agricultural eastern sections of

the continent for a part of its supplies and for its markets. Since the war, this route has been closed to normal trade and western Europe has had to look to other sources of raw materials.

Even if this channel should reopen, there are other considerations which make increased co-operation desirable. The contracting parties recognize the increasing trend toward bilateralism. This has resulted from shortages of hard currencies and a need for large amounts of imports but with a productive capacity for only small volume of exports. To promote multilateralism and thus help in the speedy recovery of all countries is one of the main aims of the Brussels Treaty.

Before the war these four countries[1] together with Germany were the centre of international trade. Almost half of the world's industrial production and the accompanying managerial and technical skill was massed there. In exchange for their exports of coal, steel, machinery and textiles, they imported foodstuffs and raw materials from Eastern Europe and non-continental sources. Their position in world trade was secured by their large merchant fleets and supported by their overseas investments.

Since the war their position has changed. The bulk of their overseas investments were liquidated to finance the war, and their shipping reduced by war damage has only been partially replaced. The virtual elimination of Germany from continental trade has removed the chief market for Belgium, Dutch and French goods as well as the source of their industrial supplies.

In contrast with the rest of Europe, industrial recovery in these countries has been favorable. But they share the general European problems of inflation and the chronic dollar shortage. The former is the combined result

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1. Throughout the remainder of the thesis Belgium and Luxembourg will be referred to as one country.

of the reconstruction boom and increased government spending without adequate fiscal control while the latter is the result of the increased dependence on North American imports coupled with an inability to export to this continent. European inflation is the main reason why the sales of European goods are so low on this continent.

The alarming deficits on current account in the balance of payments of Britain and Holland in 1947 has been considerably reduced in 1948. France alone remains the least sound internationally but even in her case, the franc has recently shown signs of hardening. With American aid for the next three years, the prospect is hopeful but the return to a pre-war pattern or level of trade is not probable. The whole structure of world trade and investments has changed. Great Britain and Holland have changed with world conditions. These conditions have changed too much during the war for all Belgian or American wishes to restore them.

Chapter II

THE PATTERN OF TRADE OF THE WESTERN UNION COUNTRIES

The pattern of imports and exports of a country reflects its industrial development and its level of consumption. It shows what goods a country produces more efficiently than other countries or in which it has a comparative advantage by reason of historical, natural or technical advantage. Historically, the United Kingdom, Belgium and the Netherlands had the lead in world commerce and in the production and trade of certain manufactured goods such as iron and steel goods and textiles. They acquired overseas empires and currency areas which supplied them; first, with markets for their manufactured goods and later as the European population increased, with food and raw materials for their factories. The savings of the British and Dutch entrepreneurs were invested both in their own empires and in other countries which were beginning to develop in the latter half of the nineteenth and the earlier years of the twentieth centuries. The returns on these paid for large volumes of imports of raw materials and substantially increased the standard of living of the investing nations.

As the rest of Europe began to develop industrially, intra-European trade grew. The trade of Holland and Belgium became closely woven with Germany, France, and with eastern Europe. As industrialization proceeded, the lines of production of these industrial countries became more specialized and the intra-regional trade of this area shows the integration of their economics.

Since the first World War, the supremacy of the trading position of these Western Union countries[1] has been challenged by the development of the United States, Germany and Japan. In many lines of production, the historical advantage gave way to the better technology of the two former countries and the cheaper costs of the latter. The depression undermined investment

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1. Throughout the thesis and in all table headings, the group made of the United Kingdom, France, Belgium-Luxembourg and the Netherlands will be referred to as "Western Union" for convenience.

structure on which the trade pattern of the European countries were based. While the second World War has eliminated for a short period the competition of Germany and Japan, it has also hastened the industrial development of young countries in the temperate zones.

These are considerations basic to the evolving pattern of trade of the Western Union countries throughout the twenties and thirties and into the post-war period.

The Pre-War Pattern of Trade

Although most post-war statements of trade recovery in Europe are based on the 1938 norm, actually this is a deceptive measure because trade in 1938 both for the world and for the individual European countries was considerably below the 1928 volume. It is not likely that the post-war pattern will return to either the pre-war or the pre-depression pattern for both the volume and direction of trade was changed during the recent war. It is not clear whether these are enduring changes in the structure of world trade and once the period of recovery is over, some of the pre-war characteristics will return. There are, however, some deep-seated differences such as the investment pattern which makes it a folly to make a fetish of the 1938 "level".

Between 1928 and 1938, the total value of the trade of the four Western Union countries, and the Netherlands shrank by one half. There was a change in the commodities traded and an even greater change in the direction of the trade.

Although the pre-war commodity trade of these countries had been narrowed by bilateralism, it was still complementary. A large part of the exports of the exports of the industrial countries consisted of semi-finished goods which were sent to neighbouring countries for finishing and they in turn imported goods in varying degrees of manufacture. All of these comntries depended heavily on imported materials to feed their factories but they did not import

all raw materials directly from their sources. There was a large volume of transit trade. Belgium was the main processor of raw materials which were then shipped to her neighbouring countries and Britain produced the most goods in the highest state of manufacture. Compared with these countries, France and Holland traded more in foodstuffs, although compared with the rest of Europe, they too were industrial countries.

These countries were as important to Europe as the continent was to them. By far the largest part of the pre-war European trade was carried on among these nations including Germany. The five accounted for 67% of all European imports and 65% of the exports.[1]

Of the group, the United Kingdom was the largest single trader. Almost one third of Europe's imports were consumed by her while her share of exports was slightly below that level. Britain was important to Europe also for the volume of her overseas investments which helped finance her imports from most of the European countries.[2] With France, Belgium, and the Netherlands, she has traditionally had an import surplus of commodities which increased relatively instead of decreasing during the depression.

International trade which had slumped to as low as one third of the 1928 volume in 1932, gradually started to climb back but the recovery was slow and drawn out. Revival was retarded by the efforts of different countries to become self-sufficient, reversing the tendency of the earlier part of the century towards international specialization and multilateral trading. Exchange rate fluctuations and various monetary policies to protect individual interests did not help the international atmosphere for trading.

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1. Europe's Trade, League of Nations, 1941, p. 16.

2. See Chapter III.

With the impact of depression, agricultural countries started to industrialize and the industrial countries to grow certain staple foods such as cereals. The price of primary goods fell more than that of manufactured goods so that the price movements for manufactured goods was less unfavorable than for the agricultural. Between 1929 and 1931 the price of rubber fell 72% and for wheat 60% while that of finished steel goods declined less than 20%. This price movement favored the growth of industry, although the shortage of foreign capital hampered rapid industrialization in the younger countries. The encouragement of agricultural products in industrial countries depended much more on government regulations. In spite of restrictions, certain food imports rose, through the shift from the highly protected home products to the more nutritious or palatable imports such as bananas, citrus fruits, sugar and cocoa. Consequently, trade in staple foods decreased.

The blame for the decline in international prices may be laid mainly on the break in the international flow of credit. Scarcity of foreign exchange to finance imports and to pay debts troubled the debtor nations and the creditor countries were flooded by imports which competed with home industries. Remedies to stop this influx were taken by different countries at different times and to different degrees but eventually this predicament led to a stricter bilateral commodity trade between European countries and their overseas possessions as well as among European nations. As general recovery started after the panic, governments and vested interests prevented the return to the pre-depression pattern. In addition, the political atmosphere in Europe at this time encouraged the depression tendency to use trade to more nationalistic ends. It is this reversal of the policy of the twenties that continues in the post-war period although the International Trade Charter attempts to correct it.[1]

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1. The Havana Agreements of the International Trade Organization.

During the latter part of the thirties, the overseas trade[1] of industrial countries increased. At first it was the improved barter terms of trade between the less developed and more industrial countries which encouraged imports from these areas. As the international situation became more precarious, many countries started to stockpile essential war materials.

Germany's trade policies for a few years increased her trade but it also served to increase British imports from the continent. This increase in British imports was caused by the desire among the small countries to acquire surpluses in the free British market. The German practice of blocking their balances made them turn more to Britain.

The Pre-War Geographic Distribution of Trade

Between 1928 and 1938, the proportion of overseas imports of all four countries increased and with the exception of the United Kingdom, exports to these areas also increased. Most of the overseas expansion was with their individual colonies and affiliated areas by means of special agreements. Trade with Germany for every member of this group fell, but for Holland and the United Kingdom it declined the most. For the Low Countries, European trade, although declining, was still more important than the overseas. France was the most dependent on her colonial empire and other overseas areas. Her colonial trade which in 1913 was 7.5% of the total was 27% in 1938. This was a result of strict cultivation of the trade for the advantage of regularity and security. Although the other three were as concerned with security, they were slower than France to cultivate intra-colonial trade. Another cause for the re-orientation of trade is the economic policy of Germany which helped to decrease the trade absolutely among these five leading industrial countries.

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1. Unless specifically stated, overseas trade includes trade with areas which are politically affiliated with the European country and also with other non-European countries.

Table I

Trade of the Western Union[1] Countries with their Own Overseas Territories and with those of other European Countries, ($ 000,000)

	Trade with own overseas territories (including Dominions)		Trade with those of other European countries	
	1928	1938	1928	1938
Imports of:				
United Kingdom	2,018	1,521	199	142
Belgium	43	66	156	99
France	471	358	483	142
Netherlands	105	69	142	60
Total of four	2,637	2,014	980	443
Total Europe	2,687	2,032	2,769	1,101
Exports of:				
United Kingdom	2,366	1,012	216	52
Belgium	29	14	121	66
France	619	241	131	26
Netherlands	126	61	99	39
Total of four	3,140	1,328	567	183
Total Europe	3,202	1,442	1,210	525

1. See footnote 1 on p. 4 for definition of Western Union.

Source: The Network of World Trade, Economic Intelligence Service, League of Nations, 1942.

The increasing importance of colonial imports was a result of cutting manufactured imports from their industrial neighbours. This, of course, limited the exports to these countries which served to cut down imports further, especially since the volume and kind of goods was being changed to another direction.

The United Kingdom

Throughout the thirties, the European share in British trade was about

one third of her total. This share was decreasing for the reasons outlined above. Of the group, she was least dependent on the continent. Her isolation is due to the fact that British industry first grew up to provide overseas markets with capital and non-durable consumer goods. This direction was reinforced in the late nineteenth and early twentieth centuries by the flow of British capital to the new world. Her early economic development which swelled her population created a demand for foodstuffs. In the pre-depression years, her trade with the United States and Europe contributed a larger portion of her import surplus than in 1938.

The financial crisis in 1931, resulted in a large inflow of manufactured goods because Britain was the most secure free market in the world. The disturbances to her economy caused by this movement forced Britain to follow the general international policies of those years, depreciation and tariffs. These policies reinforced empire preference and increased Commonwealth trade.

When trade recovered in the latter thirties, it was into these new channels so that by 1938, Anglo-American exchange was being replaced by Commonwealth trade. While imports from industrial Europe declined, exports to these countries had risen. British exports, however, were facing increasing competition in their former markets.[1]

The share of France, Belgium and the Netherlands in British imports declined but the British share in their imports remained at the same level. British exports to France, however, fell slightly. This change indicates a greater dependence of the continental countries on Britain than that of Britain on them. This relationship led quite easily into the displacement of the food imports from France and the Netherlands by those from the Commonwealth.

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1. See description of trade of the smaller countries. p. 13.

British exports to Europe remained large as she was one of the few European distributors of certain semi-finished materials such as scoured wool.

Table II

Percentage Distribution of Trade
of the Western Union Countries - 1928 and 1938

	Belgium		France		Netherlands		United Kingdom†	
Imports - % share of:	1928	1938	1928	1938	1928	1938	1928	1938
United Kingdom	11	8	15	7	10	8	-	-
Germany	13	11	10	9	27	21	6	3
France	21	14	-	-	4	5	5	3
Belgium	-	-	8	6	11	11	4	2
Netherlands	12	9	3	3	-	-	4	3
(ex U.S.S.R.)								
Rest of Europe	9	12	10	9	10	14	11	21
Rest of World	34	46	54	66	38	41	60	68
Total	100	100	100	100	100	100	100	100
Exports - % share of:								
United Kingdom	17	14	16	12	22	23	-	-
Germany	14	12	11	6	24	15	6	4
France	13	15	-	-	6	6	4	3
Belgium	-	-	15	14	9	10	2	2
Netherlands	13	12	3	4	-	-	3	3
(ex U.S.S.R.)								
Rest of Europe	14	17	18	19	14	16	18	24
Rest of World	29	30	37	35	25	30	67	66
Total	100	100	100	100	100	100	100	100

† Adjusted for re-exports.

Source: Network of World Trade, op. cit.

France

In 1928, 64% of France's exports and 43% of her imports were with Europe. With the large surplus from Europe, she imported from overseas like the others of the group. Until 1928, French exports were helped by the low exchange rate of the franc. Her imports were financed by the surplus on current account

from the tourist trade and by reparation payments.

This situation was reversed after 1928. The legal stabilization of the franc caused heavy withdrawals of funds in gold from abroad. The tourist trade fell off with the depression and reparation payments stopped. The competitive power of her export industry declined with falling world prices. The importance of luxury items among her exports made her more vulnerable to restrictive trade policies in her chief markets. When imports are being cut down, wines, velvets and perfumes would be slashed before rolling mill products especially if a resurgent enemy were building submarines. All these factors combined turned her former export surplus with her industrial neighbours into an import balance in the early depression years. In an effort to correct this trend, France tried a policy of price deflation which proved to be no solution. Then she initiated compensation agreements to restrict her imports by means of quotas. The export surplus to Europe she regained in 1938 was at a lower level of trade.

Like the United Kingdom her trade with the colonies increased. Their share in French imports jumped from 13 to 21% and the share of exports from 18 to 32% between 1928 and 1932. These imports continued to increase but the exports fell off so that by 1938, her colonial trade was almost balanced. The returns on her investments made in the twenties were being paid by direct commodity agreements.

In her relation to her former customers, exports to Germany were cut most severely, those to Belgium declined while exports to Holland increased.

The Benelux countries

Belgium and Holland were among the more important of the smaller industrial countries depending on both British and German trade. Holland conducted a larger part of her total trade with these two countries than did Belgium. Dutch purchases in Germany increased during the thirties. France

on the other hand, was the main supplier for Belgium. Both countries exported more to Britain than they bought. The decrease in the British share of their imports was more than that in their exports so that the active balance[1] decreased less in that direction than with other European countries.

Holland was more important as a market for Belgian goods than Belgium was as a market for Dutch goods. Both countries paid for a great deal of their imports in the early thirties from the yield on their investments. As new investments fell off, the returns also declined and trade shrank.

German trade declined partly for this reason[2] and partly because of trade policies which directed more German trade towards primary goods sources. The shrinkage in the German portion of their trade was rephaced by an increase with small industrial countries. While the large industrial powers increased their self-sufficiency, the smaller countries were prevented from doing the same because of the size of their domestic market. Therefore, trade among the smaller countries became more complementary and their competitive power over the larger countries increased in certain goods in which they specialized.

The large overseas empires of both countries did not command as large a share of their trade as those of the larger two countries of the Western Union. The share of colonial trade, however, was increasing.

The change in the distribution of trade balances between 1928 and 1938 shows more clearly, the change of the direction of trade and the absolute change in the value traded between the different countries of the group. Britain still had a passive balance with every country of the Union and with the world but the amount was less than half of 1928. Belgium had changed the least of the four in her total balance, but the size with the various countries had changed. The most striking of these changes is the shift from

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1. "Balance" throughout this chapter will refer to that on commodity trade.
2. See Chapter III.

the large passive balance to an active one with France. Holland had cut down more evenly with all countries. France's change with Belgium was the largest. There were wider differences in France's distribution of balances than in any of the others of the group.

