

THE SWEDISH INSTITUTE FOR INDUSTRIAL RESEARCH

**SWEDEN'S TRADE POLICY
AFTER THE WAR**

STOCKHOLM

1945

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Preface.

The Commission on Postwar Economic Planning, which was appointed by the Swedish Government in the spring of 1944, has as part of its task also dealt with the question of postwar foreign trade and commercial policy. The Commission has considered this to be one of the most important parts of Sweden's economic policy, although it is true that the power of a small country to influence such international conditions as affect developments within foreign trade is rather limited. In studying the foreign trade problem the Commission has had the advantage of consulting the expert opinion of leading persons within various government agencies as well as of a large number of representatives of private enterprises and organizations engaged in the export and import field. The Commission's views were submitted to the King in the form of a report dealing with Swedish postwar foreign trade and commercial policy. It is a source of particular satisfaction to note that the report, as regards its fundamental lines, has been unanimously endorsed by the Commission and its experts.

As chairman of this postwar planning commission I take the opportunity of expressing my appreciation for the initiative that the Institute for Industrial Research has taken with a view to contributing to a greater circulation of the report by publishing it in a readily accessible form. The future of foreign trade is undoubtedly a question which most closely concerns not only a small group of experts, but the entire nation. As is the case with its reports on other subjects the Commission has not only endeavoured to indicate the fundamental lines of economic policy but has also sought to investigate and clarify, within a limited framework, our most important postwar problems.

Stockholm, June 1945

Gunnar Myrdal

The Role of Foreign Trade in Swedish National Economy.

The great importance of foreign trade for Swedish national economy is now so generally known and appreciated that it is hardly necessary further to elucidate it. It is true that receipts from exports account directly for only a minor proportion of the national income. During the period immediately preceding the war this proportion was even a diminishing one. According to estimates made by the Institute of Business Cycle Research it dropped during the thirties approximately from 19 to 15 percent of the gross national income. This decline was largely due to the decrease of agricultural exports. The greater part of Swedish exports, however, consists of industrial goods, and exports are of greater importance for manufacturing than for other branches of the economy. However, even in the case of industrial production the share in exports dropped during the thirties from $1/3$ to $1/4$ of the total value.

The role of imports in Swedish national economy is illustrated by the fact that they before the war amounted to approximately 20 percent of the national income.

Even though these relative figures may appear low, this is not so from an international point of view. Compared with other countries, Sweden is a country highly dependent on foreign trade. Furthermore, it should be borne in mind that such relative figures as stated here do not give a full picture of the significance of foreign trade. The fact is not susceptible of exact proof, but it appears evident that foreign trade exceedingly contributes to the raising of our general economic standard. Through foreign trade Sweden participates in a profitable international division of labour. Foreign trade gives us access to cheap and partially indispensable raw materials. In addition, it substantially increases the value of our national resources suitable for export, such as timber and ore. Moreover, foreign trade brings about an increase of our productive capacity in certain fields of economy far beyond the relatively restricted

limits set up by the domestic market, thus providing us with the advantages of specialization and large-scale production. It also makes it possible for us to benefit by corresponding advantages accruing to the export industries of other countries.

The Commission wishes to state these rather self-evident facts in order to emphasize the importance to our economy of resuming extensive international trade.

Also from another point of view, namely that of general economic activity and employment, foreign trade is of decisive importance. As previously stated by the Commission, export and demand for imported goods hold a strategic position. If the aim of full and steady employment with the maintenance of relatively free market conditions is to be achieved, it is both a short- and long-term prerequisite that exports shall after the war not only resume their prewar volume, but, if possible, be increased beyond that level in proportion to the country's industrial potentialities.

However, foreign trade is something more than an important factor in the trend of Swedish economic development. It is of equal importance that exportation creates "an international liquidity margin" for our employment policy. An increase of exports in proportion to the demand for imported goods corresponding to the growth of our national income is a prerequisite for keeping a free hand in our cyclical and employment policies without resorting to far-reaching restrictions of imports, which would result in a deterioration of our national supplies and economic standards. Only with such a favourable development as regards exports can the policy of full employment be realized without creating a tendency to autarchy which would have a hampering effect on economic progress.

