

34
MINISTERIE VAN
BUITENLANDSE ZAKEN

Bureau van de Regerings-
commissaris voor het
Europese Herstel Programma.

No. 13327

's-Gravenhage, 21 Juni 1950
Smidswater 2

42770-A
22-6-50
ms
Qu.

Aan de Ministers, leden
van de R.E.A.

Bijl. I.

Ik heb de eer Uwer Excellentie hierbij aan te bieden het memorandum inzake het Europese deficit van Nederland in het fiscale jaar 1950/51, dat ingevolge het opgelegde tijdschema van de E.C.A. op 19 Juni j.l. aan de ECA-Missie te Den Haag werd aangeboden.

Dit memorandum kwam tot stand door overleg tussen het Ministerie van Financien, het Directoraat-Generaal van de BEB en het Bureau van de Regeringscommissaris voor het E.H.P.

In de vergadering van Uw Raad op 20 Juni werd besloten, dat in de daaraanvolgende vergadering een discussie zou plaats vinden over de situatie van Nederland in het E.P.U.

Bijl. II

Bij de richtlijnen, welke door de E.C.A. werden gesteld voor het vervaardigen van dit memorandum werd uitdrukkelijk gesteld, dat het niet in de bedoeling van ECA lag zelfs voor de structurele debiteuren een regeling te treffen, waarbij het Europese deficit bepalend zou zijn voor het vaststellen van de z.g. "initial aid".

De opvatting van E.C.A. is, dat het stelsel van de E.P.U. impliceert, dat debiteuren in het inter-Europees verkeer gebruik moeten maken van de credietfaciliteiten, welke onder de E.P.U. worden geschapen. Het is duidelijk, dat het gebruikmaken van de credietmarge voor de debiteuren een offer betekent, aangezien hierdoor hun schuldenlast wordt vergroot en eventueel in een verder stadium de goudreserves kunnen worden aangetast. De E.C.A. is echter van oordeel, dat dit offer als noodzakelijk wordt beschouwd omdat alleen langs die weg verwacht kan worden, dat de debiteur-landen een politiek zullen voeren strekkende tot vermindering of eliminering van het deficit.

Hoe zeer dus ook het argument, dat iedere gebruikmaking van de credietmarge de schuldenlast van Nederland verzwaart, juist is, het gaat tegen het gehele principe van E.P.U. in wanneer een land zou claimen, dat het behalve de directe hulp en de credietfaciliteiten van E.P.U. ook nog vrijwel het gehele Europese deficit als "initial aid" wenst te ontvangen.

Onder de hypothese van consolidatie van "existing balances" over een periode van 2 jaar en een acceptatie van het bilaterale arrangement met Duitsland werd het Europese deficit van Nederland in de E.P.U. in bijgaand memorandum berekend op \$ 123 miljoen.

Op grond hiervan werd de dezerzijds zeer hoog geachte initial aid van \$ 90 miljoen gevraagd onder de argumentering, dat dit zou impliceren, dat Nederland in het eerste jaar van de E.P.U. reeds in aanzienlijke mate op de goudvrije swing in de credietmarge zou moeten trekken.

De schatting van het Europese deficit in bijgaand memorandum is naar onze mening conservatief. Een hogere schatting zou het doorslaggevende nadeel hebben, dat in vergelijking met het vorige fiscale jaar ieder perspectief uit de Nederlandse betalingsbalans zou zijn verdwenen. De in vergelijking met de ramingen opvallend gunstige resultaten van het afgelopen jaar zijn zowel uit de Deviezennota als uit het jaarverslag van de Nederlandse Bank publick bekend.

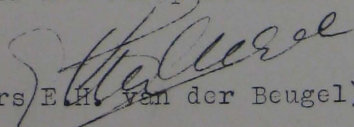
Omtrent de beide veronderstellingen over de consolidatie en het accepteren van het Duitse arrangement staat op dit moment nog niets vast. Mochten één of beide veronderstellingen te optimistisch blijken, dan kan dit in de volgende besprekingen over het memorandum kracht bijzetten aan het verzoek om een initial aid van relatief grote omvang. Het leek in de onderhandelingen juister om een eventuele uitspraak over de onmogelijkheid van Nederland om de liberalisatie-maatregelen te handhaven of verder door te voeren, te bewaren totdat de eerste reacties op het memorandum van Amerikaanse zijde zijn gegeven.

