

INTERNATIONAL MONETARY FUND

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March 22, 1949

To: Members of the Executive Board
From: The Secretary
Subject: Trends in Trade and Payments of Western Europe
During 1948

There is attached for the information of the Executive Board a memorandum prepared by the staff regarding the trends in the balance of payments of Western European countries during 1948.

As mentioned at Meeting 413, the analysis is related to the subject of European Payments which will be placed on the agenda for Meeting 414.

Att: (1)

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RD-800

INTERNATIONAL MONETARY FUND

Research Department

Trends in Trade and Payments of Western Europe During 1948

Prepared by the Research Department

Approved by Raymond Bertrand

February 17, 1949

Introduction

The wide interest in the payment situation of Western Europe, particularly in relation to the European Recovery Program, calls for prompt reporting in this field. The purpose of the present paper is to analyze the main trends of the balance of payments of the major OEEC countries with the rest of the world, and particularly with the dollar area. At this time, few official data covering the whole of 1948 have been published by the countries concerned. The staff has had to supplement incomplete information with estimates, and most 1948 figures should be considered as preliminary or tentative. Problems of trade and payments within Western Europe have not been touched upon. It has not been possible to assemble data on a sufficiently comparable basis for all countries participating in the OEEC. The coverage of the countries itself varies in the course of the paper in accordance with variations in the availability of information. Nevertheless, the samples always include the most important countries, which should make them sufficiently representative.

The preliminary picture is one of real progress over the past year. The volume of trade has expanded at least at the same rate as production, enabling these countries to reap again the benefits of the large international exchanges, upon which their prosperity still depends. The main consequences of the war, the extraordinary need for imports and the inability to export are fading out, but in different degrees. Sustained reconstruction efforts maintain the level of imports, but change the nature of the goods required. The capacity to export has made a great step forward. Aside from the dollar deficit, payments of Western Europe as a whole are practically in balance. The inability to earn enough dollars, and, since last year, the benefits of assistance from the United States are common to all the countries reviewed. The measurement of the impact of ECA aid on trade and payments of the OEEC countries will be the subject of a further study.

Improvement in the Balance of Payments

The year 1947 marked the peak of dependence of Western Europe on foreign resources. With due reservation for the preliminary and tentative character of many figures, considerable progress has been accomplished in 1948 by the major OEEC countries towards reducing the huge disequilibrium in their balances

of payments, as shown in Table I. It should be noted that although the deficit of each country is its deficit with all countries, including the other members of the group, the inter-group deficits and surpluses cancel for the group as a whole.

Table I. Balance of Payments Deficits
Current Accounts a/
(million dollars)

	1946	1947	1948
Austria	150	224	306 <u>b/</u>
Belgium	n.e.a.	336	40
Denmark	198	63	70
France <u>c/</u>	2,085	1,826	1,950
Greece	317	236	297 <u>d/</u>
Iceland	28	37	6
Italy	506	794	493
Netherlands	413	654	580
Norway	132	236	177
Sweden	86	430	132
United Kingdom	<u>1,491</u>	<u>2,140</u>	<u>727</u>
Total	5,406 <u>e/</u>	6,976	4,778

a/ Current account refers to transactions arising from trade and normal services.

b/ Brown Book estimate.

c/ Franc area.

d/ Government's program 1948-49; no other estimate available.

e/ Excluding Belgium.

In 1948, the combined balance of payments deficit on current account of the eleven major participating countries amounted to \$4,778 million, as compared with \$6,976 million in 1947. The reduction in the deficit during the year amounted to about \$2.2 billion. At \$4.8 billion the deficit remains still very large, although smaller than in 1946, and smaller than foreseen in the Brown Books prepared by the State Department at the beginning of 1948.

Estimates for the balance of payments deficit, broken down into merchandise and non-merchandise items, are available for these same countries, except Austria, Greece, and Sweden. These estimates are presented in Table II below.

Table II. Balance of Payments Deficit of Fund-Member ERP Countries
1947 and 1948, Current Account 1/

(million dollars)

	Trade Deficit (-)		Invisibles Deficit (-)	
	1947	1948	1947	1948
Belgium-Luxembourg	-356	-12	7 20	-28
Denmark	-85	-75	7 22	7 5
France (franc zone)	-1,584 <u>2/</u>	-1,840 <u>2/</u>	-242	-110
Iceland	-27	7 2	-10	-8
Italy	-667	-370	-127	-123
Netherlands	-685	-640	7 31	7 60
Norway	-361	-240	7 125	7 63
United Kingdom	-1,600	-932	-480	7 205
Total	-5,425	-4,107	-661	7 54
Reduction in Deficit in 1948 (7)		7 1,318		7 725

- 1/ Deficit on current account is exclusive of governmental grants and reparations, but inclusive of private remittances and gifts (i.e. through item 9.2. on form BP-1). Imports are fob. values.
- 2/ Includes total deficit of overseas territories, which is largely on merchandise account.