Developments within Swedish Foreign Trade.

As appears from the above-indicated relative figures, our exports during the thirties lagged behind the general rate of increase of production in Sweden. While during the twenties the volume of exports almost doubled, it never thereafter - in spite of a lively upswing at the end of the thirties - reached a figure much higher than the peak of the twenties. However, the total volume of world trade declined strongly during that period and, in comparison, the Swedish exports were able to hold their ground very well indeed.

The rapid increase in exports during the years following World War I must primarily be attributed to the rapidly growing markets gained in various trans-oceanic countries, particularly the United States. On the other hand, the im-

portance as export markets for Sweden of the war-ravaged European countries was considerably reduced during the twenties. This was true primarily of Germany and France, but to a certain extent also of England. The rapid recovery of Swedish exportation and the resulting general prosperity during the first decade following World War I, must thus be attributed principally to the re-orientation of Swedish exports toward transoceanic markets. During the thirties the rearrangement thus brought about in the relative importance of various markets for Swedish exports was, as a whole, maintained. The rearmament of Germany during the second half of the 1930's increased to but a small extent that country's share in Swedish exports. In spite of the tendencies toward larger trade with the transoceanic countries, Europe remained, nevertheless, our most important market, where $3/4$ of our exported goods were sold.

The changes in the geographical distribution of Swedish exports are largely influenced by the trend of economic developments in various countries. A connection can generally be observed between increases in national income and the development of imports. On the other hand, it is of interest to note that Sweden's share in the imports of the main importing countries showed a strong tendency to increase during the thirties. As an example it may be mentioned that Sweden's share in the imports of Germany, the United States, Japan, and Canada almost doubled during the period from 1929 to 1938. On other European markets, including the Nordic countries, Sweden's share increased by over $1/4$ and on the English market by $1/5$. In the non-European raw material countries the proportion of Swedish goods in imports went up by nearly one-half. This proportion also increased in a number of other countries.

Thus the fact that the position of Swedish exports during the thirties was maintained, notwithstanding the general decline in the volume of world trade, could be ascribed neither to developments in any particular country nor, in all probability, to any particular export product. Developments seem rather to indicate that Swedish exports as a whole could well stand their ground against competition on the world market.

The trend of Swedish exports prior to the war must, however, also be viewed in the light of the steady development towards new commodities and new qualities, which took place within Swedish export industry. Within the forest products industries there may be noted the increasing importance of cellulose products and the diminishing share of saw-mill products in total production. Within the cellulose industry may be observed a development toward increased exports of sulphate pulp and an increasingly intensified refining of cellulose,

primarily through bleaching to viscose, et cetera. A decline may be noted with respect to mechanical pulp. Within the paper industry there was a rapid expansion of the exports of wrapping paper and of grease-proof paper, while newsprint showed a declining tendency. Such new products as plywood and wall-board also showed a rapid expansion during the thirties. Within the iron industry there was during the twenties, as is well known, a fundamental re-organization aiming at higher-grade production. These tendencies continued during the thirties, and a close study of iron export would reveal a strongly diversified development toward new qualities and new forms of manufacture. As far as exports of engineering products are concerned, the changes are perhaps even more pronounced. Thus old and important Swedish export products, such as cream-separators and steam turbines, based on earlier Swedish inventions, are gradually losing ground, while other products, such as ball bearings and ships constructed on modern principles, have during the thirties rapidly won a larger market. Toward the end of this period, the exports of such products as matches and paving stones were also declining. Generally speaking, the trend during the inter-war period, and perhaps in a particularly high degree during the thirties, led to a higher processing of export products. This trend is partly reflected by available trade statistics. Thus, according to official sources, the proportion of total exports represented by finished goods increased from about 25 per cent in 1913 to over 40 per cent at the end of the thirties. But the trend toward higher quality and intensified industrial processing is only partially indicated by such figures.

It may thus be said generally that the steady development of new products and higher qualities, in addition to the intensive reduction of costs by rationalization, has been an important factor in deciding the competitive strength of Swedish exports prior to the war.