Table III

Distribution of Trade Balances
of the Western Union Countries - 1928 and 1938 ($ 000,000)

Trade balance with:	Belgium		Netherlands		France		United Kingdom	
	1928	1938	1928	1938	1928	1938	1928	1938
United Kingdom	+77	+39	+123	+65	+171.6	+10.8	---	---
Germany	+12	+ 2	-179	-81	+ 41.1	-37.4	-168.9	-40.6
France	-129	+ 1	+ 1	- 3	---	---	-260.6	-34.9
Belgium	-	-	- 87	-31	+259.9	+29.3	-214.8	-51.8
Netherlands	+20	+18	-	-	- 24.0	+ 4.5	- 52.2	-76.6
Rest of Europe"	+50	+67	+27	-20	+216.1	+24.7	-725.9	-366.9
Rest of World	-90	-140	-360	-137	-308.4	-468.8	-1310.0	-722.9
Total	52	49	475	207	102.3	444.1	2898.4	1893.7

" excluding U.S.S.R.

Source: Europe's Trade, League of Nations, 1941, Annex III.

The Pre-War Composition of Trade by Main Groups

In the thirties the share of exports in finished form for the whole group declined and that of partially finished and raw materials assumed a greater importance.

The United Kingdom

Following the general trend of the group, British trade in both food and manufactured articles declined in the thirties. Semi-finished goods and raw materials made up a larger share of the total trade. Food still remained one of the two biggest groups of ten classes of imported commodities. The other was material for making industrial goods. The biggest export group was in semi-

finished materials for non-durable goods and producer's equipment was the second largest. Highly manufactured goods which were directed overseas made up a greater share of her exports than for any of the other three countries.

Table IV

Percentage Composition of Merchandise Trade
of the Western Union Countries - 1928 and 1937

a. foodstuffs and live animals.
b. materials raw or partly manufactured.
c. manufactured.

Countries	Groups of Commodities	IMPORTS 1928	IMPORTS 1937	EXPORTS 1928	EXPORTS 1937
Belgium[1]	(a)	21.5	20	8.7	5
	(b)	52.0	51	33.7	45
	(c)	26.2	23	57.4	49
	Total	99.7[2]	94[3]	99.8[2]	99[3]
France	(a)	24	26	13	15
	(b)	57	59	19	29
	(c)	19	15	68	56
	Total	100	100	100	100
Netherlands	(a)	24	18	47	37
	(b)	37	42	19	31
	(c)	39	40	34	32
	Total	100	100	100	100
United Kingdom	(a)	45	40	11	10
	(b)	33	42	14	18
	(c)	22	18	75	72
	Total	100	100	100	100

1. Belgium's structure from special number of Les Foires International. 1937 is 1936 - 1938 average.

2. .3% import and .2% export of gold.

3. Unexplained.

Source: Network of World Trade, League of Nations, 1942.

These changes in the importance of different kinds of goods reflect the redirection of her trade in this period. In the 1928 scheme of things, the United Kingdom bought from the small industrial countries of Europe and sold overseas but not all to her own territories. In 1938, she was buying more from the Commonwealth. This shift increased the importance of her raw material imports and diminished her imports of food and manufactured articles. The relatively slight decline in her manufactured exports is the result of the decreased intra-European sales which was not completely offset by the overseas increase. The expansion in the exports of semi-finished goods and raw materials was made of rolling mill products to overseas areas and to non-industrial Europe.

France:

France is the only one of the group whose trade in food increased in importance between 1928 and 1938. This is partly the result of changing food tastes and partly of the slump in luxury trade. The change in food tastes increased imports of animal products, citrus fruits, sugar and other such foods and at the same time made an export surplus in bread grains available. Raw and partially manufactured materials made up more than one half of her imports in 1928 but in 1938, these had not increased in importance as much as in the United Kingdom or the Netherlands. This means that these did not increase to the same degree from the colonies as in either of those other countries in spite of the closer political ties within the French empire.

France's exports shifted to non-European areas to a greater degree than those of any other country in the group. Most important were materials for producers' goods for the rapid exploitation of her African territories.

The Benelux Countries

Although in 1928 foodstuff had made up almost one half of the exports of Holland, it had fallen to almost one third by 1938. This was a direct result of

the reorientation of these countries towards imperial trade, especially the British Commonwealth preference. The loss of her former British markets to the Commonwealth was not as important however, as the demand of her own colonies for manufactured and partially finished goods in altering the commodity structure of Dutch trade. In her imports, the change is most marked for raw materials from her colonies and partially manufactured goods from her neighbours. The relatively large decline in both the import and export of foodstuffs and live animals shows the relation between fodder imports and exports of animal food products. There was a slight decrease in the export of finished manufactures but a slight increase in imports of this class of goods.

Food for Belgium made up the smallest part of her trade in 1938. Her function in the industrial group of countries was to import raw materials and supply the factories of her neighbours with the partially finished products of these imports. This is evident in the percentage of raw material imports and in semi-finished exports in her whole trade. If her imports are grouped by stages of manufacture, one half of the 1937 total was of crude materials and amlost one half of her exports were of simply transformed goods.

Although her imports of manufactured goods do not make up as large a part of the total as they do for the United Kingdom and France, her exports of finished manufactures were more important than for Holland but not so much as for the United Kingdom or France.

There is relatively little change in the composition of Belgian imports between 1928 and 1937 but there is a considerable shift in her exports from manufactured to semi-finished goods. An important commodity in this shift is the sudden increase in export of pig-iron and raw steel to Germany in the years immediately preceding the war. Between 1935 and 1938, almost the entire export of this class of goods was sold to Germany and the volume increased ten times.

The relatively important place of partially manufactured goods in the trade of the Western Union countries shows the high degree of integration which existed in the thirties. Since the end of the recent war, exports of manufactured goods have become increasingly more important and thus the imports of raw materials and foodstuffs correspondingly more important than that of manufactures. Even for agricultural countries like Holland, the exports of finished products will overshadow those of food when their programme of industrialization is realized.

Trade in Raw Materials and Semi-finished goods.[1]

A further examination of trade during the pre-war period clearly shows the dependence on overseas trade of these countries. As a group, they were net importers of almost every important raw material except coal and iron, and industrial fertilizers. There were, of course, considerable variations in the commodities bought and the amount traded among these four countries. France was the least dependent on imports and Britain the most.

In foodstuffs, Britain was the largest consumer. Over one-half of the eggs, two-thirds of the cheese, and 90% of the beef, mutton and pork and butter imported into Europe in 1935 fed the British Isles. Although the beef and mutton came largely from the southern hemisphere, the other animal products were imported mainly from Ireland, Denmark and the other semi-industrial countries of Europe.[2]

These countries in turn imported large quantities of feed for livestock from Belgium, Netherlands and the United Kingdom who processed oil seeds imported from overseas for this purpose. The rise of eastern Europe as a source of British animal food supply has been checked by imperial preference since 1932.

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1. Trade in coal, iron, steel and fertilizers for these countries are so interrelated with production that they are treated in chapter IV on Production.
2. Europe's Trade, op. cit., p. 58.

Table V

Western Union Countries' Active or Passive Balances in Certain Foodstuffs and Tobacco in $ 000,000 for 1935

Commodity	United Kingdom	Belgium	France	Netherlands
Cattle - live heads	- 26.6	- 1.0	- .5	+ .3
Meat (beef, veal, lamb, mutton)	- 178.9	- 2.3	-2.9	+ .2
Pork	- 163.8	- 1.0	+ .3	+12.4
Butter, cheese, eggs	- 260.6	- 18.7	- .1	+48.4
Potatoes	- 12.6	- 1.7	- 3.2	+ 5.7
Wheat & wheat flour	- 159.3	- 28.9	-20.7	-15.5
Rice, oats, maize, barley, rye	- 88.2	- 28.3	-39.4	- 27.3
Bananas & citrus fruit	- 72.4	- 4.1	-34.7	- 6.8
Sugar, unrefined & refined	- 48.6	+ 1.6	- 6.4	- 1.1
Coffee, tea & cocoa material	- 121.6	-10.9	-46.5	-18.4
Vegetable oil & oil products	- 97.8	-19.2	-68.5	- 22.4
Tobacco	- 76.7	- 5.2	-12.3	-10.4

Source: Europe's Trade, op. cit.

Cereals, especially wheat, were the most important vegetable food imported by this group. In the thirties, the net wheat imports of all had declined. This was caused not only by the increase in domestic production but by an absolute decrease in consumption. The decline of such imports was most marked in France.

The decrease in the consumption of food grains is an indication of the rising level of nutrition which has resulted in shifts in the quantities of different types of food traded. An example of this change is the increase in the citrus fruit imports in the decade 1927-38. In spite of the depression, British imports rose 25% in dollar value, while the Belgian purchases trebled.[1]

As the standard of nutrition rose, the amount of animal products used also increased. Therefore, the corn imports used for animal fodder, shrank relatively less than wheat. The consumption of sugar also rose and the

1. Europe's Trade, ibid., p. 63.

principal ingredient for the refined product changed from Central European sugar beets to overseas cane. Through changing tastes in food, these countries became more dependent on overseas imports immediately before the war.

The United Kingdom was the only country to increase imports of beverages and tobacco during the depression. Her coffee imports rose slightly but that of tea fell; cocoa imports rose by almost 10%. The imports of oilseeds made up the largest single group of vegetable foodstuffs imported into Holland and France but were not nearly so important for Britain. These imports were kept up at the pre-depression level during the thirties. Both the Netherlands and the United Kingdom changed from net importers to exporters of oils derived from these seeds.

While most foodstuffs were imported from outside of the industrial group, there was some exchange among the four. The Dutch surplus of animal products and vegetables went to Great Britain and Belgium as well as to Germany. The French surplus of pork and beef also went to these two countries. The group as a whole imported raw materials for sugar and exported the refined sugar to the rest of Europe. Beverages and oil-seeds were treated similarly.

In non-food animal and vegetable products as well as in foods, the four were net importers, with one or two exceptions. Artificial fibre yarns was the only one of the group which all four exported. The production of this rapidly expanded in the depression years and displaced Italian raw silk. It was even affecting the production of cotton which was becoming more expensive to manufacture. Cattle hides, wool and rubber came largely from the overseas territories, but cotton came from non-territorial overseas sources. Most of the flax, hemp, jute, and wood and wood pulp came from non-industrial Europe. There was a considerable amount of partially processed hides, fibres, and rubber exported from the Low Countries to Britain for finishing. This fact accounts for the wide differences in net imports of these goods among these countries.

The vaunted Irish linen was actually French and Dutch flax, processed in Belgium and sent to Ireland for weaving.

Although European imports of the two chief fibres, cotton and wool, did not change greatly between 1925 and 1939, the distribution by countries was affected by fluctuations in British imports. The British share of the total European purchases of raw cotton fell steadily from 71% before the first war to 40% before the depression. This decline was caused by the rise of foreign competition both in her home and foreign markets. Tariff protection on the domestic markets and the sterling depreciation made it profitable enough to increase this share to 58% in 1937.[1] While British cotton imports declined, that of wool increased relative to the rest of Europe.

During the thirties, the total European imports of raw rubber increased 75% due to the expansion in motor transport and to German stockpiling. France and the United Kingdom together imported 43% of the European total[2] for 1938 mainly from British Malaya and the Dutch East Indies.

As in many other goods, the share of the United Kingdom in European imports of wood increased in the depression while others were cutting down. France, Belgium and the Netherlands were all importing much less than in the twenties. While wood fell, imports of pulp increased to supply the materials for the expanding manufacture of rayon fibres.

The European supply of bauxite was not sufficient to meet the requirements of the aluminum industry. This metal is produced most cheaply near hydro-electric power and therefore European production was concentrated in Norway and Switzerland. France exported both bauxite and aluminum while the United Kingdom imported both, but Belgium and Netherlands did not have any trade in aluminum.

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1. ibid. p. 71.

2. ibid.

Table VI

Western Union Countries' Active & Passive Balances
in Certain Non-Food Animal & Vegetable Products - 1935, in $ 000,000

Commodity	United Kingdom	Belgium	France	Nether-lands
Cattle hide	- 15.2	-2.5	-1.1	-1.5
Wool, greasy & scoured	-102.4	-18.6	-48.6	- 2.2
Silk	- 6.7	---	-12.6	---
Flax, hemp, jute	- 41.7	-106.6	-28.2	-72.0
Cotton	-166.9	- 16.0	-62.6	-10.7
Artificial fibre yarn	+ 2.2	+ 2.0	+ .9	+ 7.9
Raw rubber	- 35.3	- 2.3	-14.8	- 1.0
Wood	-168.4	-18.8	-20.5	-21.8
Woodpulp	- 44.9	- 4.2	-17.9	- 3.2

Source: Europe's Trade, op. cit.

These countries depended on imports of ores of most of the non-ferrous metals and were mainly concerned with refining these. Manganese was not produced in any of these countries so they depended on imports from Africa, India and Russia. In most of the other metals, the imports of the United Kingdom increased while the rest of industrial Europe declined. Belgium and the Netherlands changed from net importers to exporters of many of the metals during the depression. The Belgian net exports of black copper increased tenfold supported by ores from the Congo. Her exports of zinc doubled in the same period. She also started to export lead and tin. Holland replaced Britain as the chief European exporter of tin.

The imports in essential raw materials and food stuffs since the end of the war have been limited in the Western Union Countries by the dollar shortage. Previously, they had all depended on imports from the Western Hemisphere and Overseas territories, chief of which was the sterling area. Immediately after the conclusion of the war, a great deal of the raw materials were purchased from the Western Hemisphere on credit extended to Canada and

United States. For this reason these imports have been strictly rationed. Table VII shows the quantities of the various materials imported by each of the countries from the Western Hemisphere during the last year. A great deal of the imports have been redirected to the sterling area.

Table VII

Projected Imports by Western Union Countries
(including dependencies) from Western Hemisphere, 1948-49
($ 000,000 of July 1, 1947 Prices)

Country	Total Merch. Imports & Net Freight Payment	Grains	Other Food & Feed	Fertilizer	Tobacco	Cotton	Coal	Petroleum	Iron & Steel	Timber	Ag. Equip.	Other Equip.	Other imports
Belgium	775	141	139	1	22	46	21	35	29	23	5	153	138
Dependencies[1]	37	1										2	40
France	1596	110	146	12	16	166	189	105	28	33	50	216	249
Dependencies	241	72	23		2		17	41		2	9	6	82
Netherlands	1160	294	76	1	5	149	88	61	15	14	5	19	299
Dependencies	176	6									1	2	173
United Kingdom	3727	490	989	2	154	227		162	79	210	14	453	888
Dependencies	522	68	33		7		12	28		3	6	2	363

1. Includes colonies, protectorates & mandates, but excludes self-governing dominions.

Source: Federal Reserve Bulletin, Board of Governors of the Federal Reserve Bank, Feb. 1948.

Foodstuffs would account for three-eighths of the total imports by the United Kingdom and her dependencies. Equipment, the second most important

item will make up 11% of her imports. Cotton, timber, oil and tobacco will make up a large part of the remainder of her imports from the Western Hemisphere.

For France, imports of coal and oil are as important as foods. Each of these make up 22% of her total imports. Agricultural and industrial equipment and cotton are the other important items to be imported. French imports of coal and agricultural equipment are larger than for any other European country.

Food imports by the Benelux area would make up 32% of its total from the Western Hemisphere, equipment 22% and steel and coal 7%.

Trade in Manufactured Goods

Trade in manufactured goods among the four Western Union countries was complementary along some lines and competitive in others. Since the end of the war, there has been a tendency for the exports of each to be more competitive and also for more competition in the type of imports bought. For example, Holland which before the war exported foodstuffs, partially processed industrial materials and luxury goods has launched a programme of industrialization which will cut down her export of the basic producer materials and also decrease her imports of the finished materials.

The expansion of finishing capacity in steel for mechanical and engineering equipment for the whole group has been started with the intention of capturing the markets which were formerly supplied by Germany. The Dutch programme relies more than the others on being able to sell in these markets. The competition for scrap and pig-iron has resulted in special commodity agreements between the producers and the user of this material. The latest one is the Anglo-French agreement negotiated last fall.

