

S U M M A R Y

Dr. Guido Carli, chairman of the E.P.U. Managing Board, summarizes in the following conclusions the core of his observations and remarks on the « *E.P.U. Problems* »:

(a) within the present E.P.U. Agreement, a combination of credit and debit positions may arise which would exhaust the dollar assets and therefore terminate the working of the institution;

(b) the situation could be redressed by decreasing quotas, by altering the dollar-credit ratio within the quotas, by contributing an additional supply of dollars. This fresh contribution is liable to come either from participating countries or from U.S.A.; but as all participating countries are running a dollar deficit a contribution of theirs would increase this deficit;

(c) whatever device under (b) be accepted, it would be insufficient to restore normal working conditions in E.P.U. if participating countries did not pursue economic and monetary policies calculated to bring about the equilibrium of their balances of payments.

* * *

Unlike the pre-war situation, the trade relations between Italy and the sterling area have been characterized since World War II by a steadily active balance in favor of Italy, which has thus accumulated a sterling credit on London, while having at the same time to meet a heavy deficit on her dollar payments.

This trend made itself felt in 1945-46, was momentarily interrupted in 1947 by the violence of the inflationary movement in Italy, taken up again in 1948, and continued at a more rapid pace in 1949, facilitated by the return of the pound sterling to its official parity with the dollar on the Italian official market. It withstood even the devaluation of the pound sterling in September 1949; lastly it has reacted on the E.P.U. and has raised delicate problems for the Italian Government to solve.

The main features and problems of our trade relations with the sterling area are here briefly reviewed by Dr. Enrico Marasco in the Survey « *Italy's Trade with the Sterling Area, 1945-1951* ».

* * *

The present-day situation of « *State Participation in Business Concerns in Italy* », is outlined by Dr. Giandomenico Cosmo in its complicated pattern and in its significance for the several branches of our national economy. Special attention is devoted to the problems of the *Istituto per la Ricostruzione Industriale* (Industrial Reconstruction Institute) which holds a central position in the field of State participation in business

concerns, and to certain critical regional situations which make it difficult to adopt rational and comprehensive solutions. A general reorganization of the so-called *partecipazioni economiche dello Stato* is however an urgent need in Italy, and has been the subject of a special Government enquiry but which until now has led to no results.

* * *

The article « *Cheap Money: the English Experiment of 1945-47* » by D. C. Rowan, dates back to November 1950. It was not therefore affected by the discussions that have arisen in connection with recent developments toward dearer money, and if it concluded by a criticism of the Dalton experiment in ultra-cheap money, this was not due to a revaluation of the influence exerted by variations in interest rates on economic conditions. In the A.'s opinion the defect of the Daltonian policy is to be sought not so much in the practical consequences of a further lowering of a cheap interest rate, as in a logical deficiency, *i.e.* an error in the estimation of the probable nature of the long run expectations of the market, which entailed the failure of that policy.

This is the reason why Mr. Rowan also judges Dalton's experiment as a negative one, while acquitting it from the accusation, widely made against it, of having introduced a new serious inflationary factor into the post-war British economic situation. To this problem the A. devotes the core of its re-examination.

* * *

Prof. Corrado Gini continues his enquiries into the theory and calculation of national income, and devotes two articles to some long-discussed problems. In the first, « *The Mask of Government* » published in this issue, he deals with certain problems concerning the relations between services or goods of State or Public Corporations and those of private persons. The second, « *The Minimum Common Denominator* », which will appear in our next issue, deals with the problem of a stable monetary unit which could be used in comparing income and wealth in time and space.

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E. P. U. Problems

by

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1. — During the 18 months ending the 31st December 1951, the gross surpluses and deficits between E.P.U. members amounted to units of account $\pm 5,570$ million. Amounts totalling the equivalent of un/a $\pm 2,424$ million were cleared through the reversal of earlier movements within bilateral relationships. Net amount totalling un/a $\pm 1,898$ million were settled by offsetting surpluses in one direction by deficits in another amongst participating countries. Therefore, a total amount of un/a 4,322 million of credit and deficit positions were settled through compensations within bilateral relationships and between participating countries. Positions not settled by compensation amounted to un/a $\pm 1,548$ million.