The developments of Swedish imports during the inter-war period followed roughly the variations in national income. However, on this point, too, a certain deviation may be observed between the tendencies in the twenties and in the thirties. While imports during the twenties grew more rapidly than the national income, imports during the thirties lagged somewhat behind. Towards the end of the thirties, however, imports were considerably higher than in the twenties. Thus, Sweden has not as to her imports followed the general declining tendency apparent in world trade during that period. This appears also from the fact that Sweden considerably increased its share in the exports of various producer countries. Thus Sweden's share in the exports of such countries as the United

States, Great Britain, France, Norway, Finland, The Netherlands, Belgium and several transoceanic countries almost doubled during the thirties, and in certain cases it increased even more. This development is not only the result of Sweden's pronounced free-trade policy, but also of the trend of economic activity within Sweden which was very favourable from an international point of view.

The increase in imports during the thirties would, however, have been considerably larger if important changes had not taken place in their composition, primarily a shift from importation of finished goods to importation of corresponding raw materials. Various factors have undoubtedly contributed to the rapid expansion of the domestic manufacturing industry at the expense of corresponding imports. To a certain degree this must be viewed in relation to the autarchic tendencies in the outside world. Had Swedish exports during the thirties not been hampered by various trade barriers, the productive factors might not to such a great extent have been transferred to manufacturing industries producing for the domestic market. The trend toward greater self-sufficiency as regards finished products was also promoted by changes which took place during the thirties in the international currency relations. However, this trend was probably also partly due to an increase in the domestic market on a larger scale and consequently at a lower cost than before, and to the greater technical and commercial ability which gradually develops in a highly industrialized country.

Through these changes in imports, which in themselves resulted in savings of foreign exchange, the "international liquidity margin" for Swedish employment policy was enlarged; in view of the less favourable export tendencies this margin might otherwise have become too restricted.

As in the case of exports, the United States and certain other non-European countries tended to increase their share in Swedish imports during the first decade after the first World War. However, at the end of the thirties European products still accounted for the main part of Swedish imports, according to countries of origin by about two thirds¹⁾, of which approximately one half consisted of German and English goods.

The distribution of imports among the various countries differed greatly from that of exports, which gave Swedish foreign trade a markedly multilateral character. As late as in 1928 the sum of export and import surpluses in our trade with individual countries, calculated only in c.i.f. or only in f.o.b.

1) Translator's note: In Swedish trade statistics two sets of figures are given for the source of imports, i.e. "countries of purchase" and "countries of origin".

prices, amounted to about one third of the total value of Swedish foreign trade. There was an import surplus primarily in our trade with Germany and the entire American continent. On the other hand, trade with England, the Nordic countries, certain of the other European countries, and Africa, Asia and Australia resulted in export surpluses. From countries having an export surplus in their trade with Sweden a considerable part of our most important raw materials was received, while conversely countries with an import surplus of Swedish goods were important markets for among other things our forest products. As a result of the general trend toward bilateralism and preferential treatment during the thirties there appeared in Swedish foreign trade also a certain tendency toward a lesser degree of multilateralism. Nevertheless, at the end of the thirties the total import and export surpluses amounted to about one fourth of the total value of foreign trade.

Issues in the Long Run Development of Foreign Trade.

The possibilities of utilizing prewar experience in estimating the prospects of expanding our foreign trade after the war are naturally limited. For it is obvious that World War II, to a still higher degree than World War I, will mean a break in economic trends which will affect conditions of world trade even from a long range point of view. These changes caused by the War can as yet be surveyed only to a certain extent.

As far as our own economy is concerned it may be noted that the tendencies toward increased self-sufficiency, which had appeared even before the war, have quite naturally been strengthened as a result of our being cut off from the world market, even though these tendencies were in many fields checked by the shortage of raw materials. Many lines of manufacture which have been developed during the war, for example in the iron and steel, engineering and chemical industries, and which have replaced previous imports, probably will prove capable of competing after the war, and in some cases they will continue to develop. There is, for instance, reason to expect a further expansion of the chemical industry and of the production of commercial iron. Due to changes of a lasting character which took place during the war, some reduction of our import requirements has resulted which, contrary to the structural changes of the thirties, primarily affects the import of raw materials. The size of this reduction of imports has been estimated, in terms of prewar currency, at 100-150 million kronor.