The figures show that the trade deficit of these eight countries dropped from \$5.4 billion to \$4.1 billion, or by \$1.3 billion. The deficit on invisibles of \$661 million has been turned into a surplus of \$64 million. This is an improvement of \$725 million during the year. Thus, it may be estimated that of the improvement in the balance of payments of those countries in 1948, almost two-thirds was due to improvement in the trade balance, while a little more than one-third was due to improvement on invisibles account. That improvement was mainly due to increased receipts from shipping and tourism.

The reduction in the balance of payments deficit of the eleven countries (Table I) was entirely due to a reduction in the dollar deficit of those countries as shown in Table III.

Table III. Dollar Deficit on Current Account a/

(million dollars)

	1946	1947	1948	OEEC 1948/1949 <u>b/</u>	OEEC 1948/1949 Change over 1948 per cent
Austria		200	197 <u>c/</u>	229	+ 16
Belgium		544	392	347	- 11
Denmark	58	86	75	133	+ 77
France <u>d/</u>	1,608	1,620	1,238	996	- 20
Greece	180	202	177 <u>e/</u>	177	0
Iceland	11	14	7	12	+ 71
Italy		661	597	632	+ 5
Netherlands	290	560	480	402	- 16
Norway	120	137	80	100	+ 25
Sweden	230	370	110	62	- 44
United Kingdom <u>f/</u>	<u>1,451</u>	<u>2,700</u>	<u>1,555</u>	<u>1,082</u>	<u>- 30</u>
	3,948	7,094	4,909	4,172	- 15

a/ Current amount refers to transactions arising from trade and normal services only.

b/ OEEC 1948-49 program table 9.

c/ Brown Book estimate.

d/ Franc Area - Dollar zone, corresponds to the definition of the Official French Balance of Payments 1947, plus Canada and Portugal.

e/ OEEC program, 1948-49.

f/ United Kingdom alone in relation to the Western Hemisphere (except for the OEEC figure which refers to the gold and dollar deficit) excluding transactions with or for the sterling area.

The dollar deficit on current account in 1948 amounted to \$4.9 billion. The reduction during the year amounted to \$2.2 billion, which is equal to the reduction in the balance of payments deficit in all currencies. Thus, the reduction in the dollar deficit is the reduction which occurred in the balance of payments deficit of those countries. The dollar problem will be discussed further in the last section of this paper. Outside the dollar area these countries had a surplus of about \$100 million, which is about the same amount as in 1947.

The most significant fact about the progress towards equilibrium in the balance of payments is that it has been achieved at a much higher level of exports. By value, exports have risen 28 per cent. Imports have risen 9.5 per cent. (See Tables V and XI). By volume, however, exports have risen 21 per cent while imports have declined 2 per cent. (See Table VII).

Value of exports to the Western Hemisphere rose by 30 per cent (Table XIV), which is slightly more than the overall rise in exports. On the other hand, im-

ports from the Western Hemisphere dropped 17 per cent, while overall imports increased.

Progress towards equilibrium in the balance of payments has been highly unequal among the participating countries. The United Kingdom alone accounts for 64 per cent of the progress of the group of 11 countries. Striking improvements, relative to 1947, have been achieved by the United Kingdom, Belgium, Sweden, and Iceland, although by different methods and with different significance. Italy has also achieved a large reduction in the balance of payments deficit. It seems that only France and Denmark had a deficit larger than last year. Table IV shows the relative achievement by countries.

Table IV. Changes in the Balance of Payments Deficits
1947 and 1948

	Per cent	Million dollars
Deficit increases		
Denmark	+ 11	7
France	+ 7	134
Deficit decreases		
Netherlands	- 13	74
Norway	- 25	59
Italy	- 62	301
United Kingdom	- 66	1,413
Sweden	- 69	298
Iceland	- 84	31
Belgium	- 88	296

Progress of Exports

The most encouraging aspect in the international position of these countries in 1948 has been the rise in exports from \$11.4 billion to \$14.6 billion, a gain of \$3.2 billion, or 28 per cent above 1947. About one-third of the gain was, however, in trade within the group. The United Kingdom alone accounts for about \$1.8 billion of the total increase. Exports by countries are given in Table V.