2. — The above figures show that a huge swing, which took place in bilateral relationships between participating countries, has been financed through credits granted or received within the Union. We shall examine later the causes of this swing: for the moment, we confine ourselves to point out the circumstance that in a relatively short period it has represented an order of magnitude of un/a 2,424 million in each direction. The compensations of debts and claims of each country with the rest of the participating countries have amounted to 77.6% of the gross total of credit and debit positions; *i.e.* four fifths of unbalances of inter-European trade were settled through compensations. Positions which were not settled through compensations amounted to 22.4% of gross positions.

3. — An example of the consequences arising out of E.P.U. membership of a particular country is supplied by the following figures concerning Italy. In the period ending the

31st December 1951, the total of gross surpluses amounted to un/a 441,503 thousand and the total of gross deficits amounted to un/a 246,790 thousand. A large proportion of the surpluses has been compensated through the subsequent accumulation of deficits and viceversa. The total of surpluses after deduction of those which have been compensated through a reversal of tendency was un/a 227,839 thousand; the total of deficits after deduction of those which have been compensated through a reversal of tendency was un/a 33,126 thousand. Net cumulative surpluses amounted to un/a 194,713.

4. — The figures in paragraph 3 show that, through credits granted or received within the Union, a swing of debit and credit positions of un/a 213,664 thousand has been compensated; while, by the effect of the offsetting of debit and credit positions, an amount of un/a 18,951 thousand has been cleared. Consequently, the unsettled position amounted to un/a 194,713 thousand: adding the equivalent of drawings on balances accumulated before E.P.U. and settled through E.P.U. (un/a 42,506 thousand) and interests paid or received, the net accounting position totals un/a 237,663 thousand. This amount has been financed up to un/a 139,332 thousand through credits granted by Italy to the Union and up to un/a 98,331 thousand by payments of dollars to Italy by the Union.

5. — The figures in paragraphs 1 and 2 concern the amounts of credits and debits settled through compensations. The settlement of the residual balances has been made in accordance with the Agreement through credits granted or received by the members, through receipts or payments of dollars by either cre-

ditors or debtors respectively, through utilization of « initial balances », « special resources » and « existing resources ». The difference in the proportion between credits and dollars either received or granted by E.P.U. has caused in the second half of 1951 a decline of the dollar reserves of E.P.U. to a low level. The figures in Tables I, II, III and IV, show the importance of this crisis.

ferent proportion of gold or dollar payments within debtors' and creditors' quotas; (b) to ensure, in case of liquidation of the Union, a sufficient collateral of the credits granted to it by the creditors so as to strengthen the financial position of the Union and therefore the confidence of the public in its solvency. Let's take, for instance, the case of Italy: had the liquidation of the Union taken place

CREDITS GRANTED TO AND RECEIVED FROM THE E.P.U. AND DOLLAR RESERVES
(millions of units of account)

TABLE I

	June 1951	July 1952	August 1951	September 1951	October 1951	November 1951	December 1951
Credits granted by E. P. U.	511.7	531.5	470.4	503.9	630.6	721.2	808.5
Credits granted to E. P. U.	648.7	663.6	562.7	529.7	573.4	665.1	788.5
Difference between credits granted by and to E. P. U.	-137.0	-153.3 (a)	-92.3	-25.8	+57.2	+55.9 (a)	+20.0
Differences in each month compared with the preceding month		+16.3	-39.8	-66.5	-83.0	+1.3	+36.5
Increase (+) or decrease (-) of E.P.U. dollar reserves		+16.3	-39.8	-66.5	-83.0	+1.3	+36.5

(a) Including adjustments.

6. — During August, September and October, 1951 members with large quotas have settled their deficits through credits granted by E.P.U. to the extent allowed by the gold free tranches of their respective quota. The deficits of these countries had their counterpart in the surpluses of countries entitled to receive, in part settlement of their credits, payments in dollars by E.P.U. Consequently, E.P.U. was obliged to grant credits exceeding those received by it to the extent of un/a 199.3 million and to settle the difference by drawing an equal amount of dollars from the working capital fund. This fund dropped from 368.3 million dollars on the 31st July 1951 to 179.0 million of dollars on the 31st October, suffering a loss of 199.3 million of dollars.

7.—The maintenance of a sufficient amount of dollars in the cash reserves of E.P.U. fulfils a double purpose: (a) to provide means to finance the difference between disbursements and receipts of dollars arising out of the dif-

in August, Italian credits would have been satisfied up to 58% in dollars; had the liquidation taken place in October, the percentage would have been only 31%.