Thus by this shift the international scope for our anticyclical policy has been enlarged to no small extent.

The changes on our export markets during the war will probably not appear with entire clarity until better contacts have been established with the various countries. It is even now evident, however, that in certain fields the former importing countries have become less dependent on our export goods, due to a development of domestic production capacity and of production technique. For example, it will certainly in many cases be difficult to recapture former markets for iron and steel and for engineering products.

In other respects, too, substantial changes have occurred on the world market which may present possibilities of development in both a positive and a negative direction. Among these changes should first of all be mentioned the acceleration of industrialization, similar to that which took place during World War I, particularly in the raw material countries. Further, the continually changing political aspects of the world naturally constitute a number of unstable factors bearing on the future structure of world trade.

For all these reasons it is clear that our foreign trade cannot - even after the reconversion from war conditions has been practically completed - be expected to return to prewar conditions. Experience from the prewar period seems in certain respects to give some general indications as to where we have the best prospects for developing our foreign trade.

The tendencies toward self-sufficiency with respect to certain previously imported goods have been referred to above. Such tendencies may be conditioned by a new technical-economic situation and may therefore occur without the protection of increased customs tariffs or subsidies. In the case of agricultural production a policy of self-sufficiency may be motivated by our long-range supply interests and the desirability of securing a reasonable standard of living for the agricultural population needed at rational methods of production. With the last-mentioned exception these developments cannot be considered as a deviation from the Swedish free-trade policy which is an expression of our interest in making it possible for imports to compete with our own domestic production. However, a necessary pre-requisite should be that import prices have the character of "world market prices" and not of prices momentarily manipulated by private business enterprises or State regulations of other countries. Of interest from these points of view are certain tendencies toward a new organization of the world market, which possibly will be of lasting importance. The agreements which have been concluded between some leading powers concern-

ing the big international raw materials may thus prove to be the introduction to an epoch of "organized free trade".

As stated above, the distribution of our exports was before the war determined to a great extent by general economic activity in the various countries. It is obvious that there are particularly great possibilities of expansion in a number of countries that are still economically backward, some of them trans-oceanic countries, where the process of industrialization has been accelerated during the war. It therefore appears probable that, as after the first World War, new prospects of developing our foreign trade in a number of such markets will be opened.

In all probability our foreign trade must, even after the war, be characterized by a considerable mobility, if it is to assert itself successfully on the world market. The steadily progressing conversion in Swedish export industry to new products cannot, of course, be considered finished. A continued development which probably will lead to a still higher degree of manufacturing in many fields has been started and will go on. It is particularly necessary that such a development be realized within forest industries in which the limited yield of our forests during the next few decades will necessitate certain restrictions in the use of raw materials. A further expansion of exports in this important field will require that the quantitative expansion that ended with the thirties should be succeeded by an accelerated development towards a higher degree of processing. -- At the same time it should be realized that it may be impossible to maintain in all fields our former superiority as regards quality and technique. In the iron industry the achievements in alloy technique combined with technical experience connected with the war effort have undeniably led to a certain equalization of formerly existing qualitative differences between various countries. Consequently, efforts aiming at increased efficiency and lower costs will be of greater importance than before.

It is, furthermore, quite obvious that even in the future it will be in the interest of Sweden that conditions be such as to make world trade as multi-lateral as possible. This interest, which is economically justified under any circumstances, is reinforced by the special character of Swedish foreign trade. It may be assumed that Swedish exports will after the war continue to have its center of gravity in a number of large special products which, partly for reasons of transport economy, will have their market concentrated to a limited number of larger purchasers. The shift in imports from finished goods to raw

materials, which was noticeable before the war and which can hardly be considered as reversible, will also make the distribution of our imports among various countries less flexible than before. Under such conditions it is quite unreasonable to suppose that the most favourable export and import markets should coincide. It is therefore definitely in Sweden's interest to develop the freest possible multilateral trade. It goes without saying that Swedish foreign trade will be primarily directed toward those countries where such a tendency is most pronounced and where it will be able to choose freely the most favourable market.