Industries using coal and steel were highly integrated among the European industrial countries before the war. Belgium imported ores from

Holland, Luxembourg, Sweden, and Poland to make blooms, billets, steel plates and other rolling mill products which were then shipped to Britain. England also imported pig-iron and semi-processed steel goods from Holland and France. The finished British machines, ships, cars and tools were shipped both to the continent and overseas.

Raw iron and steel and rolling mill products often made up a sixth or more of the total Belgian exports in the thirties. Although the pig-iron was mostly used in home steel works, the iron and steel industry as a whole could not work to capacity without exporting about three-quarters of its output.[1] Increasing competition between the British and Belgian metal industries as is indicated by a comparison of Belgian export percentages before and after the war. In the years immediately before the war, Belgium was exporting 16% of all her manufactured metal goods to the Netherlands, 12% to France and 8% to Great Britain. Since the war the first two countries still buy about the same proportion but Britain has dropped out of the list entirely.[2]

In electrical apparatus, small tools, cutlery, and other miscellaneous steel goods, all four were net exporters and therefore competitors. But in machinery of all kinds and in vehicles and ships, Britain was the largest exporter. Since the war, her lead was temporarily increased by the reconstruction demands on the continent. In 1948, continental rivals of British shipbuilding had started producing competitively.

The British exports of machinery and vehicles in 1947 were almost double those in 1937. In pound value, they were almost five times as great in 1948

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1. Belgian Handbook, the Belgian Information Service, 1944, p. 18.
2. Les Foires Internationales, The Union of International Fairs, p. 46.

as they were in 1938.[1] The proportion sold to Europe increased. France's exports also increased by about the same proportion but they were directed more away from Europe than before the war. Holland was a large importer of British machines for agricultural and textile factories and of British vehicles and ships. In the first nine months of 1947, the value of British machinery and vehicles imported into Holland was 326.9 million dollars.[2] Other iron and steel goods, ships and aircraft made up 159.6 million dollars of the total 885.6 millions of British imports.[3] The value of French vehicles imported into Holland was only one quarter of the British. The other iron and steel goods imported from France was one third of the value bought from Britain. Belgian exports to Holland, of course, were the largest both in total and in iron and steel goods. Belgian machines were imported in larger quantity than from any other European source but this amount was no more than half that imported from the United States. Belgium was the only country which received industrial material from Holland. The other countries were paid in flower bulbs, potatoes, paper and dairy products. The Dutch shipbuilding industry has always specialized in constructing ships for special purposes such as tankers and special grain freighters. These are being sold to the United Kingdom, Belgium, France and even the United States. In 1948, Holland was Britain's chief European rival in shipbuilding.

Next to the United States and Germany, Britain, France, and the Netherlands were among the foremost exporters of electrical apparatus in the world before the war. In 1930, the United Kingdom exported 90 million dollars worth of electrical goods; France, 15 million and the Netherlands, 32 million dollars.[4]

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1. Labor and Industry in Britain, British Information Services, p. 42.
2. The Way Ahead, Society Winter, 1947, Stichting "BOUW", Vol. I, p. 76.
3. Ibid.
4. Memorandum on Production & Trade, 1925-1930, Economic Intelligence Service, League of Nations, p. 67.

The dollar value of the British exports of these goods had declined to 65 million in 1938, but in 1948, although the volume was 225% of the pre-war year, the dollar value was 290.8 million.[1] The Dutch export target in their electrical goods is 175% of the pre-war volume.

France and Britain are rivals for the non-dollar automobile market. In 1929, France was the larger exporter, she sold 49.2 thousand cars while the British exports were only 42 thousands.[2] The British exports have outstripped the French since the end of the war. In 1947 there were 94.1 thousand British cars sent to the non-dollar area alone. The French exports were 30.9 thousands for the same area. The biggest British markets were in the southern dominions, Argentine, Portugal, India and Malaya. In Europe, the largest expansion was in the Low Countries and Switzerland. But in the two most desirable markets, Belgium and Switzerland, the French cars have had a larger sale. It is the fear of the British car manufacturers, therefore, that their product will be forced out of these two countries if the French put on an export drive. British cars are being forced more and more into the soft-currency countries and protected areas because they cannot compete with the cheaper Canadian and American cars. The f.o.b. price for the most popular size British car in 1947 was two and a half times higher per unit than in 1938 and prices were still rising.[3] In order to stop the rising cost and bring British prices more in line with other countries, it is considered necessary to retool the industry to adopt large scale methods. This is extremely difficult because of the shortage of materials and the time needed to re-equip the plants in which the cars could be made. Unless their prices come down, British cars

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1. The Economic Survey for 1949, His Majesty's Stationery Office, Cmd. 7647, p. 19.
2. Memorandum on Trade and Production, op. cit. p. 64.
3. The Economist, March 20, 1948, p. 463.

may not be able to earn many dollars.

Table VIII

Changes in Volume, Sources and Destination of Exports of the Manufactures of France and the United Kingdom 1937 and 1947 in Millions of 1937 Dollars

Products & Country of Export	Total	To European Countries	To Non-European Countries	% To Europe	Total	To European Countries	To Non-European Countries	% To Europe
Textiles & Clothing								
United Kingdom	675	195	480	29	360	75	285	21
France	125	45	80	36	145	55	90	38
Chemicals & Fertilizers								
United Kingdom	120	30	90	25	145	45	100	31
France	55	30	25	55	50	30	20	60
Iron & Steel Manufactures								
United Kingdom	145	30	115	21	125	40	85	32
France	30	15	15	50	35	10	25	29
Machinery								
United Kingdom	245	60	185	24	385	105	280	27
France	30	15	15	50	55	15	40	27
Vehicles including Ships								
United Kingdom	195	50	145	26	370	130	240	35
France	40	20	20	50	80	35	45	44
Total Five Groups								
United Kingdom	1380	355	1015	26	1385	395	990	29
France	280	125	155	45	365	145	220	40

Source: Survey of the Economic Situation and Prospects of Europe, Deptment of Economic Affairs, United Nations, 1948. (to be referred as "European Economic Survey" for remainder of thesis).

In chemicals and fertilizers, both France and the United Kingdom were shipping more to the continent in 1947 than before the war. British exports by 1948 were almost four times their 1938 pound value.[1] Belgian chemicals made up 10.5% of her total value of exports in 1947. Matches, paints and varnishes made up a large part of this. Chemicals such as quinine, and opium and flavoring make up a considerable portion of Dutch exports to Britain, France and the United States. Holland imports both chemicals and fertilizers from France and Belgium and to a lesser degree from Britain.

The recovery of British textiles exports was not satisfactory during 1947. The total exports were considerably below 1937 value but progress was better during 1948. Cotton was the most important textile but relative to 1938, woolens and other textiles had increased more in value. All the textiles together were worth 251.1 million pounds and made up about one-seventh of the total merchandise exports for that year.[2] The importance of cotton piece goods in the total British exports has steadily declined since the end of the first war. In 1925, 19% of the total value was in cotton. This declined to 11% in 1930. The decrease was greatest in the Asiatic markets where Japanese cottons were being sold at cheaper prices. Since the end of this war recovery in cotton has not been in cheap lines, and the place of cotton in the total exports while substantial was less than 8% of the total merchandise exports in 1948.

Textiles for Belgium made up about one-seventh of her total exports in 1939,[3] but this had become 22% in 1947.[4] More than in the other countries Belgian textile exports have been dominated by yarns of cotton, rayon and wool which

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1. Labour and Industry in Britain, op. cit., p. 42.
2. Ibid.
3. Belgian Handbook, op. cit., p. 41.
4. Les Foires Internationales, op. cit., p. 61.

receive further processing in Holland, and Britain. In 1947 she exported two billion francs worth each of flaxen yarn and scoured wool. Since the war the largest volume goes to supply the Dutch looms and the textile industries of the Benelux countries are being constructed to be complementary.

For Holland, textiles made up 5.9% of her imports and 12.4% of her exports in 1947 but she still imported more than she sold. Her imports of the raw materials were coming more from the sterling area in 1948 than in previous years, but her imports of raw cotton remained American. Before the war three-quarters of her total exports of textiles went to Indonesia but since 1945, this share is going to Scandinavia and Africa. While most of the Dutch imports of textiles were from the three neighbouring countries, they figured most prominently among her French imports.

In 1947, the only group of goods in which Holland has an appreciable export surplus was in prepared foodstuffs. The largest item was margarine, but luxury foods made up a large share of the total also. The export value of Dutch gin quadrupled after the war. Most of the prepared food is sold to Britain since there is an agreement that British tin will be sold to Holland in return for Dutch canned foods. The French supply of processed foods for Britain is not nearly so important as the Dutch. The "Economist" puns that the English market is already saturated with French wines. The French cheeses are not as popular as the Dutch or Danish.

Conclusion: The pattern of trade of the Western Union countries developed historically on a basis of imports of raw materials and foodstuffs from overseas and non-industrial Europe which were paid for in part by exports of the finished products of these imports and partly by returns on investments. In spite of the loss in comparative advantage in many of their former lines of manufacture in the post-war period, they continue to be importers of primary goods to carry on their programmes of reconstruction and industrialization.

For the continental countries of the Western Union, European trade was more important than their overseas commerce, but Britain was still a maritime trader. Intra-reginnal trade of this area was largely in certain animal foodstuffs and semi-finished industrial goods. Trade in finished manufactures which were highly specialized was also carried on.

To understand the post-war developments from this pattern, a study of the system of payments which supported this is necessary.

Chapter III

THE INTERNATIONAL SYSTEM OF PAYMENTS

International Trade is the result of international interdependence. The improvement of transportation in the last one hundred years has extended the range of markets and of the products traded. The trading relations of each country have become more complex as this range increased and each has become drawn more closely into a world economy. The economic conditions of each country affected this world system and no country could insulate itself entirely from the effects of conditions in other parts of the world.

In such a complex system, any one country's exports cannot be met in equal value by another country which buys these. Some portion of the imports will have to come from another source. This makes an indirect system of payments necessary if trade is to be carried on easily among all countries. Country A will export more to country B than she imports from B. Country B will export more to country C. With the credits A has against B, she can pay for imports from C. B will pay C with her excess of exports. This is the simplest explanation of a multilateral clearance scheme using trade balances. Obviously if B has a smaller export surplus to C than her import surplus from A, B will have to pay the difference in either gold or some acceptable currency.

A world system of balances is considerably more complex than this simple explanation. The Survey of World Trade for 1928 divides the world into six groups; the tropics (A), the United States (B), other regions of settlement in the temperate zone (C), Continental Europe (D), Non-continental Europe (the United Kingdom) (E) and the rest of the world (F).[1] Each region has an export

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1. Survey of World Trade, 1928, League of Nations, 1929.

surplus with almost every country which follows it on the list and an import surplus from those that precede it. These export surpluses from A, B, C, to D and E groups were paid out of earnings on investment, transfer of debt payments and other invisible items. The United States was an important channel in this system. She imported from the tropics more than she sold but exported more to group C. This pattern is a result of geography and the degrees of industrial development of the three regions. The United States needed tropical raw materials but these regions were not far enough advanced industrially nor wealthy enough to import capital goods from the United States. The temperate countries on the other hand, needed the consumer and producer durable goods produced by the United States. The goods they exported however, were competitive with goods produced in the United States and so they accumulated import surpluses from that country on their commodity trade. These countries still imported most of their consumer goods from the British Isles which had the historical advantage in these markets.

The intra-group payment was as complex as the inter-group. Continental Europe was linked through Germany and the United Kingdom to the other groups.

European payment in 1928, before the depression upset the world multilateral system, was cleared largely through the United States. Although the United States claimed the largest share in Europe's trade deficit, she received more returns on her investments than she paid. The overseas territories which absorbed the greatest share of the investment from the mother countries did not have a comparable balance on commodity trade with them. This apparent contradiction is explained by the role of the United States. Her export surplus to Europe was offset by her imports from those areas which were indebted to Europe.

The outstanding examples of this system of payments were on British and Dutch investments in Asia which were paid through trade with the United States rather than directly with the United Kingdom or Holland. The roundaboutness

was increased when still other countries entered the transfer route.

Germany was the main junction in Europe. Like the United States, she had an export surplus with most European countries and deficits elsewhere, mainly in the United States. But before the transfers went finally home to the United Kingdom or Holland where the bulk of the payments were due, they passed through a number of smaller countries who had exports surpluses to the United Kingdom and import surplus from Germany. There was comparatively little direct trade between Germany and the United Kingdom. Dutch payment was made more directly.

To take a concrete example, in 1928, the United Kingdom had a net import of $1,338 millions from the fourteen European countries and a net export to those countries where heavy British investments had been made. This resulted in an export surplus of $380 million dollars to the Commonwealth which contained half of her investments.

This payments system grew out of the pattern of growth of the different nations since 1870. Improved transportation promoted the production of primary goods in the new countries and a rapid industrialization in the older countries which absorbed the increase in raw materials production. Industrializing countries were able to buy the primary goods with an excess of exports to another country than the ones they bought the goods from. In the beginning of the century, most of the northern European countries were capital exporters. It was the British capital of this period that helped the rapid development of the United States.

Although this pattern of payments was modified by the 1914-1918 war, by liquidation of foreign investments in the United States and by the heavy capital inflow from the United States to Central Europe in the twenties it continued fairly smoothly until the thirties. At that time foreign loans were discontinued and trade fell. This was aggravated by a fall in prices. Thus the early thirties became a period of monetary and tariff barriers and the

roundabout payments could not stagger through all these barriers. Consequently payments became more direct and trading more bilateral. The clearest example of this change is the imperial trade of the United Kingdom, Netherlands, France and Belgium. Their aggregate active balances of 602 million dollars in 1928 in commodity trade had turned to a passive one of 686 million dollars by 1938.[1] This difference was caused by a decline in European investments and by more direct trade between the two groups. Other countries also traded more directly and usually reduced their balances. These were also often used for debt servicing and could not be used in multilateral clearance.

The Growth of Bilateralism Since the end of the War.

The growing pattern of bilateral trading in Europe which has broken down schemes for multilateral clearances is causing much discussion today. While this is blamed as the main reason for the slow recovery of intra-European trade, it is generally agreed except by the most rabid advocate of free trade for Europe that the rise of bilateral agreements was unavoidable at the end of the war and this system is likely to remain prominent until the internal conditions allow a relaxing of the strict controls on trade which exist today. This practice, which is abhorred because of the way in which Germany used it to beat down her less powerful neighbours in the thirties, grew out of the shortage of convertible currency and the different rate of recovery of the individual countries at the end of the war. Currently, the Europeans hold that Marshall Aid dollars should be permitted to be used freely for clearing trade deficits between participating countries to facilitate multilateral clearings so that the need to achieve a trade balance in pairs will be eliminated. American objections to such a use of these dollars are not without cause.

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1. The Network of World Trade, op. cit., p. 36.

Bilateralism in its widest definition simply means a two-country agreement and in this sense is the most common form of commercial agreements. But in international trade parlance, bilateralism usually implies an arrangement which achieves an arbitrary balance of transactions between two countries. The objections to this system is that it limits the development of the trade, not only of the two participants but also of the larger group. It gives unfair bargaining weapons to the strong debtor and strong creditor. A strong debtor may use his large debts to obtain more credit, the creditor may refuse necessary credit and both may use their power to foist non-essential commodities on each other.

As indicated earlier, this form of trading is not a result of the war. Dr. A. Hirschman in a study of five industrial countries of western Europe finds that between 1929 and 1937, there was a growing tendency towards a bilateral balancing of commodity trade. Using the proportion of each country's import and export from one another against each country's total, he calculated indices of bilateralism. According to his studies, Great Britain, Germany, the Netherlands, Belgium and Sweden were trading considerably more bilaterally immediately before this past war than at the end of the twenties. Great Britain which was the least narrow in 1929 became the most bilateral by 1937.[1] This trend was emphasized by the unilateral action of certain great powers which led to transfer moratoria, exchange controls and ultimately to inflexible bilateral balancing. In the depth of the depression, trade was carried on by

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1. A. Hirschmann, "Etude statistique sur la tendance du commerce exterieur vers l'equilibre et le bilateralisme," no page given, as cited by J. B. Condliffe, The Reconstruction of World Trade, p. 283. Dr. Hirschmann uses 100 representing a complete absence of bilateral tendencies and 0 a complete bilateral balance. In 1929 Great Britain was 25.8, in 1937 she was 17.5.

compensation agreements which was little better than barter. Dr. H. Schacht, the Nazi planner, remarked in his outburst that it was "barbaric to be forced to barter machines for cereals like a Negro who exchanges his ivory for glassware."[1] This same planner instituted bilateralism in its most rigid form with commodity agreements, exchange controls and blocked balances. He made trade a political and tactical weapon for his Nazi boss. The little countries who trade with Germany were forced to use similar tactics for a feeble retaliation.