8. — We come therefore to the conclusion that, within the present Agreement, such combinations of credit and debit positions may arise which might gravely affect the dollar Fund of the Union. It could be shown that such combinations are capable of bringing about a reduction of the dollar fund greater than that which took place in recent months. It would in fact be possible for the dollar fund to be entirely exhausted. Consequently, the following alternatives confront the Union: (a) to continue with the risk of insolvency; (b) to alter the pace and/or proportions of dollar payments; (c) to increase the working capital fund of the Union.

9. — Whichever of the above mentioned solutions is adopted, E.P.U. could not function properly if member countries do not succeed

CUMULATIVE SURPLUSES (+) AND DEFICITS (-), NET OF THE AMOUNTS COMPENSATED
(millions of units of account)

TABLE II

Months	Austria	Belgium	Denmark	France	Germany	Greece	Iceland	Italy	Netherlands	Norway	Portugal	Sweden	Switzerland	Turkey	United Kingdom	Exclusive of interests	Inclusive of interests
1950																	
July	-7,951	-2,765	-17,556	+186,715	-185,419	-42,587	-1,873	+2,351	-41,492	-10,643	+17,677	+5,977	-	+1,446	+96,120	+310,286	-
September	-10,734	-15,824	-30,598	+162,763	-301,506	-54,424	-1,632	-17,140	-72,660	-25,364	+22,277	+14,160	-	+10,650	+320,032	+529,882	-
October	-18,186	-8,014	-36,198	+185,420	-334,608	-65,726	-3,138	-17,106	-95,745	-37,251	+29,490	-2,781	-	+27,254	+418,273	+646,007	-
November	-37,439	+5,983	-40,267	+212,765	-368,089	-71,878	-3,309	-39,805	-107,627	-51,110	+36,710	-15,533	-	+12,561	+475,517	+738,618	+740,081
December	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1951																	
January	-52,322	+32,446	-31,035	+232,988	-409,842	-81,288	-3,490	-50,834	-130,682	-59,941	+46,345	-34,840	+10,476	+7,234	+524,785	+854,274	+855,737
February	-72,138	+65,606	-27,405	+245,271	-468,114	-88,742	-3,715	-78,066	-155,676	-63,448	+58,451	-58,325	+21,269	+6,035	+618,997	+1,015,629	+1,017,092
March	-82,596	+89,469	-41,041	+271,290	-456,855	-93,716	-3,993	-83,450	-192,664	-73,880	+63,396	-45,650	+26,494	+10,828	+633,934	+1,084,583	+1,086,006
April	-92,895	+131,110	-54,353	+239,290	-411,784	-102,622	-5,490	-77,289	-223,456	-81,937	+66,791	-64,880	+13,776	-22,098	+685,837	+1,136,804	+1,138,227
May	-100,329	+169,324	-64,363	+225,262	-330,632	-112,137	-6,316	-58,648	-255,285	-82,041	+66,477	-80,350	+15,801	-45,492	+658,729	+1,135,593	+1,137,016
June	-104,109	+235,842	-68,081	+194,001	-281,258	-140,358	-7,000	-30,040	-269,614	-79,858	+58,644	-59,368	+10,976	-63,913	+604,136	+1,103,599	+1,110,552
July	-110,756	+292,008	-73,464	+164,476	-210,478	-159,627	-8,453	+24,101	-295,906	-79,914	+61,309	-37,989	+30,096	-78,803	+483,400	+1,055,390	+1,061,904
August	-116,227	+355,030	-73,652	+136,947	-159,336	-160,244	-8,420	+75,721	-270,161	-76,219	+64,514	-29,794	+55,446	-88,671	+295,066	+982,724	+989,298
September	-119,161	+423,829	-68,838	+86,561	-114,465	-160,056	-8,510	+99,885	-219,405	-68,295	+70,873	+8,924	+76,652	-98,254	+90,260	+856,984	+863,223
October	-124,676	+466,748	-62,576	+82,098	-17,702	-170,152	-8,476	+162,838	-146,238	-63,827	+87,743	+90,521	+113,486	-100,295	-145,296	+921,236	+921,696
November	-130,125	+546,479	-42,226	+130,251	-8,147	-182,002	-8,454	+184,342	-94,860	-61,601	+92,807	+122,261	+128,795	-93,825	-323,103	+1,074,594	+1,074,286
December	-130,569	+601,488	-32,314	+199,748	+36,022	-186,743	-8,480	+194,713	-49,976	-69,636	+96,484	+177,490	+141,229	-98,187	-471,773	+1,247,426	+1,247,190

in maintaining equilibrium over a period in their respective balances of payments. From this point of view, two alternatives are possible:

(a) each member country attains equilibrium in its balance of payments with other participating countries as a whole. In this case, the total of debts and credits between participating countries would be settled by

SURPLUSES (+) AND DEFICITS (—) NOT SETTLED THROUGH COMPENSATIONS.
CREDITS RECEIVED FROM (—) AND GRANTED TO (+) THE E. P. U.

(millions of units of account)

TABLE III

Month	Net surplus or deficit not settled at the end of month	Use of: — existing resources — special resources — initial credits or debits	Net accounting surplus or deficits at the end of month	Settlement of accounting surplus or deficits (col. 3)			
				Payments in \$		Credits	
				Paid to the Union	Received from the Union	Received from the Union	Granted to the Union
	1	2	3	4	5	6	7
1951: June	+ 1,110.6 — 1,109.9	— 238.4 + 373.0	+ 872.2 — 736.9	— + 225.2	— 223.5 —	— — 511.7	+ 648.7 —
July	+ 1,062.0 — 2,082.5	— 207.9 + 419.7	+ 854.1 — 662.8	— + 131.3	— 190.4 —	— — 531.5	+ 663.6 —
August	+ 989.3 — 1,009.8	— 207.9 + 425.6	+ 1,781.4 — 584.2	— + 113.8	— 218.8 —	— — 470.4	+ 562.7 —
September	+ 863.2 — 862.6	— 71.6 + 271.2	+ 791.6 — 591.4	— + 87.5	— 261.9 —	— — 503.9	+ 529.7 —
October	+ 921.7 — 921.0	+ 23.2 + 201.3	+ 944.9 — 719.7	— + 89.1	— 371.5 —	— — 630.6	+ 573.4 —
November	+ 1,075.0 — 1,074.3	+ 23.5 + 215.3	+ 1,098.5 — 859.0	— + 137.9	— 433.2 —	— — 721.2	+ 665.1 —
December	+ 1,247.2 — 1,247.2	+ 35.1 + 208.5	+ 1,282.3 — 1,038.7	— + 230.2	— 493.8 —	— — 808.5	+ 788.5 —

compensations; there would be no unsettled balances and no gold payments;

(b) or some countries have a favourable and some others an unfavourable balance of payments within the E.P.U. area. In this case countries belonging to the second group should have a favourable balance of payments with non-participating countries so as to earn currencies acceptable to participating countries of the creditor group.

10. — The remarks made in paragraph 6 apply particularly to two countries and their respective monetary areas: U.K. and France. The magnitude of the swing of these countries'

positions in relation to other members is illustrated by the following figures: in the period July 1950-March 1951, U.K. accumulated a surplus of un/a 633.9 million; in the period April-November 1951 it accumulated a deficit of un/a 954.2 million, with a swing, therefore, of un/a 1,588.1 million. Comparable figures concerning France have been un/a +271.9

million and un/a — 399.9 million respectively, with a swing of un/a 671.8 million. The consequences of these swings on the debit and credit situation of the Union have been, for the two countries, a reversal from a credit position of un/a 441.6 million to a debit position of un/a 577.4 million (see Table IV).

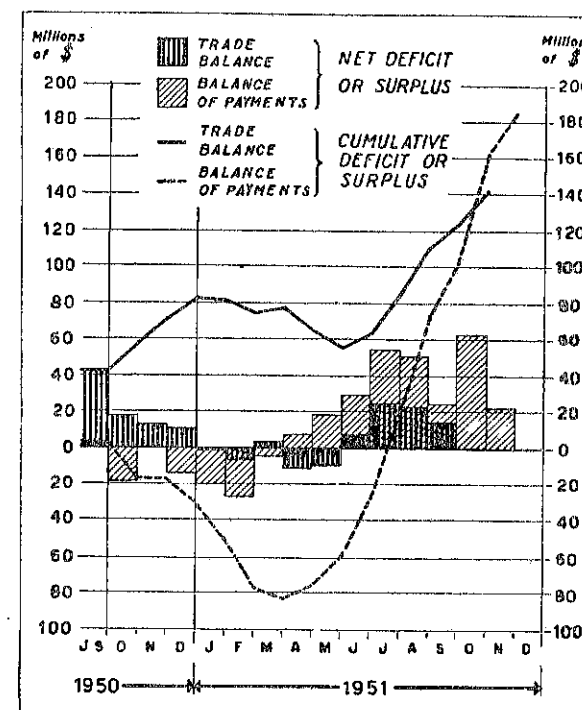
11. — The association of the sterling area with the European Payments Union effected through the participation of the U.K. causes E.P.U. to be subject to the wide fluctuations of debit and credit relationships to which the area is exposed. These fluctuations, which reflect, in their turn, those of prices of