It need hardly be stressed that such a development toward free international trade is greatly dependent on the ability of various countries to cooperate in the economic field. It does not fall within the scope of the present report to analyze in detail the problems which this cooperation will have to face. Here we shall merely point out a few questions which will have to be solved in order that an international commercial system, based on free trade, may work. Among other things a balance must be reached in the payment relations between various countries through international movements of capital which, in turn, are based on confidence in the international system. In addition a stable international currency system must be established, which presupposes both the aforementioned balance of international payments and ability on the part of the individual countries to control business fluctuations.

Our Foreign Trade During the Immediate Post-War Years.

Even if efforts will be made to establish a free world trade after the war, we cannot disregard the fact that during the transition period immediately following the war a number of obstacles to such a development will appear. In the following pages we shall try to summarize certain features of the international situation which may be expected to have particular bearing on our foreign trade.

In connection with this brief review the general reservation should be made that in this field one is on extremely uncertain ground.

The International Background.

The war will leave many countries, particularly European ones, with a greatly reduced production capacity, but with enormous requirements of commodities for reconstruction purposes and, to begin with, for current consumption. Their exporting ability will be reduced both by diminished capacity in the ex-

porting industries and shortage of raw materials, and by urgent domestic needs.

Many countries, such as England, the Netherlands, Belgium, France, Norway, and Japan, have had their merchant fleet drastically reduced, which will have a corresponding adverse effect on their balance of payments.

Many countries, furthermore, have exhausted their foreign exchange reserves or have had to dispose of their interest bearing foreign assets, and have incurred debts in connection with the war effort. As regards England - which prior to the war covered a deficiency in its trade balance of about £400 million out of other income of various kinds - it has been estimated, as is well known, that after the war such sources of foreign exchange will be reduced by approximately £200 millions. At the same time, great Britain has, during the war, incurred debts which, even if lendlease deliveries are not included, run into billions.

In the transoceanic "raw material" countries, for instance South and Central America, Australia, New Zealand, South Africa and India, industrialization has been accelerated, as during the first World War, with the effect that the resumption of exports of finished goods from the old industrial countries along prewar lines is rendered difficult. This will chiefly affect such European countries as export this type of goods. Among these countries is England, which faces the necessity not only of repairing material damage, but also of carrying out a fundamental reorganization and reorientation of its export industry. Such a conversion can hardly be more than partially accomplished during the first postwar years.

Those countries whose balances of payments after the war, for one or more of the above-mentioned reasons, can be expected to be influenced in an adverse direction, were before the war responsible for a substantial portion of world trade. It is therefore obvious that the payment difficulties of these countries will affect, in a high degree, not only their own commercial policy, but that of other countries as well.

The measures of commercial policy that may become necessary in countries which will have their balance of payments impaired (hereinafter called countries with "weak" currencies), are primarily of the following nature.

(a) Limitation of imports by means of import restrictions. Priority may in this connection be given to commodities meeting essential national needs and reconstruction requirements, and to raw materials for the export industries. The imports of manufactured goods may, for these or other reasons, be

restricted in favour of less expensive raw materials for the purpose of saving foreign exchange.

(b) In so far as an export surplus arises with respect to a country with a weak currency, currency control may be introduced to prevent the use of hard currencies for multilateral payments. The possibilities of the exporting countries to avail themselves of their claims would thereby be restricted.

(c) The countries with weak currencies may, in so far as capacity is available, speed up their exports in order to receive foreign currency or goods in exchange. It is as yet impossible to tell whether subsidies in one form or another might be used in this connection. It is, however, of interest to note that this possibility has been discussed even in such a traditionally free-trade country as England. The exports of the countries with weak currencies may even to a considerable extent be consciously directed toward countries from which the most urgently needed import goods can be obtained.