The network of bilateral agreements which arose out of the war as a result of severe shortages of essential goods and foreign exchange and the need for some sort of careful planning to make the best use of limited resources was therefore an extension of the pre-war pattern. Although intra-European trade has recovered substantially under this arrangement, the system has shown a tendency to become more inflexible in its strict bilateral balance of accounts. Usually these agreements are made by governments for definite lists of goods in which the private traders obtain permission to deal. In order to cut down on the demand for gold or dollars, arrangements are made for settlement in the currencies of one or both of the contracting parties. Funds for this procedure are provided by mutual credit at the central banks of the countries. Often substantial credit or debit balances are built up and provisions are made for these to be cancelled by gold or dollar payments. Bilateral trading today is accompanied by a larger number of countries using exchange controls than in the thirties which has led to a disguised network of restrictive quota trading.

Suggestions for More Flexibility

Because of this hardening into these channels, remedies have been suggested but efforts to restore more normal trade channels have not been too successful. The British suggestion of "transferable accounts" which permitted the unrestricted use of sterling on current transactions was undertaken at the

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1. J. B. Condliffe, op. cit., p. 275.

same time as the convertability of the sterling was to have been ensured by the American loan in 1945.[1] Since the suspension of the dollar convertibility in August 1947, this system has been weakened by the British leanings to bilaterally balanced agreements, which were made necessary by her alarming deficit in 1947.

A later attempt has been the multilateral compensation settlement of November, 1947 through the Bank of International Settlement agreed to by France, Italy, and the Benelux countries and with the United Kingdom as occasional members. According to this agreement, automatic compensation would be accepted wherever this would merely reduce existing balances or first category compensations but not to where new balances would be created nor to substitution of credits. Clearings were to be made monthly in gold or foreign exchange. Settlements were not to be demanded before this regular clearing date. Complete clearing of net positions could have been made with dollar settlement and a continued dollar backing for the system which would permit convertability would have made the substitution of one credit in another currency acceptable. But dollar backing was not guaranteed and no country could accept compulsory substitution of any currency without this guarantee. The acceptance of this substitution was left voluntary. In a circuit clearing of this type, however, considerable individual bargaining would still be necessary and without the complete support of the largest trader of the group, the multilateral compensatory ideal did not stand a chance of developing.[2]

Theoretically this Basle clearing system should have worked but it was limited by the lack of the essential conditions to make any regional multilateral clearance scheme function. For the system to work, any one country

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1. The Anglo-American Agreement, July, 1945.

2. In December, 1947, eleven countries had bilateral debit balances of $762.1 million. Complete pooling would have cancelled 278.9 million dollars (37%) but according to rules only 29.2 million was compensable. Actually only 1.7 million dollars were compensated. R. Bean,"European Multilateral Clearings,"Journal of Political Economy, Vol. LVI, October 1948.

should be in approximate balance with the group as a whole in order to eliminate large settlements in gold. A close economic co-operation also requires similar basic governmental philosophy which scarcely exists. Britain achieved balance in 1948 by planned austerity; France hoped to by dollar aid; Belgium, by continued colonial, European, and dollar support of her export expansion, and the Netherlands by trying to combine the British and the Flemish way and suffering patiently as the poor sister of Belgium. Thus there is little agreement among even these four which traditionally have been the nucleus of European clearance schemes.

Liberal credit margins are necessary for liquidity in the system but a limit to the total deficit of any one country is necessary. Belgium today is the main creditor. The 14 billion franc credit that Belgium allowed her creditors in 1947 was not enough to finance them to recovery but she was not willing to extend the margins further. As a consequence, the volume of exports to her neighbours except to Holland have decreased and imports have risen only from the United Kingdom relative to the pre-war years.

The Basle scheme is weak not only because the necessary underlying conditions do not exist but also because it depended <u>on the circuit type of clearance</u> for future compensations and not the automatic or pooling of balances. This system aggravated the general unwillingness to accept automatic applications even for existing balances. If creditors felt that they required dollars for future use, they could refuse payment in another currency especially if they thought they could not be paid in dollars for their claims when they needed them. The refusal of any one of the key countries in a circuit would bring down the whole system of possible circuits. An example is the relation of France, Britain and Denmark in the network at the end of 1947. France was a general debtor except to the United Kingdom and Denmark. Britain also owed everyone except Denmark. With both countries dependent on her, Denmark's decisions would have affected payments to all the countries who were creditors

of France and the United Kingdom.

Belgium has been a consistent advocate of a system very close to the Basle scheme based on the pool type of clearance. This system would set up a simple allocation of proportionate share of the pool in the claim against each net debtor with a credit margin between each pair of creditors and debtors. This, however, still depends on bilateralism. The reason for the general reluctance to fall in with this scheme is the dollar shortage. A net exporter to Europe is interested only in payments of gold or dollars to finance overseas imports. As long as dollars were available bilateral balancing would be advantageous and pooling would be acceptable only if all debtor countries could settle promptly in dollars. But this system would eliminate the use of bilateral bargaining by net importers to obtain further extensions to their balances on the basis of existing trade patterns. Denmark, for example, may choose to increase its credit with the United Kingdom in order to bargain with some other country from which she does not buy as much. If European credit could not be increased, Denmark would not gain anything by bilateral bargaining.

However, financing the clearance of net balances with dollars may easily degenerate into a competition for dollars. Net creditor countries would cut imports and the net deficit countries would not make an effort to reduce their deficits because dollars would be available to finance them. A country such as Britain would suffer curtailments to her few remaining net export countries. Objections may be made to the possibility that dollar aid may be used to pay off balances that had been made on non-essential goods such as French wines and feathers which had previously been sold under bilateral agreements.

The use of the International Monetary Fund during the ERP is discouraged because the directors of the Fund feel that the participants should have good credit rating when the plan ends. In any case, even if the Fund were used only for net balances, the drawing rights of many countries would run out long

before the end of ERP.

An American solution[1] is like the Belgian proposal with strings on the use of the dollar, preventing the use of the dollar aid in payment between participating countries when other currencies are available and making the ERP use for off-shore purchases in Europe conditional on complete offsetting of bilateral balances with each other. It would require a reciprocal "cushion" credit to cover seasonal fluctuations. The E.C.A. could allow temporary additional aid whenever trade in essentials was threatened by shortage of credit and these dollars would be deducted from the total dollar aid to the exporting country. This solution claims that non-compensable balances would not develop because E.C.A. would act as the supervisor to prevent such dislocations. Adjustment by this means would prevent the necessity to revert to bilateral bartering, often in non-essentials, to maintain a balance.

This plan, however, assumes that the participants are able and willing to keep balanced with the group and does not give enough attention to the causes of the disequilibrium which is caused by some chronic net exporters such as Belgium and by others who would require larger credits for a longer period than any one or the whole group is willing to allow. The debtors require aid because of temporary conditions of lagging production and the accompanying internal inflation. There are also countries like France who have a chronic balance of payments difficulties due to inflation which is the result not of low productivity but of lax government policy which for political reasons is not changed. Under such conditions, freedom of convertibility without adequate credit allowances would not be the solution, for some currencies are harder than others and competition for the hard would result in the restriction of imports and expansion of exports of most of the members of the group.

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1. R. Bean, op. cit.

However, the American plan also implies a restriction of imports since the dollar loan is allowed only for essentials by the pool. The restrictions here will be applied "automatically" since there are established credit margins. Probably the definition of "essential" would cause considerable controversy and resentment judging from the current French attitude towards the British definition. European countries including the four Western Union countries have started on developmental projects which rely heavily on imported capital goods. The planners consider them essential but the Americans feel that the present inflationary tendency of these projects more than offsets future services.

This brings up another point which the American plan does not take sufficiently into consideration, the inflationary tendency in all European countries which is especially strong in France. Government services, social security measures, capital development, the pressure for higher real income and an expanding military budget dog all governments and unless the governments take strong budgetary measures, inflation distorts the balance of payments and makes any automatic scheme of multilateral clearance difficult. Britain has instituted these measures, Belgium has not needed to, while France has devalued unsuccessfully twice within a year and Holland in spite of her currency reform of 1946 is fighting a losing battle against inflation.

The Intra-European Payments Agreements

The Intra-European Payments Agreement which grew out of the Marshall Plan negotiations is a combination of the Belgian and American plans but by the British insistence on a restricted convertibility of balances. The basic philosophy of the agreement is that owing to the disequilibrium in intra-European trade and payments, the deficits arising out of these payments must for the time being rank for Marshall Aid just as much as deficits of these countries with the western hemisphere. The estimated deficits and surpluses in intra-European payments provide the basis for the drawing rights and contributions extended to one another of the OEEC countries for monthly

compensations. Once these drawing rights are so used, the contributions are balanced by conditional dollar grants to the creditor countries by ECA. Britain's contributions were estimated at 282 million dollars of net aid and an additional 218 million dollars of drawing rights on sterling balances for the first year of the ERP. Belgium's aid for the same period was 207 million dollars, almost as much as the Marshall aid she is to receive. The Netherlands and France, on the other hand, were to be debtors towards European countries as well as to the Western hemisphere; France for 322 million dollars and the Netherlands for 72 million dollars.[1]

These estimates were made rather hurriedly and often without an accurate or honest basis last fall and are liable to a wide margin of error. After four months of operation, they were found to be far off the actual balances incurred. Attempts are constantly being made by the debtor countries to conform to the pattern of trade dictated by these inaccurate calculations. Thus the payments scheme has tended to stiffen the rigidity of the existing bilateral patterns of trade. If this system continues, it will build up a pattern of trade for Europe based on the conditional grants of Marshall aid. Since this is a transient support, such an artificial pattern cannot be maintained after 1952 when the grants will cease.

The lack of success of this system, based on inelastic estimates of deficits and surpluses and bilateral compensations, will probably lead to a revamping of the agreement for the second year of ERP. The payments scheme will most likely relax into a more liberal "pool" type of clearance. The pool will contain all the conditional grants of dollars and the participating countries will compete more freely than in the past year for these dollars. This would automatically stop the countries now incurring continuing deficits. The disequilibrium in Europe, however, is still serious enough that complete convertibility would not work. Some sort of brake will be required for the chronic creditor countries so they will not corner the supply of hard

1. The Economist, September 18, 1948, p. 466.

currencies. In this respect, the larger creditors may still be called on to finance part of their surpluses by extending credits to their less fortunate neighbours.

Last year, Britain lead the faction opposing the complete convertibility of balances because she was haunted by the spectre of the 1947 run on her dollar reserves by those countries acquiring large sterling balances. She feared that if a free pooling system of compensations were adopted, there would be nothing to prevent France and other debtor countries from using sterling drawing rights to pay Belgium which would increase the Belgian holdings of sterling above the agreed ceiling. Belgium could then demand a gold or dollar settlement of the amount above the agreed limit. This year, with the increase in the sterling trade of the sounder European countries, Britain will probably be more amenable to the suggestions to relax the rigid bilateral compensatory system.

The basic adjustments in trade balance necessary for those countries which in the pre-war period relied on overseas earnings, would also require adjustments by other countries which relied on their traditional export surplus to the former countries to buy from overseas. The United Kingdom is the largest example of such a key country. The extent to which these dependent countries will need to adjust depends on whether Britain will expand her exports to Europe or contract her imports. If she expands her exports in the line of goods usually imported in Europe from the United States and if she can import from the continent, goods she has previously obtained from overseas, the adjustment for the whole area will be simplified. Of course, the same conditions apply to all European countries on a smaller scale. Britain's position is unique because she is the largest and because through her money market, she was the pre-war clearing house for Europe. This influential position makes her the key in any proposed multilateral clearance scheme for Europe.

The system of bilateral trade developed in Europe through the limitations imposed by hard currency shortage makes it necessary for each European country to be in approximate balance with the others since scarcely any survived the war with their pre-war overseas earnings to finance European deficits. But bilateral trade agreements should not have to lead to bilateral balancing. If a structure of trade could be developed with each country having both import and export surpluses with other European countries to be offset one against the other in a multilateral clearance scheme. So far, however, multilateral compensation has not worked because it cannot provide the necessary credit for those chronically deficit countries. The answer here is capital either as unilateral credits or long term bilateral agreements. The ERP with the Intra-E.P.A. is the temporary palliative. The danger in the administration of the ERP is that it may develop a pattern of intra-European trade relying not on comparative advantage and economy but on the pump which is priming it. The job of the ECA is, therefore, the difficult one of directing the Intra-European Payments Agreement so that it will prevent the resumption of bilateral payments. Instead, it will have to guide the agreement into more multilateral channels. Yet the agreement must also make allowances for payments among countries in differing stages of recovery so that the creditors will not corner all the hard currencies and force the countries still requiring aid to slow down their progress by lowering their level of trade. This will require a nice balance in applied economics alone without taking the political aspects into consideration.

Chapter IV

PRODUCTION IN THE WESTERN UNION COUNTRIES

The problem of trade and payments in Europe is seriously affected by internal conditions of production. These conditions also contribute to the resultant exchange difficulties which are currently aggravating trade problems. The Western European Union includes most of the pre-war industrial countries, the biggest importers of food and exporters of manufactures of Europe. For this reason they are given the leadership in the speeding of continental recovery. A review of the individual and joint problems of production and the factors behind them is therefore essential in an examination of their trade.

Agricultural Production:

Agriculture is the chief source of food, and in the production of this, these countries are traditional deficit areas. Since the end of the war, they have suffered a further limitation on their supplies for a number of reasons. Most of those are direct results of the war. The land has suffered overintensive cultivation with insufficient fertilizers to maintain wartime production and the supply of fertilizers has not been replenished due to industrial difficulties. Nor is the productivity of farm labor as high as in the pre-war years or as high as in the western hemisphere. This low productivity is due in part to the low calorie diet of those employed and to the insufficient use of farm machinery. A depletion in the stock of livestock has resulted from the necessity to restrict the import of animal feed. This has caused a decrease in the supply of animal food products and animal manures.

These conditions were aggravated by extremely bad weather in 1947 which not only resulted in poor harvests but also affected the production of the following year by its effects on seed supply and winter feed for animals.

In addition to this internal reduction in supply, the external sources on which these countries were so dependent has been curtailed by monetary,

political and transportation difficulties. In 1948, tomatoes rotted in Italy because of transportation and dollar shortages and Dutch vegetables could not be sold to Germany for political reasons. Such difficulties stand in the way of distribution of food supplies among countries and are tending to promote economies which are more self-sufficient for their needs even though less efficient.

Table IX

The Level of Agricultural Production
and Percent of Total European Production,[1] Western Union Countries
1945-46 and 1947-48
Index Number 1935-1938= 100

Country	% of Europe[1]	1945 - 46	1947 - 48
Belgium	2.09	58	72
France	15.72	50	73
Netherlands	2.58	56	79
United Kingdom	5.89	106	106

1. Excluding Russia

Source: European Economic Survey, op. cit.

In the inter-war period, these importers, of which the United Kingdom was the world's largest, imported basic agricultural commodities and exported them in a higher state of manufacture. French and Belgian sugar, Dutch dairy products and the oilseed crushing industry are examples. All five countries depended on imports from overseas of seeds and copra to supply their agricultural, industrial, and food needs. Their livestock depended on the by-product of this industry while surplus oil was exported.