raw materials exported and of manufactures imported by sterling area countries, have brought about a huge accumulation of purchasing power in the year ending June 1951; in this period, sterling balances of sterling area countries increased from 2569 to 3098 million pounds (+529 million pounds). In other words, the U.K. accumulated a debt of 529 million pounds with sterling area countries which was to a large extent offset by an equivalent claim on E.P.U. and the U.S.A. (net increase in central dollar reserves).

12. — From June onwards, a reversal of the tendency took place. Exports from E.P.U. countries to sterling area countries have increased and, as a result, the latter's sterling balances have been reduced. These trends were aggravated by the fact that the U.K. embarked upon a very large rearmament program, the consequence of which was to divert a considerable proportion of its resources from export industries to industries engaged in carrying out Government defence orders. Lastly, U.K. financial policy in recent years has created a very large volume of purchasing power which led to substantial imports of consumer goods from the continent of Europe when import restrictions into U.K. were removed in pursuance of the O.E.E.C. policy of liberalisation of trade.

13. — In France the position was aggravated by the marked difference in prices between the French and other markets of continental Europe. For instance, French cost-of-living index (second half 1950=100) reached last August the level of 122 whereas in Italy it had only attained the level of 113. The situation was made worse by events of a financial character, particularly changes in the conditions of payment and in the amount of bank balances kept by some countries in others. These movements were accentuated in the second half of 1951 by difficulties of a monetary kind. Lastly, disequilibria were heightened by deviations in normal currents of trade (due to transit traffic encouraged by monetary facilities) and in normal currents of tourism and by purchases of bank notes of certain countries by other participating countries.

Chart 1
ITALY'S POSITION WITH THE E.P.U. COUNTRIES AS A WHOLE: TRADE BALANCE AND BALANCE OF PAYMENTS (a)



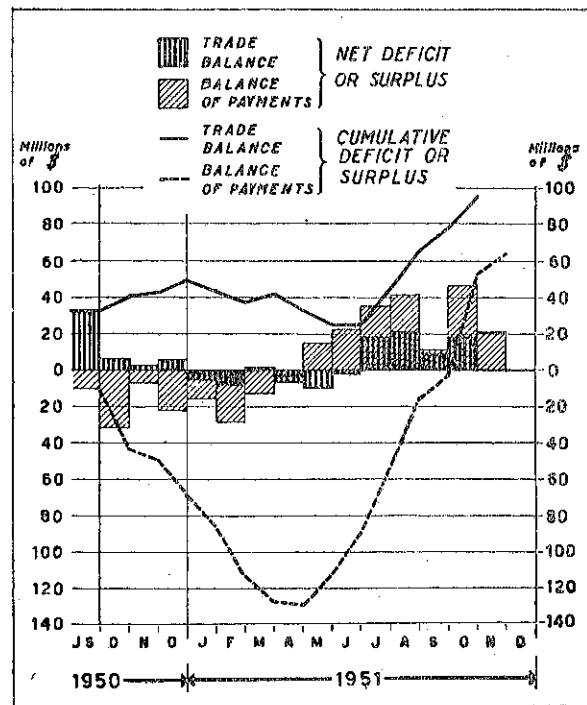
(a) The figures for the trade balance are taken from the Italian official sources (*Statistica del Commercio con l'Estero*); the figures for the balance of payments are those made known by OEEC official sources and by the specialised press of various countries.

14. — These occurrences were of particular significance for certain participating countries. Noteworthy in this respect is Italy's position (see Chart 1) which was characterized by a favourable balance of trade during the summer of 1950, followed by an unfavourable one and finally by a reversal to a surplus balance during the summer of 1951. This trend reflects above all the inter-change with the sterling area (see Chart 2). In both cases the balances of payments, while running parallel to the trade balances, have a wider range of fluctuations, for reasons mentioned in par. 13.