In de thans te voeren besprekingen zal zeker krachtig naar voren moeten worden gebracht, dat iedere trekking op de credietmarge, welke Nederland in de E.P.U. ter beschikking staat, een ernstig offer betekent, gezien de zware schuldenlast, waaronder Nederland reeds gebukt gaat.

Het ligt in de bedoeling, dat Uwe Excellentie voor de R.E.A. van a.s. Dinsdag ook een nota zal bereiken over andere aspecten van de Nederlandse positie in de EPU.

De Wnd.-Regeringscommissaris
voor deze

De Directeur van het Bureau
voor het Europese Herstel Programma


(Drs) E.H. van der Beugel).

M E M O R A N D U M.

The Netherlands intra-European payments position.

O.S.R. has requested to give a forecast of the European payments position with the participating countries in 1950/51.

Given the fact that the liberalization has been carried through to a considerable extent, it is impracticable to give a rather exact prognosis, in contrast to previous years when exports and imports were controlled by quota systems. Therefore the prognosis had to be limited to an estimate of the overall balance the break down of which was estimated for the most important areas only. As a matter of fact these break down figures may interchange as a result of switches.

Expectations for 1950/51 are as follows:

(Unit: one million dollar)

	Balance current account (trade and invisibles)	Contractual obligations on capital account
a) Sterling area	+ 14	- 7
b) Belgium	- 118	- 19
c) Germany	- 26	--
d) Other participating countries	+ 13	- 14
	- 117	- 40
	- 40	
	- 157	
	=====	

The above figures do not include the existing balances per July 1st, 1950, as the manner of consolidating these balances has not yet been determined. These balances are:

(Unit: one million dollar)

	When taking into account the agreement with Germany ')	When not taking into account the agreement with Ger- many ')
Sterling area	\$ - 24	\$ - 24
Belgium	\$ - 40	\$ - 40
Germany	\$ + 41 (87-46)	\$ + 37
Other participating countries	---	---
Total balance.	\$ - 23	\$ + 25
	=====	=====

Note ') In accordance with a bilateral agreement with Germany out of the present surplus on the balance of payments an amount of 46 million will be transferred to a separate account to finance specific Netherlands purchases in 1950/51.

- If: 1) the existing balances will be consolidated within 2 years and
2) the bilateral agreement with Germany is taken into account

the estimated overall deficit for 1950/51 of £ 157 will be reduced by £ 34 to £ 123.

The amount of £ 34 has been calculated as follows:

decrease by £ 46 on account of the bilateral agreement with Germany;

increase by £ 12 (half of the existing balance of minus 23)

Net decrease: £ 34.

Should the bilateral agreement with Germany prove not to be consistent with the E.P.U., the existing balances per July 1st, 1950 would not be - £ 23 but + £ 23, and the estimated deficit for 1950/51 would have to be reduced by about £ 12 to £ 145.

The figure £ 12 represents half of the existing balance of + £ 23.

Explanation of the expected surpluses and deficits in the balance of payments 1950/51.

The 1950/51 programme submitted in Paris in December 1949 showed a balance with participating countries of + £ 11, calculated on the basis of direct aid amounting to £ 202, as follows:

balance with participating Sterling area (U.K. and D.O.T.)	+ £ 84
balance with other participating countries (£ 15 of which to be paid in Sterling)	- £ 73
	<u>+ £ 11</u>

The other Sterling-transactions at the time had been estimated to be:

£-transactions with participating countries (excluding U.K. and D.O.T.)	- £ 15
£-transactions with Western Hemisphere	- £ 34
£-transactions with the Non Participating Sterling area	- £ 35
	<u>- £ 84</u>

The above shows that in December 1949 an equilibrium was expected in £-transactions, as considered from the currency- and not from the geographical area angle, whereas the £-transactions with the Participating and Non-Participating Sterling area were estimated to result in a surplus of + £ 84 - £ 35 = + £ 49.

When calculating the balance of the Participating Sterling area as + £ 84 and the balance of the other Participating Countries as - £ 73 in the programme submitted in December 1949 the starting point had been a liberalization percentage which was lower than the present percentage.