Table V. Exports of Selected European Countries

(millions of dollars)

	1928	1938	1946	1947	1948	1948/49 OEEC a/
Austria	311	178	22	91	171	188
Belgium	857	724	730	1,390	1,680	1,575
Denmark	414	335	337	483	568	572
France	2,041	876	851	1,792	1,857	2,131 c/
Greece	79	90	41	79	97 b/	97
Iceland	21	13	45	45	62	48
Italy	783	547	360	672	970	849
Netherlands	786	568	308	714	1,015	1,089
Norway	179	190	242	366	422	390
Sweden	422	463	658	896	1,073	988
United Kingdom d/	<u>4,085</u>	<u>2,598</u>	<u>3,889</u>	<u>4,828</u>	<u>6,641</u>	<u>6,500</u>
Total	9,978	6,582	7,483	11,356	14,556	14,427

a/ Report of the OEEC on the first annual program 1948-49, table 6.

b/ No export statistics available. The figure is the Greek export target 1948/49.

c/ Saar included.

d/ Figures include reexports.

Expansion of exports has been more rapid than anticipated. Preliminary figures for exports in 1948 of 10 major OEEC countries (i.e. the entire group to which reference has been made above, with the exception of Greece) show that these countries have already reached the target fixed for 1948-49 by the first annual OEEC report. Iceland and Italy particularly are well ahead of the estimates, although some countries, e.g., France are running behind. If the performance is judged by the increase of exports over 1947, the participating countries rank as shown in Table VI.

Table VI. Increase in Exports, 1948 over 1947

	In per cent	In millions of dollars
Austria	88	80
Italy	44	298
Netherlands	42	301
Iceland	38	17
United Kingdom	38	1,813
Sweden	20	177
Belgium	17	240
Denmark	16	78
Norway	15	56
France	4	65

The difference in the rate of progress in exports of the different countries cannot be ascribed to any single factor. In Austria and the Netherlands, the progress appears particularly rapid mainly because the starting point was very low compared to prewar, measured by volume.

Competitive export prices combined with a relatively stable domestic price level have been a factor in Italy and the United Kingdom, whereas France does not seem to have been helped sufficiently by her favorable exchange rate. In Denmark and Norway, the level of export prices is high, but is not the cause of the insufficient progress of exports. This is rather to be found in the insufficient output of the principal export industries of those two countries. The rate of growth of exports has varied very widely between the different countries, and no simple uniform formula can explain the difference,

Rising prices are to some extent responsible for the rising value of exports. Measured by volume, the increase of 1948 over 1947 is only 21 per cent. For most countries the increase in value of exports is larger than of volume; Denmark was even able to sell a smaller volume for a higher value. Figures for the volume and value of trade at 1938 prices are given in Table VII.

The combined volume index for exports of the major 9 countries (on 1938 basis) stands now at 104, with some reservations on the accuracy of certain estimates. The index is heavily weighted by United Kingdom exports, which represents more than half of the total exports of the group. The United Kingdom index for exports stands at 136. The rise in the volume of exports to the United Kingdom of 25 per cent during 1948 was, however, close to the average of the group.

Disregarding the exceptionally high volume of Great Britain's and Iceland's exports, all other countries have achieved a rather similar recovery in the volume of their exports, the 1948 levels ranging between 75 and 87 per cent of prewar. Denmark is lagging behind the others at 57 per cent.

Table VII. Volume and Value of Trade at 1938 Prices
(million dollars)

	1938		1946		1947		1948			
	Exports		Exports		Exports		Exports			
	A	B	A	B	A	B	A	B		
Belgium	100	724	39	282	71	514	87	630	106	810
Denmark	100	334	54	180	61 ^a	225 ^a	57 ^a	210 ^a	80 ^a	275 ^a
France	100	876	43	379	81	714	81 ^a	720 ^a	102 ^a	1,380 ^a
Iceland	100	13	158	21	156 ^a	20 ^a	177 ^a	23 ^a	257 ^a	28 ^a
Italy	100	547	46 ^a	250 ^a	60 ^a	323 ^a	90 ^a	500 ^a	142 ^a	832 ^a
Netherlands	100	568	27	153	54	307	75 ^a	426 ^a	90 ^a	698 ^a
Norway	100	190	61	117	81	156	81	156	97	281
Sweden	100	463	66	305	73	336	85	393	116	610
United Kingdom	100	2,573	100	2,573	109	2,805	136	3,499	81	3,613
	100	6,288	68	4,277	86	5,405	104	6,557	94	8,527

(A) Index of volume.