15. — The range of fluctuations of the U.K.'s and France's position in E.P.U. has put considerable pressure on E.P.U.'s dollar reserves. Table III shows that, although the amount of uncompensated surpluses and deficits remained constant from June to November 1951

Chart 2

ITALY - STERLING AREA: TRADE BALANCE
AND BALANCE OF PAYMENTS (a) (b)



(a) See note (a) Chart 1.

(b) In this Chart we include in the sterling area the following countries:

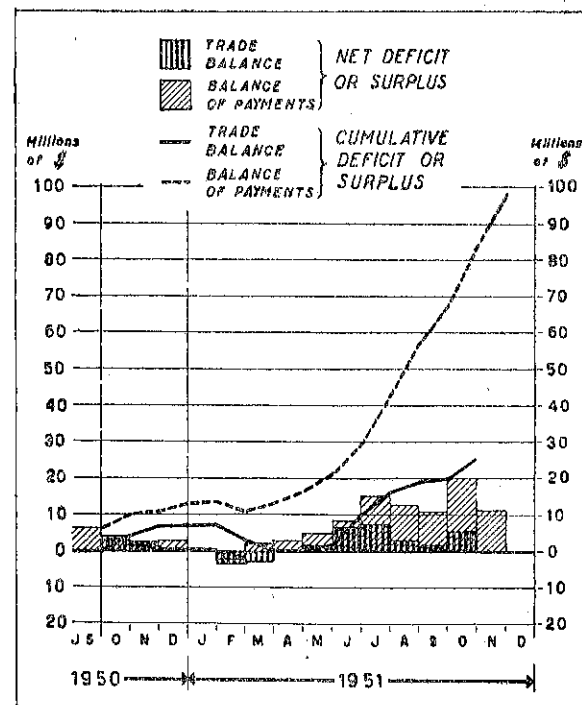
United Kingdom, Ireland, Malta, Gibraltar, Aden, Burma, Ceylon, Cyprus, Jordania, Hong Kong, Iraq, British Malaya, Pakistan, Indian Union, British West Africa, East Africa, South Africa, South African Union, Zanzibar, British Colonies in America, Australia, New Zealand, British Borneo, British Dependencies in Oceania, British Dependencies in South America, Australian Dependencies in Oceania. Egypt, Anglo-Egyptian Sudan, Ethiopia and Thailand are also included as « assimilated countries ».

(about un/a 1,100 million), their settlement in June was effected through an amount of credits granted to the Union in excess of credits received by the Union of un/a 137 million, whereas in November the amount of credits granted exceeded those received by un/a 55.9 million with a corresponding dollar loss for the Union. This points to the conclusion that even in case of an increase of the Union's dollar fund, measures aimed at limiting the extent of fluctuations in debtors and creditors positions would be necessary.

16. — E.P.U. membership implies acceptance by participating countries of the obligation to attain external equilibrium through appro-

Chart 3

ITALY - FRENCH FRANC AREA: TRADE BALANCE
AND BALANCE OF PAYMENTS (a)



(a) See note (a) Chart 1.

appropriate measures, recourse being had to trade restrictions by quotas in the last resort. Acceptance of this obligation implies the engagement to co-ordinate economic and financial policies so as to maintain similar conditions internally. The fluctuations to which we refer were magnified by the pursuance within the E.P.U. of different economic and monetary efforts; for instance, the difficulties of the United Kingdom are largely attributable to the fact that this country undertook a larger defence effort than the others. Changes in terms of trade were also largely responsible for marked swings. Thus the balances of payments of certain Scandinavian countries were favourably influenced by changes in the terms of trade; however, moderate changes in the prices of certain raw materials could reverse their positions.

17. — Economic co-operation brought about by E.P.U. membership has contributed to attenuate divergences in economic and monetary policies of participating countries. Typical in

this respect are the measures recently adopted by the U.K. Government. They aimed at restricting the money supply by restoring the money and financial market to its traditional function. The funding of a considerable amount of Treasury Bills and the restoration of control over the credit base in London by the Bank of England by renouncing pegged short-term rates is undoubtedly an important step towards more efficient financial controls. The recent measures of flexibility introduced in the London foreign exchange market (widening of spreads, unpegging of the forward margins) have worked in the same direction.