Furthermore the consequences of liberalization have been found to be much more onesided than had been expected at the time. Taking into consideration the probable cut in direct aid, these factors will not fail to exercise their influence upon the Netherlands position with the other Participating Countries in 1950/51.

Re a: The £-earning capacity in the Participating Sterling area has been reduced by the above mentioned factors and is now estimated to be + £ 76. On the other hand £-payments are not expected to recur in relation with other Participating Countries under the system of the E.P.U., but they will certainly recur in the current payments with the Non-Participating Sterling area, the Western Hemisphere and also other Non-Participating Countries. The Sterling position will then be expected to be as follows:

Balance of receipts and payments with the Participating Sterling area	+ £ 76 2)
Balance of receipts and payments with the Non-Participating Sterling area, the Western Hemisphere and other Non-Participating Countries	- £ 69
	+ £ 7

2) Note: including capital account.

Re b: A prognosis on the development of the monetary account with Belgium has become exceedingly difficult since the liberalization. The above factors appear to make their influence felt particularly with regard to Belgium. The liberalization percentage vis-à-vis Belgium is considerably higher than the percentage vis-à-vis the other Participating Countries, whereas the market in the Netherlands has not yet been saturated in certain sections in contrast to a saturated Belgium market. In a relative sense the Belgian market therefore has offered practically no additional possibilities as yet to the liberalized Netherlands exports. Only after the prospective coordination of the Netherlands and Belgian agricultural policy, the agrarian section may be expected to offer perspectives to Netherlands exports.

The consequences of liberalization in the trade with Belgium have proved to be much more far-reaching than had first been anticipated. The deficit of the first four months of 1950 amounting to about 80 million dollar can not be taken as a basis for calculating an annual deficit, given the fact that seasonal influences play an important part in the first four months of every year and taking into account the considerable pressure on the balance of payments, resulting from the backlog demand in the Netherlands, which is of a declining nature.

In spite of the fact that the deficit in the first four months of 1950 is not symptomatic, it shows the heavy strain on the Netherlands balance of payments caused by liberalization.

In view of these factors the deficit on the current account of the 1950/51 balance of payments may be estimated to amount to about 118 million.

When adding to this figure the deficit on capital account the total deficit would be about 137 million. When

comparing this deficit with the 1949/50 deficit which will amount to about 152 million, an improvement in the position with Belgium appears to be expected notwithstanding the great progress in liberalization.

Re c: A deficit of about 26 million is to be expected with Germany in 1950/51, due to a great extension of the liberalization of imports from Germany, resuming tourist-traffic to Germany and the recently imposed restrictions on the transit-trade to Germany.

This is all the more probable as Netherlands exports of consumer-goods are as a rule paid for immediately, whereas Netherlands purchases of German capital goods will affect the balance of payments in a later stage.

Re d: An equilibrium will be expected to exist with the other countries.

Whereas an equilibrium will be likely to exist with Sweden, surpluses may be expected in the balances of payments with Norway and Denmark.

The balance of payments with France is developing from an equilibrium into a relatively small deficit, whereas the balances with the remaining countries will probably show a surplus.

A prognosis for the balance of payments with Switzerland is hardly to make on account of the special nature of the goods to be imported from that country. Nevertheless it is taken into account that the position with Switzerland will alter from an artificial equilibrium into a deficit.

Assuming that after the establishment of the E.C.U. further liberalization will be carried through, it is deemed likely, however, that an overall surplus on the current account of about 13 million can be achieved.

The deficit on the capital account with these countries will be about 14 million, so that the overall balance will show a deficit of about 1 million.

When taking into account the above estimates, a deficit with the dollar area of 175 million and a surplus with the rest of the world of 5 million, the total balance of payments will give the following picture:

Dollar area	175	gld. - 665
Participating Countries	157	gld. - 600
Other countries	5	gld. + 20
	<u>327</u>	<u>gld. -1245</u>

After taking into account the devaluation which took place in the meantime, the estimate of the gross deficit on the 1949/50-balance of payments amounted to about Gld. 1500 million. The smaller deficit of Gld. 1000 million for the calendar year 1949, as shown by the realization figures, has been favourably influenced by a number of exceptional factors in the second

half of 1949, which can not be reckoned with when making the estimate for 1950/51, partly as these factors are absolutely uncertain, partly as they are certain not to recur.