For meat and dairy products, Netherlands was the only net exporter and as the others depended on their colonies and the agricultural countries of eastern Europe. Since the war the production of meat is only one-half of the prewar level in Western Europe. This average includes Denmark and other suppliers of industrial Europe. In fruits, tea and coffee, they were also

dependent on their tropical colonial supply. At the moment, due to the devastation of the Dutch East Indies and the decrease in the Palestinian and Spanish supplies, there is a greater dependence on dollar sources for fruit.

In the production of potatoes and fresh vegetables, these countries are almost self-sufficient but in the staple-grains, only France had a pre-war exportable surplus and this has not yet been regained.

Table X

Land Area & Acreage of Five Principal Crops
in Western Union Countries
Pre-War & Post-War Years

Country	Total Arable Land	Acreage in Five Principal Crops (wheat, rye, oats, barley & potatoes		
		1935-39	1946	1947
Belgium-Luxembourg	2,870	1,948	1,669	1,647
France	51,227	27,649	22,516	22,364
Netherlands	2,436	1,684	1,916	1,743
United Kingdom	13,131	5,946	9,518	8,858

Source: Data supplied to the European Recovery Programme by the office of Foreign Agricultural Relation, U. S. Dept. of Agriculture, as quoted in the Commodity Report to the European Co-operative Administration, Department of State, Washington, 1948.

Although by 1946 both the Netherlands and the United Kingdom exceeded their pre-war level of acreage in the principal grains and potatoes, the decline again in 1947 suggests that the increase was a temporary measure. France is the farthest behind in reclaiming the pre-war acreage while the United Kingdom has increased its cultivated area by almost 60% since before the war.

Wine and tobacco considered as necessary as food are big import items of the United Kingdom, Belgium and the Netherlands. For most of Europe, tobacco was the only agricultural product grown in larger quantity at the end of 1946 than before the war. France is the only country of the five which expects to increase tobacco growing and she is also a supplier of wine, chiefly to her northern neighbours. Her wine output is only a half of pre-

war, however, due to the deterioration during the war.

In fertilizer, these five are relatively well off since they were among the chief pre-war producers of the world. The need to curtail consumption in order to supply the other Marshall Plan countries whose supplies have been shortened by the virtual loss of the German source still keeps the total supply for the five below efficiency level. Germany was an important pre-war producer of all types of fertilizers but today, the manufacture of nitrates is forbidden for political reasons and sixty percent of the potash plants are in the Russian zone. Although the United Kingdom and Belgium are net exporters of nitrates and France of potash, Europe still depends on North American fertilizer supplements.

Farm machinery, the other essential for increasing agricultural production has been improved appreciably only in the United Kingdom. The slight increase in tractors has not been offset by the decrease in the number of draft animals. In France, the number of power units declined 10% from the 1935-39 level, during the war. Much of the decline is due to obsolete machinery and a lack of repair parts for machines that are still serviceable. There are shortages also in steel hand tools as well as in the larger machines. An increase in mechanization will release a portion of the area now in use for animal feed and make it available to grow more food for the human population. Not only will increased mechanization allow more food to be grown but it will free more labour to fill the growing service demands in these countries. The United Kingdom has recovered her position as the leading farm-machinery supplier of Europe and the large relief imports of Europe from North America immediately after the war have given way to the traditional English source.

Textile Production

In finished textiles, these five countries were the leading pre-war producers and exporters. British cotton manufacturing which was contracting in the thirties because of foreign competitive pressure, was further depressed

by the closing of almost half of the mills during the war. Although the factories of the three continental countries are producing at pre-war rates, British recovery has been slower.

Table XI

Total Arable Land & Estimated Number of
Tractors & Work Animals in Western Union Countries,
Pre-War and Post War Years
(thousands of power units)

Country	Acres	1938 Tractors	1938 Animals	1938 Total Power Units	1946-47 Tractors	1946-47 Animals	1946-47 Total Power Units
Belgium-Luxembourg	2,597	1,373	334	255	5,000	179	192
France	51,227	33,000	5,330	4,005	58,000	4,914	3,610
Netherlands	2,456	5,003	240	260	6,000	211	235
United Kingdom	13,131	60,000	944	1,182	190,000	651	51,363

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Source: Committee for European Economic Co-operation, as quoted in E.C.A. Commodity Report, op. cit.

In the face of the world shortage of cottons, and following the pre-war trend, the British textile manufacturers are turning more to producing expensive weaves for the hard-currency markets. The price control on "bread and butter" cloths on the domestic market as well as the increasing cost of raw cotton and of labor tend to harden the production into these lines. This shift is causing concern to those Britons who feel that the cheap cotton markets lost to Japan in the inter-war years should be regained now. This may not be unjustified criticism now that there is growing competition in the expensive textiles from France and Belgium whose costs are lower.

France and Belgium are now up to pre-war volume in their manufacture of rayon and other artificial fibres. For both these countries, these materials make up a large part of their total textile output.

Belgium, France and the United Kingdom are the largest European consumers of raw wool which is imported mainly from countries in the Southern Hemisphere.

The war used up the higher grade wools and the stock today which is almost at the pre-war level is made of a large part of low-grade material. Since less skilled labor is needed for the manufacture of fine wool fabrics, it is likely that production of these will continue.

In textile manufacturing considered as a whole, Belgium has far outstripped Britain in her recovery to pre-war levels. At the end of 1947, she was making over one-third more than 1938 while Britain was 10% below that level. Both France and Holland were considerably behind their neighbours' achievement.

Table XII

The Level of Textile, Production; Western Union Countries
1946 and 1947
Index Number 1938 = 100

Country	1946	1947[1]
Belgium-Luxembourg	115.9	135.1
France	67.9	86.9
Netherlands	55.2	83.2
United Kingdom	84.5	86.5

1. First three-quarters averaged

Source: European Economic Survey, op. cit.

Fuel Production:

Of the three sources of power, coal, oil and electricity, coal production is at present most important and widely discussed for internal production since oil is totally imported and the use of electricity is limited by reconstruction bottle-necks. Coal for these countries was a contracting industry in the immediate pre-war years as electricity became more popular and replaced the traditional fuel.

The surveys of the European economic conditions claim that since the United Kingdom was the chief pre-war exporter of coal, her recovery in export position will solve Europe's coal problems. Unless improvements in methods can be made, the British mines will not likely achieve their pre-war output. Coal

at the end of 1947 was being produced at a loss due to rising costs especially in wages. The British National Coal Board had a deficit of 7 million pounds at the end of the third quarter of 1947. European coal mining generally requires more equipment than American because of the deeper and more irregular seams. In spite of what has been said of the inefficiency in British coal mining, it is considerably more efficient than the French or Belgian. But even this is only 26% as efficient as the United States. An extreme example of this is the difference in underground haulage where one worker is required for five tons in England and for fifty in the United States.[1]

Recognizing the vital need for coal, these countries are attempting to increase production by directing reluctant labor to the mines by offering better housing, better rations of food and other forms of incentive pay. But machinery, power, pitprops, needed to repair war damages or neglect, are still in short supply. The French and Dutch mines suffered extensive war damages and flooding but the Belgium and British escaped with less damage. Altogether, the main coal producing western bloc intend to be able to produce 95% of the equipment for their projected improvements in the mines but they will need imports of specialized parts to avoid bottlenecks.

Of the group, France was the biggest importer in the pre-war period, depending on outside supply for one-third of her consumption. The Netherlands had similar requirements, but Belgian import needs were small.

Relatively, Britain is the farthest behind in recovery to the pre-war level and she is the only one of the group who has not set her goal higher than the highest pre-war year.

Although Western Europe's share in the total world demand for petroleum is small, yet oil still constitutes an important part of her fuel for trans-

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1. Reid Report as quoted in The Economist, Feb. 7, 1948.

portation and industry. The demand will be increasing with the proposed mechanization of agriculture and the necessary improvements in all branches of transportation. Today 77% of Europe's oil is imported from the western hemisphere but by 1951 all of their needs will come from the middle east and other pre-war sources, since by that date, the United States expects to be a net importer of oil. The chief suppliers today are United States and Britain, but last year, British oil was seven million barrels short of meeting the sterling area needs and British requirements. Improvements in British oil investments in 1948 in the middle east has increased the importance of that source from 23% in 1947 plus 35% of the total British needs. Most of the dollar credits spent for oil is on that produced by American companies outside of continental United States.

Table XIII

Coal Production of Western Union Countries
for Highest Pre-war Years 1938, 1946 and
Estimated Goal - 1951, (thousands of metric tons)

Country	1929	1938	1946
Belgium	26,940	29,585	22,764
France	54,977	47,562	49,298
Netherlands	11,938	13,659	8,794
United Kingdom	262,000	231,000	193,000
West Germany	145,279	152,788	63,266
All Others plus total	566,921	551,533	398,348

1. Including brown coal on a ton for ton basis with hard coal.

Source: CEEC estimates as quoted in E.C.A. Commodity Report, op. cit.

For the other large source of power, electricity, the expansion in generating plants is not enough to meet demand. Today the annual increase in consumption is 15%, almost double that of the pre-war years. Construction has been interrupted by war and plants have not been kept up. Consequently many

many units are operating at almost capacity, leaving an insufficient margin to meet peak demands.

The planned annual expansion does not amount to more than 10% so that the gap between the supply and the need will be increasing. Any more ambitious plans will be hindered by the limited capacity to produce electrical equipment beyond the present need for maintenance. To fill the gap between limited national ability to meed the demands, several large international plants are planned. Two of these situated in Germany are to supply France and the Benelux countries. But the undertaking is yet a few years off and depends on imports of capital equipment. Thus the shortage of electric power can be expected to remain one of the major bottlenecks in production.

Iron and Steel Production:

Since the lack of capital equipment is the most serious drawback to recovery of production in all fields, it is essential that this basic material be supplied to provide the replacements and the new equipments necessary. The European continent in the pre-war years did not need outside supplies of iron since most of the raw iron was supplied and the finished product used in the continent. The French and Scandinavian mines and smelters supplied the British, Belgium and German finishing mills.

Table XIV

Level of Iron & Steel Production of Western Union Countries
Index Numbers, 1938 = 100

Country	1946	1947 [1]
Belgium -Luxembourg	101.1	119
France	71.4	95.4
Germany (3 West Zones)	20	23.5
United Kingdom	114.5	107.1

1. Average of first three-quarters.

Source: European Economic Survey, op. cit.

Recovery in this line is encouraging especially among the leading pre-war producers of Europe. Although both Belgium and Britain are considerably above their pre-war level of production, the other large supplier, Germany is only making one-quarter of its 1938 output.

Since this war France who in 1938 exported 16.7% of her steel output is barely self-sufficient, the Netherlands which was self-sufficient is a net importer especially of finished steel, and while Belgium has enough crude steel, Britain needs imports of this type and both the latter countries export finished steel. The crude steel supply is at present insufficient to fill the existing and projected finishing capacity in all these countries. The United Kingdom under the Marshall Plan has a $600,000,000 programme of which $60,000,000 is to be imported equipment, while Netherlands intends to carry on its improvements entirely on imported equipment. This shortage of crude steel has led American critics to suggest a scaling down of the improvements and a vigorous campaign of scrap collection in Europe including the dismantling of German factories which are due to the allies as reparations. France has not hesitated but the British would rather stop collecting from this unsatisfactory source, realizing the damage to their reputations in enforcing the peace settlement at this late date is more than the value of the steel. But the director of the Marshall Plan is apparently interested only in the most efficient material use of the dollar and insists on collection by continued dismantling.

To discuss these problems and to gain greater co-operation, the major steel producing countries have held several conferences. Since this group includes the United Kingdom, France and Belgium, members of the pre-war steel cartel, the United States urging co-operation on the one hand is watching to see that such a group does not re-form with a program of restricting production when the immediate shortages and needs are met.

Timber Production:

Timber together with steel is needed in housing, shipbuilding, coal mining,

packaging and improvements in transportation. Because of the virtual elimination of the large pre-war sources of imports, Russia and the Baltic states, there is an increasing demand on the Western hemisphere. But the total need cannot be filled and there is likely to be a deficit for some years.

The United Kingdom was the largest European importer in the thirties and today she is joined by France whose forests have been overcut and burned and who is hampered by a severe shortage of lumbering equipment. Belgium and the Netherlands remain as dependent as ever on outside sources.

The shortage in these countries is part of the overall deficit in Europe where the previous exporters are anxious to conserve and others who like France produced a good part of their needs have overcut during the war. Before the war, western Europe imported 32% of her sawn timber from the eastern European countries. These areas since the war have sold only negligible amounts because of their own increasing consumption. Therefore the softwood imports from the North American continent have increased and South America is supplying more hardwoods. Today, Canada is the world's only net exporter of timber.

Transportation:

The war damages to the transportation system which was one of the main bottlenecks in production at the end of the war has been largely repaired but as in other lines of production, France and Holland are behind Britain and Belgium. Although railways have made a comparatively rapid recovery, the complementary inland water transport system is not being used to fullest capacity on the continent, especially in France.

For freight transportation in all countries, the volume of goods traffic or the length of the haul, is considerably higher than the volume of goods loaded. This may be accounted for by the decrease in water haulage on the continent but the same strain on the railways in Britain suggests that there is a structural change in the industry, and possibly a temporary change in location. Materials which were available close to the centres of manufacture

now must be gathered from several and more distant sources. On the continent coal traffic by rail has increased markedly. This burden is causing strain on the railways which are operating in some cases with only 90% of their pre-war number of box cars and less turn-arounds where organization is not efficient. Many locomotives, freight and passenger cars have been recalled from the scrap heaps while the latest pre-war models requisitioned by the German during the war have not always been recovered. This has left the continental countries with a burden of obsolete equipment until their factories receive the steel to replace material that is wearing out.

Table XV

Level of Freight Transport by Railway in Western Union Countries
Thousands of Tons, Millions of Ton-Kilometres
and Index Number 1938 = 100

Country	Goods Loaded			Goods Traffic		
	Quarterly Average 1938 thous. ton	1946	1947[1]	Quarterly Average 1938 thous. ton kilometres	1946	1947[1]
Belgium-Luxembourg	15,750	81	92	1,287	91	110
France	33,250	94.5	104	7,365	123.5	140.3
Netherlands	4,000	81	94.7	590	78.2	94
United Kingdom	64,600	101.8	98	6,540	130.8	123.3

1. Average of first three-quarters.

Source: European Economic Survey, op. cit.

The industrial districts of France and the whole of the Benelux region are affected by the serious conditions of German transportation. The interdependence of the transportation system in that region makes the problem more severe for industries depending on German coal and on the cross-hauling of goods through German territory. Political boundaries, aggravated by the ubiquitous dollar shortage, here also complicates international transportation. Belgian and Dutch tugs formerly used on the Rhine lie idle instead of carrying coal

cheaply for France or Germany because payment is demanded in dollars.

In the supply of rolling stock, Belgium and the United Kingdom can meet their own and their near neighbours' requirements in passenger cars and locomotives but freight cars will be short.

It would seem that in order to ease the transportation problem, there is a need for the rationalization of the transport scheme within the countries and also for more international co-operation to get the maximum use of existing capacity. This should help the situation until replacements become easy and speedy.

For these countries who are so dependent on overseas supplies for their factories, the maintenance of a merchant fleet is vital, especially since the dollar shortage makes the use of the existing American fleet impractical. The immediate world shortage is in tankers since the American increase in dry cargo vessels makes up for the European war losses. Besides their own needs, the former maritime nations have an eye on selling their shipping services for hard currency.

Table XVI

Merchant Tonnage of Western Union Countries
1938 & 1947 and War Losses
in Thousands of Deadweight Tons
of Dry Cargo and Tankers

Country	1938	War Losses	1947
Belgium-Luxembourg	498	430	570
France	2,848	2,047	2,960
Netherlands	3,004	2,038	3,070
United Kingdom	22,470	15,360	20,150

Source: C.E.E.C. Report as cited in ECA Commodity Report, op. cit.