(B) Dollar value at 1938 prices, obtained by multiplying the 1938 dollar value by the volume index, when available, or, when marked a/, by deflation of current values by the appropriate price index.

a/ Staff estimate.

Table VIII gives the indexes for import and export prices. These indexes show that Europe's terms of trade have deteriorated. The indexes are, however, based on preliminary data for 1948, with a wide margin of error, and in several cases derived from rough estimates of the volume of trade.

Table VIII. Indexes of Export and Import Prices in Dollars
(1938 = 100)

	1948	
	Export prices	Import prices
Deterioration of the terms of trade:		
Italy <u>4/</u>	149	255
France <u>3/</u>	258	292
United Kingdom <u>1/</u>	208	234
Netherlands <u>3/</u>	238	266
Terms of trade relatively unchanged:		
Denmark <u>2/</u>	262	252
Norway <u>1/</u>	254	260
Sweden <u>2/</u>	266	277
Improvement of the terms of trade:		
Belgium <u>3/</u>	267	247

1/ Official index of unit values.

2/ Official index of export and import goods prices.

3/ Unit values derived from current trade values and volume index, official (Belgium) or estimated (France, Netherlands).

4/ Unofficial figures.

For this group of major European countries, the deterioration of the terms of trade in 1948 as compared with 1938 appears to be from 10 to 15 per cent; the margin of error is, however, considerable. Moreover, the terms of trade of Western Europe as a whole would be different, as the indexes would then relate only to prices of goods traded with overseas. Calculations based on Tables V, VII, and XI, indicate that for the group of countries involved export prices rose in 1948 by 6 per cent, while import prices rose by 11 per cent.

The European economies now appear to be devoting to exports a smaller proportion of their national output than before the war, in real terms, with the notable exception of the United Kingdom and perhaps Iceland. (See Table IX) It must be noted that this proportion seems to have decreased in 1948 for France, Denmark, and Norway. The margin of error resulting from deflation of the national product, in most cases by a single price index, casts some doubts

upon the accuracy of small changes.

When the ratios of exports and imports to national output are calculated at current prices, they yield higher figures, and the export ratio is then close to prewar for most countries. This reflects the fact that the marginal utility of goods now moving in international trade has risen relatively to the marginal utility of goods produced and consumed at home, that most export and import prices have risen more than domestic prices. It will be necessary for the share of exports not only to catch up with, but to overtake, the prewar figure in order to compensate for the loss of invisible income and the adverse terms of trade, if external payments are to be balanced again at the envisaged level of imports.

The present decline in the ratio of exports to output has been offset generally by a relative increase in investment rather than in consumption, whether to make the necessary increase at the expense of consumption or investment, and how to do it, are among the most important problems of economic policy facing the European Governments today.

Table IX. Merchandise Imports (c.i.f.) and Exports as Percent of Gross National Product at Market Prices (at 1938 prices)

	1938	1946	1947	1948
United Kingdom				
Imports	16.7	10.4	11.8	12.3
Exports	9.7	9.1	9.7	11.8
France 1/				
Imports	9.8	13.1	12.3	10.3
Exports	6.6	3.3	5.7	5.5
Italy				
Imports	9.7		18.7	15.8
Exports	9.0		6.9	9.5
Belgium				
Imports	32.2	31.9	35.4	33.4
Exports	30.2	13.4	21.5	26.3
Netherlands				
Imports	25.9	22.9	23.3	25.8
Exports	19.1	7.6	11.9	15.9
Denmark				
Imports	21.2	17.1	16.4	14.2
Exports	20.1	9.6	11.8	11.6
Norway				
Imports	27.9	21.0	28.0	21.8
Exports	16.5	9.6	11.8	11.3
Sweden				
Imports	17.2	16.2	21.4	20.0
Exports	15.7	10.0	11.1	12.4

1/ Trade outside franc-area.

2/ 1939.

As a result of higher import needs and less favorable terms of trade, only one country in Western Europe today covers a larger proportion of imports from exports than before the war, namely the United Kingdom. All others are still below the pre-war ratio. But all, except France, have made marked progress in 1948 over 1947, as shown in Table X.