18. — Another example of measures of a general character adopted by creditor countries

to correct their position are those taken by the Italian Government, whose policy appears to be bent on granting internal credits liberally in order to promote the development of industrial equipment; this policy finds its limitation in the possibilities of delivery by foreign suppliers. Special credit facilities have also been granted to importers of commodities in order to replace credits hitherto obtained in foreign markets. This action is conducted in such a way as to interfere as little as possible with normal banking relations. Lastly, the list of goods freely exportable to monetary areas outside E.P.U. has been enlarged.

19. — Measures indicated in paragraph 18 have been supplemented by measures relating

CREDITS GRANTED TO AND RECEIVED FROM THE E.P.U. BY COUNTRIES AND DOLLAR RESERVES

(millions of units of account)

TABLE IV

	1951: June	July	August	September	October	November	December
<i>Credits received from the Union</i>							
Denmark	61.1	65.4	65.6	61.7	56.7	46.0	38.5
France	—	—	—	—	66.8	112.8	168.0
Germany	182.5	181.2	140.7	104.8	9.2	—	—
Netherlands	175.6	192.1	181.8	157.1	108.3	66.2	23.1
Norway	20.0	20.1	16.4	8.4	4.0	1.8	9.7
United Kingdom	—	—	—	141.9	355.6	464.6	539.2
Sweden	44.3	44.1	35.9	—	—	—	—
Turkey	28.2	28.6	30.0	30.0	30.0	29.8	30.0
<i>Total</i>	<i>511.7</i>	<i>531.5</i>	<i>470.4</i>	<i>503.9</i>	<i>630.6</i>	<i>721.2</i>	<i>808.5</i>
<i>Credits granted to the Union</i>							
Belgium	147.4	175.5	207.0	241.4	249.3	304.0	341.3
France	149.6	134.8	121.1	87.8	—	—	—
Germany	—	—	—	—	—	0.3	43.3
Greece	—	—	—	0.2	—	—	—
Italy	12.1	53.6	79.4	91.5	123.0	133.7	139.3
Portugal	36.5	37.9	39.5	42.6	51.1	53.6	56.9
United Kingdom	292.0	231.6	62.9	—	—	—	—
Switzerland	11.1	30.2	52.8	63.4	81.8	89.4	96.0
Sweden	—	—	—	2.8	68.2	84.1	111.7
<i>Total</i>	<i>648.7</i>	<i>663.6</i>	<i>562.7</i>	<i>529.7</i>	<i>573.4</i>	<i>665.1</i>	<i>788.5</i>
<i>Balances</i>	<i>- 137.0</i>	<i>- 132.1</i>	<i>- 92.3</i>	<i>- 25.8</i>	<i>+ 57.2</i>	<i>+ 56.1</i>	<i>+ 20.0</i>
<i>Adjustments</i>	<i>—</i>	<i>- 21.2</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>- 0.2</i>	<i>- 0.6</i>
<i>Balances, adjusted</i>	<i>- 137.0</i>	<i>- 153.3</i>	<i>- 92.3</i>	<i>- 25.8</i>	<i>+ 57.2</i>	<i>+ 55.9</i>	<i>+ 19.4</i>
<i>Changes in Balances (equal to changes in reserves) (a)</i>	<i>—</i>	<i>+ 16.3</i>	<i>+ 39.8</i>	<i>+ 66.5</i>	<i>+ 83.0</i>	<i>- 1.3</i>	<i>- 36.5</i>
<i>U. S. dollar reserves</i>	<i>352.0</i>	<i>368.3</i>	<i>328.5</i>	<i>262.0</i>	<i>179.0</i>	<i>180.3</i>	<i>216.8</i>
<i>Changes in dollar reserves</i>	<i>—</i>	<i>+ 16.3</i>	<i>- 39.8</i>	<i>- 66.5</i>	<i>- 83.0</i>	<i>+ 1.3</i>	<i>+ 36.5</i>

(a) (+) Decrease in debit balances or increase in credit balances.

(-) Increase in debit balances or decrease in credit balances.

to import regulations. The rate at which the U.K. was losing gold at the end of 1951 was so great that the monetary and financial measures referred to had unfortunately to be supplemented by import restrictions. On the other hand, with a view to promoting imports from monetary areas associated with E.P.U., the Italian Government has liberalised all imports from those areas and has decided on a reduction of 10% of customs duties. These measures are in accordance with E.P.U. principles. Their efficacy will depend on the level of economic activity at home in comparison with the level of activity in other member countries.