Due to war losses and obsolescence, the fleets of all the countries are below pre-war in size and these countries plan a programme of building based

on replacement not only of their own vessels but also of the defunct Japanese and German fleets. This expansion furthermore depends on an increase in normal trade over the pre-war level to replace the present swollen traffic in reconstruction goods, as the war damaged countries recover. This diversion of the limited supplies of steel and manpower from the immediate needs in other lines of industrial production to a channel not immediately needed does not seem economic to the Americans.

The United Kingdom, Belgium, Netherlands and France together owned 36% of the world's 1938 merchant tonnage. Today they operate on 25%. France and Belgium intend to double their pre-war tonnage by 1951 according to their CEEC estimates.

Since the problem in shipping today is not lack of facilities but that of difference in ownership, the Americans suggest a short-run policy of renting their war surplus ships to the countries which need shipping now, in order that they may put off immediate building. This solution does not satisfy the European countries however, since they claim, a long holiday in shipbuilding would cause a deterioration in labor skills and in the shipyards besides permanently losing for them their competitive position in world shipping.

Manpower and productivity

With the exception of France, the Western European countries have increased in total population during the war. This increase has been in the working age group. In allocation, the number in agriculture has diminished while in services has increased, but the industrial manpower remains the same as the pre-war level. The proportion of Britons in agriculture however has not decreased. The main branch of service demands which has expanded during the war is the public administration which has increased in all countries. The volume of employment has increased generally and the duration of the working week has been lengthened. In France it has risen from 39 hours of 1938 to 45 hours in 1947. In the industrial labor force, there has been a shift from the

Table XVII

Total Population, Population of Working Age[1] and Working Population in the Western Union Countries in Pre-war and Post-war Years (000,000)

Countries	Total Population		Population of Working Age[1]						Working Population[2]	
			Pre-War			Post-War				
	Pre-War	Post-War	Total	Men	Women	Total	Men	Women	Pre-War	Post-War
Belgium	8,305	8,389	5,487	2,832	2,655	5,583	2,856	2,727		
France[3]	41,126	40,400	26,149	13,123	13,125	26,100	13,000	13,100	20,500	20,810
Netherlands	8,635	9,630	5,425	2,770	2,665	5,900	3,000	2,900	3,500	3,900
United Kingdom	48,000	49,750	32,000	15,950	16,050	32,450	16,370	16,080	19,750	20,357
Total	106,066	108,169	69,061	34,675	34,495	70,033	35,226	34,807		

1. Working Age: Women, 15 - 59; men, 15 - 64.

2. Working Population includes following number of women:

	Pre-War	Post-War
France	7,400	7,750
United Kingdom	5,094	5,739

3. France. "defacto" population, 1946 adjusted for military forces abroad.

Note: Pre-war and post-war years for the different countries are:

Belgium & France	1938,	1946.
United Kingdom	1939,	1947.
Netherlands	1937,	1947.

Source: European Economic Survey, op. cit., p. 197.

heavy to the light type of work, and such industries as coal mining suffer manpower shortages.

The increase in production has not been as great as the increase in the labor force, however, and productivity is, therefore, still below the 1938 level. A large increase in output in 1946 was accompanied by an increase in productivity but when in 1947 output slackened, the productivity of labor also slowed down. This relationship may be explained in factories where output is limited by shortages in materials instead of lack of demand and the labor force is retained even if there is not enough work. This concealed under-employment was automatically reduced when supplies of raw materials became available.

There are numerous other factors causing low productivity which can be roughly divided into those stemming from the employer and those from labor and from general economic conditions which affect both. On the employer side, the quality of the existing equipment, inefficiency of organization and the result of inflation on his costs of production are some of the causes. On the employee side, absenteeism resulting from poor health, inflation and rationing requiring long queueing, and the lack of housing are the immediate reasons for his inability to produce as much as in the pre-war days. From both sides, productivity is reduced if the resources are diverted to less efficient uses made necessary by intra-European trade difficulties which has hampered imports of goods made more cheaply in another country. The high degree of inflation especially in France has been the cause of much labor unrest. But except in France, political instability is not an important cause of dissatisfaction.

Conclusion:

Compared with the aftermath of the first war, these industrial countries have made good recovery in the production of most of their former lines. They are held back from complete recovery, however, by some internal conditions which are not entirely results of external trade.

The productivity of their labor force depends on imported foods which is

currently curtailed. Internal expansion of agricultural production is dependent on increased mechanization which is held back except in the United Kingdom by a shortage of steel. The production of agricultural goods depending on foreign imports are also hampered. Although immediately following the war, the acreage in grains increased, the subsequent decrease suggests this is not economic. Of note in farm production generally, is the increasing volume of tobacco growing in the face of other shortages. In fertilizers these countries are relatively well-off.

In the manufacture of textiles, these countries again depend on external sources of raw materials. There is a tendency here for the manufacture of the more expensive weaves in all kinds of materials. Belgium is the farthest ahead in recovery with Britain a lagging second.

Of the three kinds of fuel, coal is the most satisfactory in supply at present. Oil must be imported largely from dollar sources and the generating capacity of electricity is limited by the inadequate supply of equipment goods. Before long, oil may again be bought from pre-war sources but the plant capacity of electricity will be short of the need for some years. Coal production is limited by labor shortages, low productivity of labor and the high operating costs.

Iron and steel upon which most of the production depends has made the best recovery but is still short of the pressing demands to relieve various bottlenecks. In all countries but especially in Belgium and Britain, there is a shift to finished goods which has resulted in a crude steel shortage in comparison with the capacity for finishing.

The shortage in timber and wood products is the result of the loss of the pre-war source in eastern Europe as well as the result of the overcutting during the war of the home forests. There is a current world shortage and the European needs for housing, shipbuilding, and transportation may need deferring for a few years.

In Transportation, beside the obsolete equipment and the pressing needs for repair and replacement, there is also room for improvement in co-ordination of the different types of transportation such as the railway-water system of the continent. International co-operation would make further use of the existing facilities which are idle. There is, also, an immediate need from extra-European sources for freight-cars which the steel mills there cannot make. In maritime transport, the losses and obsolescence suffered by these nations have caused them to lose their place in world shipping. The American plan for an interim rental of ships to prevent the diversion of steel and labor now is not being met with favor. The difficulty is in the ownership of the existing facilities rather than in actual worlds shortage.

The productivity of labor in all these countries has not come up to the pre-war level. How much of this decline is due to the lack of suitable equipment and how much to other political and social conditions is difficult to determine. Labor seems to have moved from agriculture to the expanding service demands and stayed about the same volume in the industrial plants. In the industrial work there is a shift from the light to the heavy. Since employment is almost at the full level, any increase in output will have to come from increased productivity and that can only be aided by the improvements in other production which will make more and better equipment possible.

Chapter V

THE BALANCE ON CURRENT ACCOUNTS

An adverse balance of payments together with the accompanying scareity of hard currencies required to maintain imports is a critical feature of Europe's current economic situation. Since the war Europe has suffered a widening gap between imports and exports and in addition there have been adverse changes on other overseas transactions. These changes have made difficult adjustments with non-European countries necessary.

For reasons outlined in this chapter, the discussion has tended to concentrate on the current account side of the balance of payments. Some of the factors responsible for the deficits, why they are concentrated in the United States, how it has been financed and the possibility of restoring a balance will be briefly examined in this chapter.

First of these is the change in invisible items. Adverse shifts in receipts from investments, shipping, travel expenditures and other service account for much of Europe's present huge deficit on current account. The change in British and Dutch investments and shipping has had a more profound effect on their individual accounts than for any other European country. Before the first World War, these invisible receipts had permitted a substantial excess of imports from overseas countries, and the economic structure of these countries had become adapted to the inflow of income from these sources. An import surplus in merchandise resulted. The wartime liquidation of these investments and the impairment to the earning power of other invisibles has cut down this source of payment for imports. For example, the British income on invisibles changed from 232 million pounds in 1938 to a disbursement of 226 million pounds in 1947. A considerable portion of the change in invisible

items is in shipping and other service transactions. This can be traced to the heavy dependence on American and other foreign shipping service for the greater volume of bulky reconstruction cargo being imported into Europe since the war, and on the wartime losses in tonnage which makes this dependence necessary. An additional reason is the heavy military expenditure of Britain and Holland in the Near East and in South-Eastern Asia.

Another factor in the current account deficit is the change in the balance of merchandise trade. This in turn is made of the change in the real volume of goods exported and imported and changes in the price at which these goods have been sold. Of the two, the change in price is the more important cause of the current disequilibrium. If the exports and imports were in balance, price changes of equal amounts would not change the trade balance but the pre-war merchandise deficit swollen by post-war requirements has been increased by the world upsurge in prices. To the extent that import prices have tended to rise either more or less than export prices, the effect has been either to accentuate or moderate the impact of the general price increase unless, of course, the price differential affected the quantity of the goods traded.

For Europe as a whole the price of imports has risen in terms of the cost of exports. There are, however, widespread differences among the individual countries. In 1947, the cost of Britain's imports had risen more in terms of her exports than for any other European country. Measured in terms of 1938 as 100, the index of the terms of trade for Britain was 119. Belgium, the most favoured country in Europe next to Bulgaria, had an index of 72.[1] Thus the terms of trade for Britain had become more unfavorable than for the continent generally.

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1. The index of the price of both imports and exports are computed with 1938 as 100. The index of export prices is then divided by that of imports. European Economic Survey, op. cit., p. 56.

In the last year these have improved slightly. In October 1948, according to The Board of Trade release, the index of the terms of trade was 114.[1] The favorable change in the terms of trade for the continental countries reflects the internal inflation and is probably harmful in its effect on the total deficits on current account. These higher export prices have met with sales resistance especially in the hard currency markets and have probably diverted exports to overseas soft-currency areas protected by exchange controls from price competition.

A balance, however, cannot be achieved by mere changes in prices alone. There is some reason to believe that the elasticity of demand for European exports is greater than that of the European demand for imports at the present time. The European deficits would be decreased if the import prices should fall in relation to export prices. If export prices came more in line with world competitive ones, the volume would probably increase and the total sales increase would ease the merchandise deficits. Ultimately, the equilibrium in the balance of payments will have to be achieved by an expansion in the real volume of exports or a decrease in the real volume of imports. The increased European dependence on the United States is due partially to the increase in American productivity in the inter-war period, and partially to the increased diversification of the economic structure and the shift in trade patterns by non-European overseas regions. The latter areas have turned more towards the United States and away from Europe for their imports.

Although the volume of financial aid given by the United States to Europe during and after the second war is many times greater than after the first, the ratio of American exports to Europe to the American gross national product is smaller. This ratio was 4.4% in 1919-1920 but merely 2% after 1945.[2] Because of

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1. The Economist, Dec. 4, 1948, p.980.

2. The European Economic Survey, op. cit., p. 61

the increase in American production and the decrease in Europe's ability to buy out of its own foreign exchange income, the assistance given by the United States has taken a smaller share of American resources.

The increased diversification in the United States has decreased the ratio of imports to gross national product since 1945. This decline has been accentuated by the shortage of importable goods in Europe and the Far East and has made the American economy less dependent on imports than before the war. Europe, on the other hand, has become more dependent on imports.

In the inter-war period, the European merchandise deficits in the United States were partly offset by American import surpluses from the rest of the world. Since the second war, the rest of the world has joined Europe in buying more from the United States than they sell to her.

These general statements apply to all European countries in varying degrees. Among the four Western Union countries there are wide differences in the balance on current account.

The Current Accounts of the Western Union Countries

The United Kingdom

The British imbalance on current account, of course, is the largest of the group. She had suffered the greatest changes in her shipping and investment income and paid more for her imports in terms of her exports than any other European country. Before the war over 4,000 million pounds were invested overseas and the income from these made up nearly a quarter of her total receipts. At the outbreak of the second war, the British Empire had 30% of the world's shipping tonnage which earned 12% of Britain's income. By June 1945, she had sold 1,118 million pounds of her overseas capital holdings. Her gold and dollar reserves which had shrunk from the prewar 864 million pounds to 453 millions were required to cover the needs of the sterling area sharing in the dollar pool. Her pre-war debt of 769 million pounds was multiplied five times by

sterling debts alone.

Exports were reduced to 41% of the pre-war level and the British Empire merchant tonnage was reduced to 23% of the world total. The rapid liquidation of foreign holdings had reduced income from overseas investments to less than 100 million pounds.

1947 was the critical year for Britain. The adverse balance on current account in 1946 of $1,600 million rose during the first half of 1947 to an annual rate of $2,800 million. Of this amount, the dollar deficit increased at an even more alarming rate. For the same period it rose from $14,000 million to an annual rate of $3,200 million. In July 1946, $3,750 million in American credit was extended to Britain. This was intended to last until 1949 or 1950 but only $400 million remained in September 1947. Her dollar reserves at that time consisted of the remaining American credits, $500 million remaining of the Canadian credit and $2,400 million in gold and dollar reserves. The last was the reserve for the whole sterling area which had a total of $14,500 million outstanding against the United Kingdom.

Table XVIII

The Current Account of the United Kingdom
in millions pounds at current prices

	1938	1946	1947	1948
Total Payments for Imports (f.o.b.)	835	1,092	1,574	1,768
Receipts for Exports and Re-exports	533	888	1,125	1,550
Surplus(-) or Deficit (-) on visible trade	-302	-204	-449	-218
Invisible Income (net)	+232	-176	-226	+ 98
Total Surplus(-) or deficit(-)	- 70	-380	-675	-120

Source: Economic Survey for 1948 and 1949, presented by the Chancellor of the Exchequer to Parliament, March 1948 and 1949, Cmd. 7344 and 7647.

Post-war recovery which had proceeded favorably in 1946 hit snags in 1947. First the failure of the European crops in 1947 forced up world prices. This affected the United Kingdom, the greatest food importer particularly. By mid-1947

the f.o.b. price of her imports were 30% higher than in 1945 and this considerably decreased the purchasing power of her North American credits. The food shortage in Europe coming at the same time as the end of UNRRA aid intensified the world dollar shortage and made it difficult for her to husband her dollar reserves. Thirdly, the expansion of British exports was slowed down by the fuel shortage of February 1947. The volume of exports by the fourth quarter of 1947 was only 117% of 1938, far short of the 175% which had been the aim.

To correct this deficit, Britain has maintained a strict control of imports and has strenuously promoted the expansion of exports. During the first half of 1947, imports were limited to about 75% of pre-war totals despite the two million increase in population. In order to provide the raw materials for the export expansion, the cut has necessarily been heaviest in imports of food. Grain imports were at 64% of 1938 volume, dairy products at 68% and meat at 78%. These were further reduced at the end of 1947 when reserve depletion reached such alarming proportions.[1]

1948 presents a marked improvement over the previous year. The provisional deficit on current account has been reduced to 120 million pounds. This has been achieved by cutting the dollar deficit in half by control of imports and expansion of exports and by also increasing exports to the sterling area and to Europe. The British position with the Marshall countries has changed from a slight debtor to that of a creditor of 80 million pounds during the year.[2] But large payments to the dollar area and non-dollar countries is likely to continue.[3]

The Benelux Countries

Before the war Belgium's exports paid for about 90% of her imports and the balance was made up by shipping and transshipment charges. The Netherlands, on

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1. Figures on the United Kingdom are from "World Economic Conditions," International Conciliation, April 1948, p. 177-182.

2. Economic Survey for 1949, op. cit., p. 25.

3. Belgium, Switzerland and Persia were the chief non-dollar, hard currency countries.

the other hand depended much more on her shipping earnings and returns on investments. Her trade deficit averaging $741 million during 1935-1938 was paid by $398 million of shipping earnings and the remainder from interest and dividends and income from other sources.

Table XIX

The Current Account of Belgium for 1947
(in millions of U.S. $ equivalent)

Merchandise Imports		Merchandise Exports	1,140
Foodstuffs	420		
Other Consumer goods	583		
Agricultural supplies	71		
Solid & liquid fuels	242		
Other industrial raw materials	424		
Total Merchandise Imports	1,540		
Other Payments	100	Other Receipts	130
		Deficit	370
	1,640		1,640

Source: Foreign Exchange Reports as quoted in International Conciliation, op. cit.