Table X. Ratio of Exports to Imports valued at Current Prices

	1928	1938	1947	1948
Belgium a/	96	95	68	84
Denmark	94	95	62	80
France a/	97	66	50	46
Iceland	112	109	56	94
Italy	67	93	40	63
Netherlands	73	73	44	54
Norway	67	66	48	58
Sweden	93	89	61	80
United Kingdom	70	57	67	79

a/ Based on figures adjusted for undervaluation. The margin of error is such that there may have been no real decrease for France in 1948, but it is improbable that there was a significant increase. Imports are c.i.f. values.

For the future, none of the standards of progress of exports reviewed above is satisfactory. In the long run, the level of exports which each country should achieve will be determined by several factors, such as the value of necessary imports, the amount of other available sources of foreign exchange, domestic output, exchange rates and prices in export markets. Most of these factors are highly hypothetical, and depend upon the degree of co-ordination which Western Europe can achieve within itself and with its trading partners. When the long-term programs of the OEEC countries have been harmonized and made available, they will presumably provide the most useful yardsticks by reference to which the further expansion of exports will have to be judged.

Trends of Imports

Development of imports is shown in Table XI. The increase of imports in 1948 over 1947 of about 9.5 per cent is the result of rising world prices, especially for manufactured goods and raw materials.

Table XI. Imports of Selected European Countries (c.i.f.)
(million dollars)

	1928	1938	1946	1947	1948	1948/49 OEEC a/
Austria	456	289	181	331	500	481
Belgium	889	765	1,200	2,040 b/	2,000 b/	1,765
Denmark	441	354	593	644	711	730
France	2,097	1,322	2,619 b/	3,640 b/	4,021 b/	2,741
Greece	161	131	386	341	422 c/	367
Iceland	17	11	68	80	66	48
Italy	1,173	586	900	1,567	1,550	1,402
Netherlands	1,078	776	891	1,614	1,857	1,685
Norway	269	290	443	769	730	560
Sweden	458	523	881	1,441	1,346	1,084
United Kingdom d/	5,795	4,601	5,319	7,230	8,382	8,266
Total	12,834	9,646	13,481	19,697	21,585	19,129

a/ Report of the OEEC on the first annual program 1948-49, table 4. Imports are f.o.b.

b/ Adjusted for undervaluation of customs statistics, estimated at \$57 million in 1947 and \$8 million in 1948 for Belgium. For France, the adjustments are \$540, \$729, and \$732 million.

c/ No import statistics available; figure is Greek import target 1948-49.

d/ Figures are from IFS and refer to general trade.

A weighted average of volume indexes for 9 major countries shows a decline during 1948 of about 2 per cent (see Table VII). This should not be interpreted too hastily as a sign that Europe's need for foreign resources has declined. To a large extent, the decline is due to lack of means of payment. Had American assistance not been available, the Governments of most Western European countries would have been forced to make much more drastic reductions in vital imports.

The volume of Western Europe's imports can hardly be considered as excessive at present. It is below the 1938 level by 5 to 10 per cent. The only countries that import a considerably greater volume than before the war are Iceland, Italy, and to some extent Sweden. The United Kingdom and Denmark are about 20 per cent below the pre-war level, the Netherlands about 10 per cent below, while Belgium and Norway are close to that level.

The trend of imports into Western Europe is difficult to estimate. In 1948 imports for the 11 major OEEC countries seem to have run very close to the level forecast in the OEEC program for 1948-49, after a 12 per cent upward adjustment of the OEEC figures (which are fob) for freight charges. Preliminary OEEC plans for 1949-50 and 1952-53 show that only a small increase is expected in the volume of imports, or from 95 per cent of prewar in 1948-49

to 99 at the end of ERP. If the forecast of the OEEC secretariat, that about 10 per cent of the programmed imports for 1952-53 will not be obtainable, proves correct, the countries of Western Europe would have to be prepared for a decline in the volume of imports during the ERP period.

It appears that during the next few months several countries will have to make drastic cuts in their present import programs, if they are to adjust themselves to their 1948-49 program as communicated to the OEEC. This seems to be particularly true of France, Iceland, and Sweden. Since Iceland has exceeded her 1948-49 export targets, she will, however, be able to maintain higher imports than otherwise. For France, the uncertainty of the trade figures raises some doubts about the magnitude of the required cut in imports.

Regional Pattern of Trade

The picture of Western European trade that emerges from Table XII must be regarded as provisional. The 1948 trade data are provisional figures. Unadjusted customs statistics have been utilized. Imports are on a c.i.f. basis, which means that imports and exports within Western Europe should not be expected to balance. Moreover, the grouping of countries is such that trade with four other European countries which are outside the group, is included. The inclusion of all of Germany in 1938 is still another source of error. Nevertheless, in spite of these shortcomings, the table should indicate the general trends.

