

INTERNATIONAL MONETARY FUND

June 3, 1948

TO: Members of the Executive Board
FROM: The Secretary
SUBJECT: Communication from Mr. Triffin

For the information of the Executive Board there are circulated the attached reports on various European developments recently received from Mr. Triffin.

Att: (1)

Other Distribution:
Department Heads
Division Chiefs

Communications from Mr. Triffin

The following communications from Triffin are circulated for the information of the Board:

Brussels, May 19, 1948

Organization of the OEEC

A comprehensive paper on the organization of the OEEC will be submitted in a subsequent report. In the meantime, here is a brief summary of available information. The OEEC will be under the general direction of a Council, where all sixteen countries will be represented by their Ministers of Foreign Affairs, or their delegates. The President of the Council is Mr. Spaak of Belgium, who will often, however, be represented by Baron Snoy d'Oppuers. The Council is expected to meet at least once a month.

An Executive Committee of seven members is in continuous session in Paris and is now meeting about three times a week. Its President is Hall-Patch from Britain. Benelux is represented by Hirschfeld of the Netherlands. France is represented by Alphand or his alternate, Baraduc. Other members are Turkey, Italy, Denmark (for the Scandinavian countries) and Switzerland.

The Secretariat is under the direction of Robert Marjolin of France as Secretary General. Marjolin has two assistants, Mr. J. B. Lintott of Britain, formerly of the Board of Trade, and Mr. Guido-Colonna of Italy, from the Ministry of Foreign Affairs.

The Secretariat will be sub-divided into about seven divisions:

1. The Program Division under Sascha Gueronik of France, formerly with the European Coal Organization;
2. The Division of Intra-European Trade and Payments, which will probably be under Mr. Aspeslagh of the National Bank of Belgium, or Mr. Kahn, or another Italian candidate. This division will cover all problems relating to balance of payments in Europe.
3. The Division of Balance of Payments under an English director will be concerned with the balance of payments of Europe in general toward other areas and especially the Western Hemisphere.
4. Committee on Employment or Working Population.
5. Administrative Division under de Carnoy.

Eleven committees have also been formed so far. They are:
(1) Programs; (2) Balance of Payments; (3) Intra-European Payments;
(4) Coal; (5) Electricity; (6) Fuel; (7) Iron and Steel; (8) Agriculture
and Supplies; (9) Raw Materials; (10) International Transportation;
(11) Maritime Transportation.

The Dollar Rate

As indicated in the clippings which I have sent to Mr. Bertrand, the free or black market rates for the dollar have dropped substantially in recent weeks. The free rate is now about 4 Swiss francs per dollar in Zurich and the black market rates 335 francs in Paris (as against a peak of 390 in early April) and 50 to 51 francs in Brussels (as against 62 in early March). This movement is generally attributed to the relaxation of international tension and, even more, to the inflow of American tourists in Europe. It should always be kept in mind that the narrow volume of operations in these markets makes them very sensitive to even a moderate increase in supply, such as may originate in tourist transactions.

French Developments

As shown also in the clippings forwarded this week, the French Treasury position appears to be remarkably easy at the moment, with the Bank of France advances to the State very much below the ceiling. Difficulties, however, are still anticipated for the second half of the year, and the eventuality of a revaluation of the gold stock is beginning to be discussed in official statements. This revaluation would produce a paper profit of about 50 billion francs for the Treasury.

The last statement of the Bank of France reverses the long-continued decline in currency circulation which began with the withdrawal and exchange of the 5000-franc notes. The week's increase in currency circulation, however, is just about offset by a decline of deposits, the overall changes being of minor significance.

In the agreement signed with Spain the following buying and selling rates have been established for the operations of the Spanish Foreign Exchange Institute: (a) 5.10 buying and 5.25 selling pesetas per 100 francs for transactions at the official rate; (b) 7.65 buying and 7.85 selling pesetas per 100 francs for tourist transactions.

Developments in Belgium

The downward movement of uncontrolled prices is being accentuated. I indicated in my last report that butter, which sold at 200 francs per kilo last September, had dropped to 100 francs in April. Quotations on the farm are now reported at 50 francs, and in the urban centers at about 75 to 80 francs, well below the maximum control price.

Imports for April are reported at 7.3 billion francs and exports at the peak level of 6.7 billions. The proportion of exports to imports for April thus comes out to 91 per cent, very close to the prewar figure. It was 75 per cent in March. It should be remembered, however, that the April export figures have probably been swollen artificially by the previous restrictions imposed by France and other countries on imports from Belgium. The April figures do not, therefore, represent a normal export level, but are in part the result of the postponement of deliveries.

Budgetary operations for the first two months of 1948 leave a surplus of 1.3 billion francs, more than offset, however, by a deficit of 1.9 billion on delayed 1947 budgetary operations. Less favorable is the fact that supplementary appropriations voted after the adoption of the 1948 budget have increased expenditures by about 3.5 billions. It is hoped that these additional expenditures will be covered by new taxes or by the excess of revenues over estimates. Contrary to the French situation, the Treasury position remains extremely tight and a new internal loan at five and ten years has been announced. The net yield of the new certificates will be 4.95 per cent at 5 years and 5.04 per cent at 10 years, as against 4.46 per cent and 4.66 per cent respectively for the certificates issued last year.