Table XX

The Current Account of the Netherlands for 1947
(in millions of U.S. $ equivalent)

Merchandise Imports	1,484	Merchandise Exports	615
Procurement of Military Supplies	142	Freight Income	158
Consumption Abroad	54	Interest & Dividends	68
Other	59	Other Services	43
		Deficit	845
	1,739		1,739

Source: ibid.

Both countries have increased their normal pre-war import balances from the United States while Holland has increased her total import balance more than Belgium. In 1947, Belgium had an excess of imports over exports of $374 million of which $338 million represented the deficit with the United States.

Her pre-war deficit with that country was $16 million. Belgium suffers from an export surplus to European countries whose currennies are not convertible into dollars.

Although the Dutch imports were almost the same size as the Belgian, her exports were less. This fact together with her shipping losses and liquidation of investments made her overall trade deficit much larger than for Belgium.

The extent to which Belgium and Holland will be able to overcome their trade deficits will depend on the restoration of the German market, on their ability to increase production and on the creation of new markets to take over the decrease in sales in both Germany and Britain. In the case of Holland, the greater need is in the increase in production to replace the decrease in her invisible income. Like Great Britain, she will have difficulty in restoring overseas revenue to the pre-war volume.

The Belgian problem is one of hard currency and the inconvertibility of other currencies. Many European countries have been unable to pay for her goods so, like Canada, she has export surpluses with Europe and import surpluses with the western hemisphere and other overseas areas. During the past year, the rising inflation has made her terms of trade more favorable[1] but this has also made her goods too expensive for overseas hard-currency areas. As a consequence, her trade with Germany and Holland in particular has increased. Compared with the United Kingdom her position did not improve as much since the end of 1947, yet her achievement during 1948 is considerable. Her trade deficit at the end of November 1948 was one half of 1947, and her dollar deficits had decreased proportionately. The largest expansion in imports and exports was to Germany and the largest contraction of imports from the United States. Her deficit on merchandise trade at that date was 12,649 million francs compared with the 23,904[2]

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1. See p. 65 for definition of terms of trade.

2. The Economist, Feb. 26, 1949, p. 374.

million in 1947.

France

Before the war 75% of the imports of France and her territories was paid for by exports and the remainder by interest and dividends amounting to $223 million, tourist trade of $103 million and freight and insurance income of $60 million. The total of these invisible items were only $130 million in 1947. This income will probably be permanently reduced and in some categories she may incur deficits. In shipping charges for example, not only did France lose one third of her merchant tonnage during the war but her need for this service has greatly increased with her post-war imports of bulky goods such as coal and grain.

Table XXI

The Current Account of France for 1947
(in millions of U.S. $ equivalent)

Debits	Imports	Other	Total
Sterling Area	430	120	550
Dollar Area	1,385	328	1,713
Other Countries	700	195	895
Total Debits	2,515	643	3,158
Credits	**Exports**	**Other**	**Total**
Sterling Area	200	112	312
Dollar Area	315	148	463
Other Countries	675	50	725
Total Credits	1,190	310	1,500
Total Deficits			
Sterling			238
Dollar			1,250
Other			170
Total			1,658

Source: International Conciliation, op. cit.

The direction of the deficit has changed during the war. Approximately 13% of French imports before the war came from the United States. This increased to more than 35% in 1947 while only 5% of France's exports earned American dollars.[1]

1. ibid. p. 198.

In 1947 French exports covered only 57% of her imports and other overseas payments. The balance was met by 18½% from reserves and private assets and 44½% with external aid.[1] By the end of that year, of the $2,000 million loan from the United States only $200 million remained. $70 million of the $242 million Canadian loan was left and the credit received from the United Kingdom was completely exhausted.[2]

In spite of the devaluation of the franc at the beginning of 1948 to alleviate this situation, the trade position worsened. The gap in merchandise trade widened since only 44% of her imports were covered by her exports. French prices which are on the average one-third higher than the European average, are an important cause of this gap. For the first half of the year, her exports were 15% lower than in 1947 in dollar value but 56% greater by weight. This was caused by the underinvoicing of the exports. Large flights of capital accompanied this process. Estimates place the total of these flights at $500 million or one half of the American aid for the whole year.[3]

During the past year the dollar shortage caused France to buy more from the sterling area. In 1947, 50% of French trade was with the dollar area and 15% with the sterling. In 1948 this had changed to 33% and 25% respectively. Consequently her average monthly deficit with the sterling area which was 375 million francs in 1938 and 1,266 million in 1947, suddenly increased to 5,300 million in 1948.[4]

France's problem, however, is not as great as Britain's since trade for France is more marginal. Her per capita import for 1947 of visible and invisi-

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1. The Economist, Dec. 25, 1948, p. 1053.

2. International Conciliation, op. cit.

3. The Economist, op. cit.

4. The Economist, March 5, 1949, p. 403.

ble items was $65 which she paid with $22 of exports. This gap seems enormous but imports make up only 8 or 9% of the gross national product and exports 3%. The ratio for Britain, on the other hand, is 15 and 16% respectively.[1] In spite of this, France's trade picture is the worst of all Marshall countries outside of Germany.

Table XXII

United States Assistance to the Western Union Countries
July 1, 1945--Dec. 31, 1947
($000,000)

Countries	Total	Loans & Property Credits	Grants
Belgium	213	149	64
France	1,953	1,891	62
Netherlands	296	270	26
The United Kingdom	4,399	4,100	299
All OEEC Countries	9,803	6,868	2, 935

[1] Source: Federal Reserve Bulletin, April 1948.

The above table summarizes part of the interim assistance given to the European countries by the United States to meet the deficits on current accounts. Over two-thirds of the total aid to Europe went to the Western Union and Britain alone received almost half of the total. Generous as these amounts were, they were not enough and all the countries had nearly exhausted these credits before the end of the period during which they were to last.

Estimated Deficits until June 1949

The deficits of Europe with the Western Hemisphere is regarded as an enduring element in the structure of world trade by many. At the present time, the deficit is abnormally large and will continue for several years. According to the estimates prepared for the European Recovery Plan, the total deficits of the Western Union countries for the first fifteen months which ends in

June of this year, will be $5,127 million which is 64% of the total for the sixteen originally participating countries.

Although the United Kingdom has the largest prospective import volume from the Western Hemisphere and the largest prospective deficit, her deficit would be equal to only half of her imports and this is the lowest ratio for the group. The substantial surplus of the British dependencies with the United States would offset nearly one-third of the mother country's deficit with the latter. A large surplus will be earned in countries outside of western Europe and the Western Hemisphere but little of this will be in currencies which can be used in the Western Hemisphere.

Table XXIII

Estimated Current Account Deficits of the Western Union Countries (including dependencies[1]) with outside World by Areas, April 1948—June 1949 (in million $ at July 1, 1947 prices)

Country	Western Hemisphere Total	Western Hemisphere U. S.	Western Hemisphere Other	Rest of World
Belgium	- 545	- 398	- 147	- 98
Dependencies	+ 26	+ 27	- 1	- 331
France	-1,400	-1,158	- 242	- 331
Dependencies	- 163	- 94	- 69	- 32
Netherlands	- 814	- 478	- 336	- 130
Dependencies	- 51	+ 63	- 114	- 55
The United Kingdom	-2,490	-1,132	-1,358	+ 988
Dependencies	+ 310	+ 57	- 60	- 254
Total 16 OEEC Countries	-8,062	-4,864	-3,198	- 590

Source: Federal Reserve Bulletin, April 1948

About 15% of the imports and 20% of the deficits of western Europe with the Western Hemisphere will accrue to France and her dependencies. In contrast to the United Kingdom, the French colonies add to the total deficit of the mother country. France also has deficits with other countries outside Europe and the Western Hemisphere as well as with her neighbours in Europe.

1. Includes all own overseas territories except self-governing dominions.

The Benelux countries account for about 14% of the projected imports and 17% of the projected deficits of the western European countries. The Netherlands would take up 63% of the total deficit for the group. The dependencies of Belgium reduce her deficits with the Western Hemisphere but those of Holland add to the total. The deficit of the Netherlands would equal 83% of her total imports but only 64% of Belgium's. Thus the Dutch would have the largest per capita deficit to the Western Hemisphere.

The Possibilities of Restoring the Balance

The current accounts of these countries contain several intractable elements which puts the burden of the adjustment on the merchandise trade. The net income from investments are more likely to fall than to rise, unless investments resume to replace the currently maturing ones. Instead of income on investments there will be interest paid by Europe in a few years on the current loans. The present large payments on other services will also decline as military expenditures overseas decline, and emergency shipping is reduced. The potential increase in tourist trade is the best hope, although difficult to measure. Thus the most easily controlled method is the expansion of exports and the contraction of imports or a combination of both.

It is obvious that the gradual process of adjustment which is necessary to attain this balance will be made difficult if the adjustments are made entirely on the side of exports or on the side of imports. The reasonable method is a combination of the two. The important question is how far it is possible to go into either without lowering the standard of living. The possibilities in export expansion rests as much on the absorptive capacity of the overseas markets as on the internal capacity to produce. The possibility of import contraction will depend on the composition of the imports and the possibility of producing them internally.

The United States is the largest single country against which all European countries are incurring deficits. Therefore, in order to meet the deficits by expansion of exports, this policy will have to proceed either by achieving a surplus in areas whose surplus may be used to settle accounts with the United States or to expand exports to the United States directly. The first is not promising because during the war, these areas as well as the European countries became net importers from the United States. In 1947 the United States exported $4,500 million more to these areas than she imported.[1] A considerable part of this was paid by the transfer of dollar holdings by European countries, especially the United Kingdom. These countries then constituted a burden rather than an aid to European dollar reserves. It is unlikely, therefore, that these deficits can be changed into surpluses in the immediate future for European use. The difficulty lies in the small quantity of the American imports from these areas, although there are signs of improvement with recent tariff revisions.

A greater cause for the overseas disequilibrium with the United States is their intense demand for American goods. This is partially caused by the absence of the pre-war European sources of supply which diverted those channels to the United States during the war and immediately after, and partially by the increased demand for developmental goods and war-accumulated savings in the hands of the public. Of course, this situation will last only as long as the reserves hold out or to the extent of foreign aid to finance the deficit.[2] But the demand for imports from the United States will likely continue to use any dollars that these areas will earn and leave little to finance European deficits with the United States.

This leaves Europe with the second alternative of increasing exports dir-

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1. European Economic Survey, op. cit., p. 67.

2. Offshore purchases with Marshall aid dollars are currently financing a portion of American imports to these areas.

ectly to the United States. For the moment these are not large and do not show signs of increasing rapidly. The immediate problem is the price inflation in the various European countries which makes their export prices higher than the world competitive prices. During 1948, the British and Belgian positions in exports to the United States have reversed from the earlier post-war years. Inflation which hit Belgium with more force than controlled Britain forced her prices up so that her exports to the dollar area declined by 1,000 million francs,[1] although her exports to the United States itself increased. The British exports to the whole dollar area shows an increase of 3.6 million pounds for the first half of the year over a similar period in 1947.[2] Later estimates claim that the progress in the second half of the year was even better than the first. This progress has been made possible by the strict control exercised by the British government to prevent any internal inflation raising the external price beyond competitive prices. Despite this record, critics of the British government policy feel that if the prices were still lower, the quantity of exports may be more easily expanded, especially in Canada where British producer goods are eased out by cheaper American makes.[3]

The practical possibilities of expanding sales in the American markets are more difficult to measure. Most of the exports from industrial Europe to the United States before the war consisted of finished products of light industry such as Belgian glassware or British woolens. The imports of such goods played an insignificant role in the American economy. There is little prospect that the products of heavy industry from this area will make inroads into the American market unless there is a shift in comparative advantage. To

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1. The Economist, Feb. 26, 1949, p. 374.
2. The Economist, August 28, 1948, p. 342.
3. See Chapter VI

attain this European efficiency will have to exceed the American.

The products of light industry have market potentialities in the United States which have not been fully exploited but this is limited in comparison to the size of the adjustment necessary. Even the limited export expansion will require energetic efforts of the European countries to reduce sale prices and to expand outlets. Therefore, it will be necessary to decrease imports to help bridge the gap.

The imports of Europe can be divided into three broad groups: "normal" made of raw materials and foodstuffs customarily imported before the war; "reconstruction" imports required to restore European capital equipment; and "relief" imports consisting of products which have had to be imported as a result of the decline in European production. In the category of relief imports are the increase in the French imports of bread grains, the Dutch and British imports of coal, and other foodstuffs not normally imported in large quantities. "Reconstruction" imports include increases in chemicals, fertilizers and in railway rolling stock.

For all four of the Western Union countries, the relief and reconstruction imports increased their deficits to the United States and Canada in the first two years after the war. The demand for such imports as freight cars for France and locomotives and ships for Belgium and Holland from the Western Hemisphere is declining. As recovery proceeds these will once more be bought from their original sources in Europe. But these countries were extensive pre-war importers of raw materials and certain foodstuffs which cannot be produced in large enough quantities in Europe. Although Britain has cut down her imports of food severely, the other three have not been as successful. In industrial raw materials, a decrease cannot be effected without interfering with the projected export targets of finished manufactured goods. Petroleum imports has tended to displace coal as fuel and consequently has increased from 60 million

pounds to 75 million in Britain between 1946 and 1947 and was scheduled to increase in 1948 over these figures.[1] There is a similar increase in Holland in this commodity for the same period. Petroleum imports for the fourth quarter of 1946 was 408 thousand metric tons and for 1947, 494 thousand metric tons.[2] The British raw material imports show an even larger increase for the same period although the source of supply has been shifting from dollar areas to sterling. It appears, therefore, that any enduring net savings in imports of raw materials and foodstuffs is unlikely. If anything these will increase with the increase in population since the end of the war.

Since the possibility of decreasing imports for these countries is small, and the probability of finding markets easily for products of light industry is not great, it remains for heavy industry to bear the burden of the adjustment. The export of these goods will continue to expand as long as industrialization proceeds in the younger countries. The products of light industry will probably be unable to compete with those of countries which have an abundance of cheap labour. The decline in 1948 of the textile exports illustrates this.

The export programmes of these countries reflect these different possibilities. They are most ambitious in the products of heavy industry. Britain's export target for vehicles for 1948 was 319% of 1938 and in electrical apparatus 235%.[3] Holland likewise expects to boost her exports in chemicals and goods from the metallurgical industries. French cars are the chief European competitors in non-dollar markets with the British cars. Both Britain and France have conducted extensive advertising campaigns in the United States to sell the products of light industry such as French wines and luxury goods.

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1. The Economist, March 18, 1948, p. 424.
2. The Way Ahead, published by the Society "Stichting BOUW", Winter 1947-1948, p. 35.
3. The Economist, April 17, 1948, p. 646.

There is another side to the question of expanding durable goods industries. During the depression, next to agriculture, these industries were hit the hardest by world recession. There is a growing conviction that a similar overproduction in these lines has been developing within the last year. Belgium, especially, is reluctant to readjust her economy further along these lines in spite of the current world demand for durable producer goods. She is holding on to the consumer industries in order to avoid becoming too closely tied with any long range development market overseas. This policy has contributed to worsening her economic position during 1948 because the demand for textiles and yarns are relatively elastic and the increase in Belgian prices has cut down the income derived from their sales.

The extent to which the adjustments should take the form of increased production to replace imports rather than to expand exports will depend on how far world trading and currency conditions will make a close bilateral balancing of accounts necessary.

A Restatement

The nature of the balance of payments problems for these Western Union countries and the possibilities of dealing with it successfully are determined by several limiting factors.

The decline of international investments together with the changes in other invisible items requires an attempt to balance the overseas trade accounts. The total deficit on current account for the four Western Union countries in 1947 was $5,573 million. The possibility of erasing this through export expansion runs into two difficulties. First, a greater part of the deficit is with the United States while the export prospects are with other overseas areas. The export surplus in these areas cannot be used to offset American deficits because these countries also have heavy imports from the United States.