20. — The obligation to have recourse to import restrictions in the last resort, after every other device has been tried, probably was among the factors which induced the U.K. Government to restore the delicate mechanism of financial controls to its classical function of an instrument for assuring economic equilibrium. In a period of continual changes in conditions of external supply and demand, it is hardly likely to restore equilibrium while interest rates remain blocked. To restore to interest rate changes their function of adjusting internal credit structure to balance-of-payments conditions is proof of a will to abandon a policy which, in the long run, would have paved the way to economic isolation.

21. — In paragraph 9 we mentioned two conditions necessary to ensure the maintenance of those equilibria of the balance of payments of E.P.U. members without which no device of the kind indicated in paragraph 8 would be workable from the point of view of a smooth functioning of E.P.U. Conditions under letter (a) would transform E.P.U. participating countries into a closed area; conditions under (b) would be necessary to ensure connexion between the E.P.U. area and external economic areas. This connexion requires that countries having an unfavourable balance of payments with other E.P.U. countries should have a favourable balance with outside countries so as to settle E.P.U. debts in currencies acceptable to creditor countries.

22. — The likelihood of conditions under (b) being fulfilled depends on the sterling area being able to recover the position it had between the wars, that is becoming creditor towards the dollar area while running a deficit towards the European area. The possibility for the sterling area to recover the pre-war position is hindered by the following obstacles: deterioration in comparison with the pre-war period of the terms of trade for some essential commodities exported from the sterling area against commodities imported; loss of income from overseas investments following liquidation effected during the war; increased needs of imports of dollar commodities in relation to development programs of sterling area countries, and finally necessity of «unrequited exports» in order to scale down accumulated sterling balances.

23. — If the possibility for the sterling area to become dollar earning be excluded, it is highly improbable that this function will be performed by other monetary areas participating in E.P.U. Therefore, the existence of a situation in which some participating countries would be able continuously to run a net surplus position while others would run a net deficit position seems also unlikely. As a matter of fact, the latter would not be able to create an inflow of dollars which would be equivalent to the outflow provoked by dollar payments to net creditors. This points to the conclusion that countries having their global balance of payments in equilibrium, while running a surplus in Europe and a deficit outside Europe, should alter their economic structure and pattern of trade in such a way as to attain equilibrium with each of the two areas.

24. — Should such a change of structure be possible, it would require time to be achieved. In the interval it would be necessary to allow these countries to convert into dollars their surpluses towards E.P.U. in order to provide means by which they could cover their dollar deficits. We said in paragraph 8 that within the present E.P.U. framework, such a pattern of credit and debit positions may arise which would totally exhaust the present dollar fund,

although settlement of surplus positions be made in dollars only on the basis provided under the present Agreement. This implies that the continuation of E.P.U. would require an additional contribution to the dollar fund. As all participating countries have a dollar deficit, the contribution could only come from the United States directly or indirectly.

25. — From the above considerations we may draw the following conclusions:

(a) within the present E.P.U. Agreement, such a combination of credit and debit positions may arise which would exhaust the dollar assets and therefore terminate the working of the institution;

(b) the situation could be redressed by decreasing quotas, by altering the dollar-credit ratio within the quotas, by contributing an additional supply of dollars. This fresh contribution is liable to come either from participating countries or from U.S.A.; but as all participating countries are running a dollar deficit a contribution of theirs would increase this deficit;

(c) whatever device under (b) be accepted, it would be insufficient to restore normal working conditions in E.P.U. if participating countries did not pursue economic and monetary policies calculated to bring about the equilibrium of their balances of payments.

26. — Re-establishment of equilibrium conditions in the balances of payments, in turn, can only be attained «if credit systems are managed so that the relative level of income and expenditure in each country corresponds roughly to what they would have been under a unitary system» (L. ROBBINS, *The Balance of Payments*, 1951, pag. 11). To believe it possible to solve the problem by devices of the kind we mentioned above is equal to resuscitating the ancient superstition according to which «the balance of trade must be watched and kept right by Parliaments; a superstition which can only be ranked with the once equally widespread belief that witchcraft must be smelt out and witches burnt at the stake» (E. CANNAN, *Balance of Trade Delusions*, 1931).