Table XII. Regional Distribution of Trade of 9 Major OEEC Countries a/
(million dollars)

Year	Total		Western Hemisphere		Western and Southern Europe <u>b/</u>		Other countries	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
1938	6,610.0	9,616.0	930.0	2,473.0	3,214.0	3,656.0	2,466.0	3,487.0
%	100	100	14	25	48	39	37	36
1947	11,897.0	19,078.0	1,814.2	7,917.9	5,195.6	5,443.6	4,887.3	5,717.0
%	100	100	15	42	44	29	41	30
1948	14,379.0	20,861.0	2,295.2	7,238.2	6,408.7	6,413.5	5,699.0	7,208.4
%	100	100	16	35	44	30	40	35

Imports are cif values from customs statistics, unadjusted for undervaluations.

a/ Belgium, Denmark, France, Italy, Netherlands, Norway, Sweden, Switzerland, United Kingdom.

b/ Includes the 9 countries above plus Turkey, Greece, Spain, Western Germany, and Austria for 1947 and 1948. For 1938, all of Germany is included.

c/ Preliminary.

There is a striking contrast between the changes in the distribution of exports and of imports since the prewar period. The regional pattern of exports has remained remarkably stable in the last decade. The small decline in the share of intra-European exports as compared with prewar, may be ascribed mainly to the fact that all of Germany is included in 1938, whereas the postwar figures cover only Western Germany with its low level of trade. In particular, exports to the Western Hemisphere expressed as a percentage of exports to all foreign countries (excluding inter-trade) has only risen from 27 per cent in 1947 to 29 per cent in 1948. According to the long-term OEEC program, the same ratio should in 1952-53 be 39 per cent, which shows that present efforts to channel exports to the Western Hemisphere must be intensified.

The pattern of imports reflects the enormous postwar increase in the share of imports from the Western Hemisphere, its sharp decline in 1948 over the preceding year, and increased reliance on other overseas sources of supply.

Compared with last year, Western Hemisphere imports have declined not only relatively, but also in absolute value by nearly \$700 million (see Table XII)^{1/}. Against this loss in imports stands an increase in intra-European imports of almost \$1 billion, and an increase in imports from the rest of the world of almost \$1.5 billion. In judging these figures, the rise in import prices should be kept in mind. The volume of total imports was smaller in 1948 than in 1947. The shift in imports reflects the efforts of all OEEC countries to replace dollar imports by imports from other sources, chiefly the sterling area, but also from Eastern Europe and other countries. This shift to sources of supply outside the Western Hemisphere is expected to continue throughout the European Recovery Program.

Trade between the Western European countries, as shown by the preliminary estimates in Table XII, is still below its prewar share of total trade; it has declined from about 43 per cent to 37 per cent. But a slight progress over 1947 is noticeable in 1948.

The rise in the value of intra-European trade by 21 per cent, although mainly due to rising prices, is significant insofar as it shows that the breakdown of intra-European trade, which many feared at the beginning of 1948, did not materialize. An investigation of the pattern of trade between the participating countries -- not attempted here but planned as the subject of another paper -- should show how far the pattern of trade has moved towards a more balanced position than in 1947, and along what lines.

In any event, considerable disequilibria certainly persisted throughout 1948, which could only be partially bridged by new credits and the interventions of ECA in European payments. Numerous financial arrangements were concluded during the year in order to maintain the flow of trade, notably between France, Belgium, and the United Kingdom. Off-shore purchases amounting to

^{1/} According to Table XV below, the decline in imports from the Western Hemisphere is about \$1.1 billion. The difference results from the exclusion of Switzerland and the inclusion of Austria, Greece, and Iceland in Table XV, and from the use of data adjusted for undervaluation of customs statistics.

\$217.5 million were authorized by ECA during the second and third quarter of 1948, and since October the Intra-European Payments Scheme backed by the distribution of conditional ECA aid should assure the continuance of \$864 million of trade between the participating countries.

The Dollar Situation

The importance of the dollar problem appears from the fact that the dollar deficit is equal to the combined balance of payments deficit of the eleven major OEEC countries (see Tables I and III). Their balance of payments deficit is a dollar deficit. The dollar deficit on current account in 1948 for the same group of countries is still estimated at \$4.9 billion. Considering that the dollar deficit reached \$7.1 billion in 1947, the reduction by \$2.2 billion appears quite substantial. The dollar deficit, however, is still almost \$1 billion above the 1946 level. All countries show a dollar deficit smaller than in 1947. Drastic reductions have been achieved by the United Kingdom, Sweden, Iceland, and Belgium. The United Kingdom alone accounts for a reduction of more than \$1.1 billion.