The best way to directly balance accounts with the United States is by an expansion in the luxury goods and the products of light industry which, however, needs considerable promoting before they will achieve a significant part of European exports to the United States.

The opportunities in limiting imports are not great. Foodstuff has normally composed an inflexible portion of total imports. These are temporarily depressed but this level cannot be retained without injury to health or morale of the nations. The nature of the imports of industrial raw materials is such that they cannot be procured within Europe. Moreover, the changing pattern of technology requires imports of petroleum instead of the substitution of local coal for fuel.

Therefore, the best field for adjustments is in the heavy goods industries both for expanding exports and cutting imports in these lines. Concentration along these lines presents other problems of economic concern, that is, the extreme vulnerability of these industries to world recession.

Britain leads the group in her improvement in trade balance during 1948 while France remains the least solvent internationally. The price increases have been greater for Belgium and France than for Holland and the United Kingdom. Consequently, the expansion in exports have been more retarded in the former two. With the exception of France, the Western Union countries have narrowed their deficits, particularly with the Western Hemisphere. In spite of the improvements, dollar deficits remain large. With Marshall aid and ambitious production targets, these are to be reduced to workable proportion by 1952.

Chapter VI

THE PROSPECTS FOR CANADIAN TRADE

with the WESTERN UNION COUNTRIES
the conclusion

Canada's stake in the recovery of western Europe is vital. These industrial countries have been major buyers of the produce of our fields, forests and mines since we became an important trading nation in the world. But since the first war we have bought increasingly more of our imports from the United States. We were able to do so because sterling and francs were convertible into U. S. dollars and we were able to offset our export surplus to Europe against our excess of imports from the United States. When the world multilateral system of payments broke down as a result of the depression and the second war[1] this system of trading no longer worked. Since the war, Canada's imports from the United States has increased tremendously but exports have increased proportionately only in the last year. With the breakdown in the multilateral compensations, Canada must be paid in dollars for exports to Europe in order to continue to import from the United States. But Europe also depends on large volumes of imports from the United States and dollars are short there, too. Therefore, Canada's interest lies in the return to a multilateral system of trading and payments.

Since the beginning of this century roughly one-third of Canadian exports have gone to the United States and the other two-thirds overseas. These proportions fluctuated with economic conditions and tariffs in the United States. When there is a boom, the American portion increases to as much as 40% but this drops to 30% in lean years. The portion of Canadian imports

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1. See Chapter III

from the United States has increased from two-thirds in the pre-war period to over three-quarters after the war. In the latter thirties, there was a sharp decline in American imports and a corresponding increase in British purchases. These imports also tended to displace European goods in those years.

In 1937, 63% of Canadian exports went overseas and two-thirds of this amount was scheduled for Britain. Almost one-half of this was in wheat, flour, bacon and cheese. Non-ferrous metals and sawn lumber made up a large part of the remainder.

Belgium, Netherlands, Germany and France were the most important customers on the continent in that order. These countries imported grains and a few metals from Canada.

Thus food was the most important Canadian export to Europe, but sales of this group of commodities vary with degrees of prosperity. In the prosperous twenties industrial Europe's imports of Canadian foodstuffs were greater than Britain's, but the restrictive national policies of the depression reduced these and consequently, Canadian trade as a whole became less important on the continent. In the thirties more of the Canadian exports of base metals and sawn lumber went to Europe than to the United States. Since the war these have been restricted there due to the European dollar shortage.

What are the prospects of Canadian trade with western Europe when offshore purchases with Marshall aid dollars stop? Much will depend on whether Europe will be able to export enough to pay for North American goods, since the former means of payment have been dissipated.[1]

The discussions on these trade problems are often confused by talk of

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1. See Chapter V, p. 64-67.

a "chronic" shortage of dollars in Europe and in the world. Dollars will remain short so long as European countries attempt to keep their currencies at a higher external value than that which will balance their payments in the long run. That is, so long as inflationary pressures are strong and prices are rising faster in Europe than in North America, stabilized exchange rates will result in a shortage of dollars. This situation is imminent this year. Prices are showing a tendency to level off on this continent but insufficient productive capacity and large capital spending still continue to push prices up in most European countries. If European exports are barred in the United States by American tariffs and restrictions, dollars will be short. And if technical efficiency improves more rapidly on this continent than in Europe Europe will again be short of dollars. Europe can compete, therefore, only if her exchange rates, prices, and rate of technical improvement are in line with North America's These conditions will also need to be accompanied by liberal trading policies in all the ~~likely~~ markets for European goods.

These are real problems for the United Kingdom, France, Belgium and the Netherlands as well as for the rest of Europe. Preferential agreements or bilateral bargains cannot hide them for long. They must be able to sell their goods at competitive prices and produce efficiently in order to do so. They must be prepared to take budgetary measures to stem inflation and they cannot allow ambitious capital developments to unbalance their economy. These measures, however, have strong political implications and are not always feasible politically. Such control has been most effective in Britain and least in France. The differences in their balance on current account reflect this.[1]

But even if they were to regain their competitive positions, there are

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1. See Tables XVIII and XXI. p. 68 and p. 72

reasons why western Europe will not be able to buy as much from Canada in the future. It has been shown how these countries, especially the United Kingdom, lost the means of paying for much of their imports during the war by the reduction of their invisible income. In addition, some of their traditional exports have declined in competitive strength, and it may be more profitable to devote resources to replace imports rather than expand exports merely on traditional lines. In this respect, the wisdom of the plans of the Benelux countries and to a lesser degree of Britain, to expand production permanently along lines which would take up the gap left by the destruction of German and Japanese industries is questionable. The American occupation government of Japan is now looking for markets for Japanese goods and German manufactures are once more appearing on the world market.

Another factor which will retard the expansion of western European exports and imports is the heavy cost of defense. Manpower and foreign exchange are being absorbed in these non-productive uses. In addition, defense expenditures add to the inflationary pressure which is already strong. The recent North Atlantic Pact may relieve these countries of a portion of this burden.

Canada is then faced with a poorer Europe to which she can sell her goods. If their purchases are sharply reduced, our exports of foodstuffs, especially grains, will suffer the most and base metals, second. There are, however, some reasons to suppose that the imports of Canadian cereals by western Europe will continue. One is the increased population of these countries and another is the increasing industrialization of even formerly agricultural countries such as Holland. But if a self-sufficient regionalism develops in Europe, Canadian goods will find more restricted markets there since European exports will be channelled away from this continent.

These are immediate prospects. The wartime expansion in Canadian

commercial agriculture which has been continued in the face of the world food shortage depends on expanding markets overseas. As the pre-war competitors of Canadian wheat recover, there will be less demand for our wheat. In the long run, the population of our traditional markets in western Europe is approaching a stationary and eventually a declining state. Another factor which will prevent continued expansion of the European markets is the changing food tastes and rising levels of nutrition. These will shift the food imports from cereals to animal products. In the production of these, the United States and the southern hemisphere countries are more efficient producers than Canada.

Britain will probably remain Canada's chief purchaser of cheese, pork and wheat while the continent will buy wheat and other grains. When the dollar shortage eases, there is a promising market in western Europe for lumber unless the former sources of their supply in eastern Europe becomes free. Canadian supplies of base metals will still be needed in industrial Europe.

Any immediate increase in Canadian exports to Europe will have to be attained by an increase in imports from Europe. Many of Canada's leading imports could easily be supplied by industrial Europe but two factors now stand in the way of expanding these imports. The first is the currently inflated prices of European goods, and the second is the American pattern of tastes that is inflicted on the Canadian public by American periodical and radio advertising. By equally strenuous advertising, Belgian machinery, Dutch leather goods, and English cars could be sold in Canada. British sales of machinery, cars, cotton and woolen textiles in Canada have risen sharply in 1948. The sale of fabrics has almost doubled, while that of vehicles has increased even more. It is the British aim now to corner more of the Canadian market for durable producer goods such as generators for hydro-electric plants. The Canadian prejudice against European machinery is based partly on the difficulty

of getting repair parts but this should be eliminated when the current agreemen among international manufacturers to standardize parts goes into effect. Anothe limitation to the expansion of European industrial goods to be imported into Canada is the close integration of Canadian and American plants. Materials such as automobile parts necessary to the Canadian subsidiaries of American firms must still come from the United States. The source of industrial raw materials must remain the United States because Europe is also a net importer of these.

Table XXIV

Exports of Canadian Produce to U.S. and the Western Union Countries and Total Exports for Selected Years ($000,000)

Year	Total	U.K.	U.S.	France	Belgium	Netherlands
1913	355.75	170.16	139.73	2.36	4.24	2.38
1923	1,002.40	360.78	409.52	14.12	12.53	10.54
1926	1,261.24	459.22	457.88	15.28	21.46	25.99
1929	1,152.42	290.29	492.68	16.94	23.80	20.96
1933	529.45	210.70	168.24	12.25	12.34	18.44
1937	997.37	402.06	360.01	8.36	17.01	12.52
1944	3,439.95	1,235.03	1,301.32	15.86	.01	.02
1945	3,218.33	963.24	1,196.98	76.92	34.62	39.97
1946	2,312.22	597.51	887.94	74.38	63.63	33.88
1947	2,774.90	751.20	1,034.23	81.06	52.75	55.94

Source: Dominion Bureau of Statistics, The Trade of Canada for various years.

A continued large volume of Canadian sales to Europe will depend on the return to multilateral trading in the world. In 1937, Canada's unrequited exports to the four Western Union countries amounted to $279 million[1] while the deficit on American account was $130.5 million. In 1947, this deficit of the European countries had increased to $629 million[1] and Canada's position

1. In 1937 the shipping charges would make the actual deficit smaller but in 1947, the reduction of the deficit is not so large on this account.

with the United States had worsened to $940.5 million. The European deficit was financed by loans partly from Canada and partly from the United States. By favorable increases in prices, by increased exports and by control of imports, Canada's gap with the United States has been narrowed to $300 million for 1948.[1] In 1948 when western Europe went on the Marshall Plan, the Canadian exports fell 12% to the sterling area and 5% to western Europe while imports increased substantially from both areas.[1]

Table XXV

Canada's Imports for Consumption from U.S. and the Western Union Countries and Total Imports for Selected Years
($000,000)

Year	Total	U.K.	U.S.	France	Belgium	Netherlands
1913	671.21	138.74	436.89	15.38	4.02	2.83
1923	903.03	154.48	610.35	12.26	4.99	4.97
1926	1,008.34	164.71	668.75	22.50	8.96	7.74
1929	1,298.99	194.78	893.58	25.31	13.05	9.79
1933	401.21	97.96	217.29	6.70	3.07	3.23
1937	808.90	147.29	490.50	6.69	7.87	5.36
1944	1,748.76	110.28	1,447.22	.01	——	——
1945	1,549.18	121.70	1,202.42	.27	.40	.38
1946	1,859.14	140.32	1,405.30	4.61	4.43	1.43
1947	2,573.94	189.37	1,974.68	8.75	10.12	3.53

Source: Trade of Canada

In spite of the improvement, Canada will continue to have a large deficit in merchandise trade with the United States. The nature of her exports and her imports must continue this. This same pattern will continue an export surplus to Europe since the ability of Europe to satisfy Canadian needs is limited. Canada as well as all other countries would benefit if she could sell

1. The Budget Speech, March 23, 1949.

Table XXVI

Percentage Distribution of Canadian Merchandise Trade
with United States and the Western Union Countries for Selected Years

Year	U.K.	U.S.	France	Belgium	Neth.
Exports					
1913	47.83	39.28	.66	1.19	.69
1923	35.99	40.85	4.10	1.25	1.05
1926	36.41	36.30	1.21	1.70	2.06
1929	25.19	42.75	1.47	2.06	1.82
1933	39.80	31.78	2.31	2.33	3.48
1937	40.13	36.10	.84	1.70	1.25
1944	35.13	37.83	.46		
1945	29.93	37.19	2.39	1.08	1.24
1946	25.84	38.40	3.22	2.75	1.46
1947	27.07	37.59	2.92	1.90	2.02
Imports					
1913	20.67	64.10	2.29	.60	.36
1923	17.11	67.58	1.35	.55	.55
1926	16.33	66.32	2.23	.89	.87
1929	14.99	68.79	1.95	1.00	1.75
1933	24.42	54.15	1.70	.81	.81
1937	16.97	60.64	.83	.42	.42
1944	6.30	82.76			
1945	7.86	77.62			
1946	7.55	75.59	.02	.03	.03
1947	7.35	76.32	.25	.24	.08

Source: Tables XXIV and XXV

where there was a demand for her goods and buy where goods were cheapest without consideration for the size of import or export surplus to any particular country or region. Therefore Canada's future is in the return to multilateral trading throughout the world.

Conclusion

It has been shown how trade of western Europe has been narrowed with the impact of depression and how this hardened into bilateral channels in the post-war period. The upheaval of the recent war partially destroyed the productive

in all European countries. The resultant high price of their exports have not helped decrease their deficits on current account. Consequently balance of payments difficulties are the major worries of these countries.

In spite of this, the general picture for 1948 was a marked improvement over 1947. The United Kingdom, Belgium and Holland managed to reduce their overall deficits on current account and redirect their dollar imports to other sources. One result of this redirection is the sudden increase of sterling balances in most European countries. This now makes the sterling one of the harder European currencies. The level of production in most branches of industry achieved satisfactory levels for all four countries but the need for conservation of the dollar continues.

One favorable trend is the levelling off of North American prices which would make their western hemisphere imports cheaper. This same trend, however, affects the market for European exports. With a tightened market, it may not be possible to achieve the various export targets essential to reach equilibrium on their balance of payments.

Canada's eventual trade relations with Europe are not yet clear. At present sales of traditional food exports are being made possible by Marshall Aid dollars. The United Kingdom is making an especial effort to cultivate Canadian markets to finance purchases of food, but she is finding it necessary to buy where she has accumulated sterling balances even if this means paying higher prices. It is probable that the European markets for cereals will be retained but the frills such as salmon or apples will probably be cut off. The Canadian exports cannot depend on a stable market in Europe, however. The depression has shown how our exports are. Neither can Canadian agriculture depend on an expanding market in Europe.

The redirection of these exports to the source of our imports, the United States, is not probable in the near future. It is in Canada's own interests to promote liberal trading policies by other countries as well as practicing

capacities which supported the trade of these countries and therefore trade in the early post-war years was reduced to unilateral purchases of reconstruction goods and food from the western hemisphere on credit.

This created a dollar shortage which seriously hampered intra-European trade as well as trade with overseas areas. The necessity for husbanding the scarce hard currencies deepened the rut into which European trade had sunk in the depression years and in spite of the International Trade Charter, commodity agreements became the order of the day.

But the ideal of multilateral trading has not been forsaken. Traditionally the four Western Union countries sold more to Europe and overseas territories than they bought and imported more from the United States and other overseas areas. Indeed, their economies were geared to large scale purchases of raw materials from these sources.

Pre-war multilateral trade, however, was based on overseas investments of European countries, especially of the United Kingdom, and on a large merchant marine. The returns from these paid for imports from many sources. While shipping tonnage is being reclaimed, the investments are not so that world trade will not resume the pre-war pattern. Instead of British investments, it will be based on American investments in Europe and in countries developing since the war on American capital. If an indirect system of multilateral payments develops European exports to the United States need not increase directly but if trade restriction hamper the possible markets of European goods, returns on American investments will necessarily be made directly to the United States in European goods. It is to be hoped that another depression will not restrict their entry by tariff walls.

The current problems of Western European industrial countries is that their currencies are overvalued in terms of the dollar. Defense commitments, increased social services, housing projects, over-ambitious industrialization schemes are but a few of the factors that increase the inflationary tendency

them herself, so that industrial Europe may export more and thus obtain the means to buy more. It would further the interests if Canadian exports to Europe could be used to buy from any source which is the cheapest, through the process of multilateral settlements. Unless these conditions can be attained Canada will find it necessary to depend less on the present large volume of exports of a few commodities and to diversify the economy to fill the place of the decrease in manufactured imports.

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