Paris, May 25, 1948

The first meeting of the Committee on Intra-European Trade and Payments is taking place this afternoon at 3 o'clock. The agenda first calls for the election of the president of the Committee, who will in all likelihood be Mr. Ansiaux. As soon as he is elected, Mr. Ansiaux will propose the attendance of a Fund observer. There is every chance that he will be supported, although when I last saw him he had not yet had time to make sure of the British attitude on the matter.

Mr. Ansiaux will also propose the division of the Committee into two sub-committees: a sub-committee on trade and a sub-committee on payments. The Americans are very insistent that the NAC will not take any final decision on a multilateralization scheme until the European countries have forwarded satisfactory data and statistics on intra-European trade and payments and on the volume and categories of goods whose movement is now impeded by financial difficulties. This problem will probably be thrown into the lap of the trade sub-committee.

I also had a brief conversation with Mr. Keesing, who is proposing a plan which I forwarded to you. Mr. Ansiaux asked me this morning whether our papers could be discussed by the committee, with the understanding that they were purely personal and technical and would not commit the Fund at all. He is obviously very much interested in this new development, although he would like to see it merged with some features of the Keesing proposals in order to avoid too drastic institutional changes from

bilateral to multilateral relations. I told him that I could attend the committee meetings only as observer, but that I would be glad to answer questions on a purely technical and personal level, without any commitment from the Fund.

Mr. Triffin was instructed on this point not to have papers circulated as Fund documents, although the points they cover could be made by others and discussed. E.M.B./

The general impression is that the atmosphere of collaboration on this problem has improved very much in the last few months and that there is for the first time a slim chance that something can be achieved. Mr. Ansiaux himself confirmed to me now that the Brussels plan is so limited as to be of very minor significance for future discussions.

I questioned Mr. Marjolin this morning about the administrative organization of the OEEC. Nothing much has been done yet to add precision to the information which I forwarded to you from Brussels, and the organization will have its hands full during the next week or two with the meetings of the various committees which are now taking place. Mr. Marjolin, however, hopes to have a memorandum ready on this subject by the end of next week, and as soon as the committees have disbanded I shall be able to have some detailed discussions on this matter.

I reported from Brussels on the gradual decline of the dollar rate in Europe. On May 18 the dollar fell to a low of 3.92 in Switzerland. It was back yesterday to 4.04. In addition to tourist travel, the decline in the rate is attributed to the accelerated release of Swiss-controlled assets in the U.S. previous to the June 1 deadline. I am enclosing today a clipping to Bertrand on this subject. There is an interesting reference there to a decision of the French Government to allow delivery of affidavits without disclosure of the owner and to authorize French importers to use the dollar assets of other Frenchmen. I believe that the second piece of information is not wrong, but the first deserves a checking which I will do as soon as I can get away from the OEEC meetings.

I also had a talk with Mr. Koszul, who told me that the Bank of France continues to buy dollars on the free market. The volume of dollar sales is around \$1 million a day, but there is a substantial increase in the volume of Swiss franc transactions. Much of the purchases of the Stabilization Fund are absorbed by the liquidation of previous forward contracts made before the French devaluation. Mr. Koszul thus feels that a very substantial, but not outwardly spectacular, improvement is taking place in the French foreign exchange position. I would like to get complete figures on all this, but remain a little hesitant as to whether I should press the Bank at this time.

Paris, May 28, 1948

Expected Decline in Steel Exports

Comparative estimates of production, consumption, imports and exports of steel currently drawn up by the Steel Committee of the OEEC for the third quarter of 1948 reveal an exportable surplus of about 140,000 tons of finished steel from Belgium and Luxemburg, the exportation of which will be impeded by payment difficulties in the importing countries.

1. During the negotiation of trade agreements, importing countries have been forced to restrict their demand because of their inability to finance purchases. Thus the Netherlands will import from the Belgo-Luxemburg Union 500,000 tons of steel a year, as against estimated needs of 900,000 tons. The difference is compensated only to a minor extent by imports from the Bizone, the U.K., etc.

2. During the execution of the trade agreements, importing countries are unable to effect imports foreseen in the agreements for lack of financing facilities. For instance:

(a) During the first quarter of 1948 Norway imported only 2,500 tons per month instead of a foreseen 10,000 tons;

(b) Sweden is currently studying a reduction in the 20,000 tons a month registered in the agreement;

(c) The U.K. has reduced to 40,000 tons her demand for the third quarter of 1948. The original agreement foresaw imports of 200,000 tons a year, an additional 140,000 tons negotiated by the Iron and Steel Federation having had to be cut out for lack of financing means;

(d) France is now cancelling orders including steel sheets needed for the construction of railroad cars.