The effect of these changes has been to narrow considerably the differences between the per capita dollar deficits of the main countries. The dollar deficit per head in 1948 is shown in Table XIII.

Table XIII. Dollar Deficit in 1948
(Dollars per head)

Iceland	52
Belgium	48
Netherlands	47
United Kingdom <u>1/</u>	31
France	28
Norway	25
Denmark	19
Sweden	18
Italy	12

1/ Western Hemisphere deficit

The \$4.9 billion figure for 1948 sets the mark from which progress towards elimination of the dollar deficit has to be measured, as the European Recovery Program proceeds. In 1948-49, according to the first OEEC annual program, the deficit of this group of countries should not exceed \$4,172 million. The deficit will therefore have to be reduced by more than \$700 million below the 1948 figure. On the assumption that the dollar deficit was incurred at an even rate in 1948, the OEEC program implies a dollar deficit of only \$1.7 billion during the first half of 1949. For the group as a whole, the goal is probably attainable, but will require great efforts. Some countries appear to be much closer to the targets than others. The main effort must come from the United Kingdom, France, and Sweden (see Table III), whereas Denmark, Norway, and Iceland could increase their deficits without ex-

ceeding the planned limits.

Western Hemisphere exports of the 11 countries are given in Table XIV.

Table XIV. Exports to the Western Hemisphere
(million dollars)

	1928	1938	1946	1947	1948	1948-49 a/.	
						Table 6	Table 8
						W.H.	Dollar Area
Austria	16	7	2	6	10	14.5	13.5
Belgium	135	102	125	173	220	226	152
Denmark	11	12	15	27	47	42	47
France	267	111	93	176	162	177	113
Greece	13	18	24	18	20 b/	20	20
Iceland	n.a.	1.8	5.9	2.3	4.2	3.7	3.5
Italy	171	86	n.a.	139	260	194	147
Netherlands	63	54	38	60	66	92	64
Norway	31	21	34	50	50	53	36
Sweden	63	64	140	223	190	177	98
United Kingdom	<u>924</u>	<u>455</u>	<u>538</u>	<u>777</u>	<u>1,125</u>	<u>1,071</u>	<u>722</u>
	1,694	932	1,015	1,641	2,154	2,070	1,416

a/ OEEC data on trade with the Western Hemisphere are not exactly comparable to the other figures, as they exclude trade with dependent territories of participating countries in the Western Hemisphere.

b/ 1948 figure is the 1948-49 program estimate for the dollar area, not comparable for other years.

The table shows that the increase in exports to the Western Hemisphere, in 1948, amounted to \$513 million, or 31 per cent. Imports declined by \$1,477 million, or by 13 per cent, as shown in Table XV. The improvement in the trade balance amounted to \$1,990 million, or by practically \$2.0 billion.

Table XV. Imports from the Western Hemisphere (cif)
(million dollars)

	1928	1938	1946	1947	1948	1948-49 a/ OECE Report	
						Table 3	Table 8
						W.H.	Dollar Area
Austria	48	41	134	195	235	210	229
Belgium	201	164	409	780 b/	630 b/	612	444
Denmark	92	39	86	166	145	163	180
France	506	291	1,360	1,680 c/	1,276 c/	768	695
Greece	42	16	229	235	229 d/	200	205
Iceland	n.a.	5	21	24	20	14	14
Italy	407	118	n.a.	915	900	761	685
Netherlands	268	174	361	701	638	491	436
Norway	56	48	155	276	187	179	162
Sweden	105	107	364	649	330	247	171
United Kingdom	<u>1,915</u>	<u>1,467</u>	<u>2,456</u>	<u>3,283</u>	<u>2,837</u>	<u>2,362</u>	<u>1,641</u>
Total	3,640	2,470	5,575	8,904	7,427	6,007	4,862

a/ OECE data on trade with the Western Hemisphere are not exactly comparable with other columns, as they are f.o.b. and exclude trade with dependent territories of participating countries in the Western Hemisphere.

b/ Adjusted for undervaluation of customs statistics, estimated at \$57 million for 1947 and \$8 million for 1948.

c/ Adjusted for undervaluation of customs import statistics, estimated at \$540 million for 1946, \$540 for 1947, and \$400 for 1948.

d/ 1948 figure is the 1948-49 estimate for dollar area, not comparable with other years.