These factors are :

- a) the drought in 1949 in Western Europe, which entailed extra export-possibilities in the Netherlands agricultural section;
- b) temporary onesided liberalization of the Netherlands imports into Western Germany;
- c) the improvement in the trade and payments with Indonesia, which cannot be expected to continue;
- d) in the last quarter of 1949 the current account of the balance of payments with the participating countries showed a surplus, an abnormal phenomenon, which can be explained by the fact that the buyers in this country in view of devaluation, have been abiding the development of prices on the worldmarket, in the meantime eating into their stocks.

The favourable influence of these factors is estimated to amount to Gld. 300 to 400 million and elimination of these factors would bring the 1949 deficit up to about Gld. 1350 million. The 1950/51 estimate of Gld. 1245 million, therefore, essentially means an improvement of about Gld. 100 million as against 1949.

Taking a deficit in the E.P.U. of \$ 123 million as a starting point, thus presuming that

- a) the existing balances will be consolidated within two years;
- b) the bilateral agreement with Germany will materialize;

it seems reasonable to suggest to O.S.R. to consider an amount of \$ 90 million to cover the initial position, having regard to the fact that this deficit will result from :

- 1) the liberalization of trade;
- 2) the increased strain on the balance of payments with the participating countries consequent upon a considerable cut in the direct aid.

If an initial position of \$ 90 million should be granted, about half of the credit margin not requiring settlement in gold or dollars would be exhausted in the first year. Exhausting a much larger portion of the E.P.U.-credit margin in the first year, would in the opinion of the Netherlands Government, entail certain risks; not only because the advantage of the German agreement would no longer exist in 1951/52, but also because the Netherlands hard currency reserves have to be preserved as much as possible, especially in view of the fact that after June 1952 no more Marshall-aid will be forthcoming. Such reserves are indispensable to cover the obligations on the capital account and possibly also a deficit on the current account in later years.

The Netherlands Government, however, consider it to be possible that the bilateral agreement with Germany will not be consistent with the system of the E.P.U. Consequently calculations should also be based upon a consolidation of the entire German balance per July 1st, 1950, within two years. This would mean

that the deficit in the E.P.U. would not be \$ 123 million but \$ 145 million.

Should an initial position of \$ 90 million be granted, the portion of the credit margin not requiring settlement in gold or dollars would practically be exhausted entirely in the first year.

In view of the above the Netherlands Government , therefore, applies for an allocation of \$ 90 million to cover their initial position in the E.P.U.

Regarding the prospects for 1950/51 and later years the following observations must be made. Should liberalization be applied integrally by the other European countries after the establishment of the E.P.U., a gradual improvement may be expected to occur in the Netherlands position. The strain on the capital account exerted by contractual engagements with the Participating Countries will then for the greater part have disappeared. Besides, the considerable disequilibrium in the balance of payments with Belgium, occasioned by the high degree of liberalization in the trade with this country - which is necessary with a view to the realization of the Benelux - will be reduced to more normal proportions. Moreover the figures relating to the monetary developments and the gradual recession in consumption also indicate a similar improvement in the Netherlands long term position.

If moreover also the balance of payments with the other participating countries should gradually be showing an increasing surplus, the assumption appears to be warranted that toward the end of the E.R.P.-aid the Netherlands deficit in the overall European balance of payments will have decreased considerably.

For 1951/52, however, a considerable deficit will still have to be reckoned with.

MEMORANDUM OF THE E.C.A.
ON INITIAL POSITIONS WITH E.P.U.

INTRODUCTION.

1. Since the beginning of the discussions on a European Payments Union it has been recognized that certain deficits of participating countries would be eligible for special financing after the establishment of the Payments Union. The Second Report of the O.E.E.C. referred to deficits which might be called "structural" or "exceptional" whose financing would be distinct from the ordinary credit facilities of the E.P.U., although probably administered within the E.P.U., and whose determination would be an E.C.A. responsibility. The recent very encouraging progress toward final agreement on the Payments Union makes it advisable to proceed at once to the determination of such eligibility for special financing.
2. The term "structural" has frequently been used in reference to the deficits in question; the terms "exceptional" and "permanent" have also been occasionally used. Each of these terms is capable of several interpretations; furthermore, it has not heretofore been made clear whether all or only some part of such deficits as might be considered "structural" would be covered by special financing. In view of the ambiguity of the terms "structural" and "exceptional" and the unsuitability of the term "permanent", we shall henceforth refer to the operations falling under this general heading as the establishment of initial positions vis-à-vis the E.P.U.
3. Although the exact method of accounting for such initial positions is not yet finally determined, they will in general take the form of credits to the accounts of certain participating countries with the E.P.U. which may be used to settle net deficits with the E.P.U. without gold settlement or repayment obligations.
4. The special financing of surpluses will be the subject of separate discussion with the countries concerned.