The improvement in the dollar balance of payments in 1948 is largely due to the reduction of the trade deficit. The trade deficit of 11 countries with the Western Hemisphere declined by \$2.0 billion, as compared with a reduction in the dollar deficit of \$2.2 billion (Table III). In Table XV, however, imports are f.o.b. values. It can, therefore, not be concluded that the improvement on invisibles account amounted to \$200 million only. Estimating freight and similar charges at 15 per cent of imports leaves the reduction in the trade deficit at \$1,700 million, which implies that the improvement on invisibles amounted to some \$500 million. This figure agrees with an independent estimate presented below.

Breakdown of the dollar balance of payments deficit into merchandise and non-merchandise items are available for the same eight countries, as are re-presented in Table II. These figures are shown in Table XVI.

Table XVI. Dollar Balance of Payments Deficit of Fund Member
ERP Countries 1947 and 1948
Current Account 1/
(million dollars)

	Dollar Trade Deficit		Dollar Invisibles Deficit	
	1947	1948	1947	1948
Belgium-Luxembourg	-479	-338	-65	-54
Denmark	-96	-89	710	714
France (franc zone)	-1,320 <u>2/</u>	-1,088 <u>2/</u>	-300	-150
Iceland	-14	-7	-	-
Italy	-554	-510	-107	-87
Netherlands	-510	-450	-50	-30
Norway	-190	-102	753	722
United Kingdom	-2,225	-1,420	-475	-135
Total	-5,388	-4,004	-934	-420
Reduction in Deficit in 1948 (✓)		71,384		7514

- 1/ Deficit on current account is exclusive of governmental grants and reparations but inclusive of private remittances and gifts (i.e. through item 9.2 on form BP-1). Imports are f.o.b. values. Dollar deficit is exclusive of settlements of payments agreement balances. In some cases the figures refer to the dollar area; in others, to the Western Hemisphere. The entry for the United Kingdom does not include the participating sterling area. It refers to the balance with the Western Hemisphere. See Tables II and III.
- 2/ Includes total deficit of overseas territories, which is largely on merchandise account.

The figures show that the dollar trade deficit of these eight countries has been reduced by \$1.4 billion, while the improvement on invisibles account amounts to rather more than \$500 million. For these countries the improvement on invisibles account accounts for about 28 per cent of the reduction in the dollar balance of payments deficit. The improvement in the overall trade balance of those same countries amounts to \$1.3 billion (Table II), implying that they had a small surplus in trade outside the dollar area.

The increase in exports and reduction in imports may seem to be substantial achievements. Viewed in the light of the further progress which is necessary, they appear, however, only as the first and easiest step. Exports rose from a very low level and imports are now near the limit of bare essentials.

The reduction of the trade deficit with the Western Hemisphere is expected to continue at the same pace as in 1947-48. A further cut in the deficit of nearly \$1 billion will be needed to meet the 1948-49 targets of OEEC. It should

be noted that the trade figures of Tables XIV and XV are not strictly comparable to the OEEC target figures since the former include trade with dependent overseas territories, while the latter do not. Direct comparison of the two sets of figures overstates the achievements that have been made. Exports should increase by close to \$200 million, while imports (fob) are to be cut further by \$800 million.

It is likely that the export targets will be attained. But the further cuts in imports appear in some cases difficult to achieve. The countries whose import policies will have to be watched particularly are France, Sweden, and Netherlands. Their 1948 imports from the Western Hemisphere have been running considerably above their 1948-49 programs. The trend of monthly imports, however, is declining, and points in the desired direction. By volume, the decline of imports from the Western Hemisphere since 1947 is even more severe than by value; estimating the import price rise at 10 per cent, as in the OEEC report, implies a decline in volume of about 20 per cent.

The increase in exports to the Western Hemisphere amounted to about \$513 million in 1948, or 31 per cent. Judged by almost any standard, such progress appears inadequate. The relative share of Western Hemisphere exports has increased no more than one per cent. While some countries, particularly the United Kingdom, have made some real inroads into the U.S. market, others have lost ground. In view of the sustained prosperity in the United States, it should have been possible for the Western European countries to gain more than they did, in view of the fact that almost half the gain was due to higher prices.

Combined Western Hemisphere exports from the 11 main OEEC countries (representing approximately 95 per cent of exports of all OEEC countries) amounted in 1948 to \$2,154 million. The attainment of the \$4 billion goal for 1951 set out in the first OEEC report presupposes a continuous annual increase of some \$615 million, against the \$513 million last year. This gives the measure of the efforts required by Europe to pay her own way.