General Considerations.

5. As a framework for considering the eligibility of a country for an initial position in its favor vis-à-vis the E.P.U., the following considerations should be kept in mind.
6. An initial position in favor of a participating country represents intra-European aid on a grant basis. It must therefore be justified by special factors in the economic position of the country during the transitional period of post-war recovery and must be related to a program for the elimination of the need for extraordinary outside assistance by or before the end of the E.R.P. period.

7. It is not the intention of the E.C.A. to arrange special financing via initial positions for all forecast intra-European deficits. The ordinary credit facilities of the E.P.U. are themselves expected to provide a large measure of flexibility in the payments positions of its members; and it is essential to recognize the credits provided by the E.P.U., accompanied by gold payments on the schedules to be agreed, as the normal method for financing the deficits which occur. Thus, while the development of an estimate of a country's intra-European payments position is a necessary part of the analysis of that country's eligibility, the establishment of an initial position must rest on something more than a forecast deficit.

8. Just as the initial positions are not designed to replace the facilities of the E.P.U., they are similarly not designed to postpone or obviate steps towards economic re-adjustment which may be essential to the ultimate balancing of a country's payments.

9. It is important to recognize that the complete intra-European transferability of all intra-European earnings and of E.P.U. credits will alleviate many of the most intractable payments problems which have given rise to drawing rights under the present or past Intra-European Payments Agreements. Those drawing rights have largely been designed to cover particular bilateral payments deficits. Any prospective deficit whose financing through an initial position is under consideration must consequently be an overall deficit in Europe.

10. In view of the foregoing considerations it will be clear that there is no necessary relationship between the initial positions established in favour of certain countries and the drawing rights which have been established in the past. The fact that a country has received drawing rights during the last two years would not in itself justify the establishment of an initial position with E.P.U. At the same time, it is clear that a country receiving an initial position in its favour with E.P.U. should show substantial progress toward equilibrium by comparison with the previous years.

PROCEDURE FOR DETERMINATION OF INITIAL POSITIONS

11. With governments that feel there are special factors in their intra-European payments which, in view of the considerations outlined above, would justify initial positions in their favour, the O.S.R. will hold individual discussions in Paris during the few days beginning 22nd June. As a basis for those discussions the O.S.R. would wish to receive, from the delegation of each such government, a memorandum by 19th June.

12. The memorandum should include:

- a) an estimate of the country's intra-European payments position for the coming year and, in more general fashion, for the following year, taking into account

-anticipated -

anticipated trade liberalisation as well as other relevant factors. This estimate should be presented in the context of a continuing development toward independence of outside aid by 1952 and should indicate the particular elements whose improvement by 1952 will lead to overall balance.

- b) special elements which reflect particular government programmes;
- c) particular elements of uncertainty in payments or receipts;
- d) the structure of intra-European debts owed by or owed to the country, particularly the debts that have not been consolidated.

13. Finally, the memorandum should state the size of the initial position that the government wishes the E.C.A. to consider, and should set forth explicitly those factors that, in the judgement of the government, may make the country eligible to receive intra-European aid on a grant basis after the institution of the European Payments Union.

14. The E.C.A. Missions may, in the course of their consultation with the governments, suggest additional points relevant to the memoranda of particular countries.

15. At the time of the individual discussion with a country delegation the corresponding E.C.A. Mission will be represented in Paris to take part. It is hoped that the memorandum to be submitted to O.S.R. by 19th June will be prepared in close consultation with the E.C.A. Mission; the O.S.R. will rely heavily on the Mission for technical analysis and recommendation. In particular, any parts of the memorandum which require detailed analysis should be discussed sufficiently with the Mission to avoid time-consuming examination of details in the Paris discussion. In any event, a copy of the country's memorandum should be transmitted to the E.C.A. Mission by the time of its transmittal to O.S.R.

-O-O-O-