In one or other of these forms trade and capital movements will presumably be subject to regulations on the part of the countries with weak currencies, and in many cases this will probably continue during a transition period of many years. Trade will be directed in a way which in many respects will involve a deviation from the principle of buying and selling in the most advantageous market. As an example may be mentioned the danger of a controlled trade within the British Empire. For other countries such a tendency, if carried into effect, may be detrimental to the general course and economic profitability of trade.

Among the countries outside this circle of countries with weak currencies the United States will play by far the greatest role in international trade, at least as far as the revival of traditional prewar trade relations is concerned. It may be assumed that the United States' freedom of movement in trade policy will not be hampered by any difficulties of payment. The attitude of the United States towards international trade and its granting of credits will be highly decisive also for the commercial policy of the countries which face a difficult balance of payments situation. Those measures on the part of the United States that may be of the greatest importance are primarily the following:¹⁾

1) What is here said of the United States is true in applicable portions of Canada and other countries enjoying a similar commercial and monetary position in so far as they are of importance in world trade. To a certain degree Sweden should probably also be considered to belong to this group.

(a) Settlement of the debts incurred during the war.

(b) Granting of loans to countries with weak currencies. Long-term commercial credits will ease the payment situation of these countries, whereby their meagre holding of foreign currency will be released for other imports. Furthermore, reconstruction activities will be accelerated whereby recuperation of the economic life and thus also of the export industry of the war-ravaged countries will progress more rapidly. Financial credits will facilitate even more the freedom of these countries in commercial policy and reduce the severity of their commercial and monetary restrictions.

(c) Increase of imports into the United States. Such a development could be attained by a reduction of the American import duties. However, even with the present tariffs, a substantial increase of imports could still be attained in comparison with the prewar period, if the national income of the United States after the war can be maintained at its present high level. But this would presuppose a successful anti-cyclical policy aiming at the maintenance of a high level of employment. Prewar experience shows that the imports of the United States are very sensitive to fluctuations in national income. Importation increases more rapidly with an improvement in business activity than does the national income. According to American estimates an increase in the national income of the United States after the war, to a level corresponding with full employment, would lead to a substantial increase of imports from various countries. Such a situation in the United States would mean to England so great an expansion of exports - both directly to the United States and to other countries dependent on economic development in this country - that the feared deficiency in the English balance of payments would be eliminated to a considerable extent.

On the other hand, an American export offensive in the transoceanic raw material countries, for instance South and Central America, would be apt to increase the payment difficulties of the European countries.

(d) Shipping policy of the United States after the war. While, as pointed out above, a large number of countries have had their merchant fleets strongly reduced during this war, the merchant fleet of the United States has been increased far beyond its prewar volume. There seem to be different views within the United States concerning its postwar shipping policy. It is obvious that this policy will be of the greatest importance for countries particularly dependent on income from shipping to balance their international payments.

A rapid writing off or a long-range settlement of claims, a liberal granting of credits and a big increase of imports on the part of the United States, as well as the renunciation of possibilities for further expansion of shipping, would greatly improve the financial situation of the countries with weak currencies, result in a mitigation of commercial and exchange restrictions, and facilitate and accelerate the transition to a freer system of trade. By its predominant position in postwar world trade the United States could in this way effectively promote a development toward freer and thus also increased trade. The opposite policy would, on the contrary, strengthen the tendencies toward far-reaching trade restrictions in a great number of countries. Also our own situation will in a high degree depend on the policy of the United States, perhaps chiefly indirectly through its effect upon other countries.

Not least with regard to the last-mentioned questions, there are possibilities of widely differing trends of development in world trade. To determine today which trend of development is more probable is hardly possible, as the foreign economic policy of various countries has as yet scarcely crystallized to any appreciable extent. For our own part we can merely express the hope that other countries will adopt a favourable attitude toward these problems and toward our desire to co-operate in a rapid development toward freer trade. But at the same time we must prepare for the difficulties that are bound to arise under less favourable international economic conditions. We must establish a commercial policy and an organization for commercial policy which will enable us to meet the difficulties that may arise in case of an unfavourable situation. From this practical point of view it has appeared most appropriate, in the following discussion of our commercial position after the war, to take as our point of departure the less favourable alternative development.

The significant role of the Soviet Union in international trade has not been mentioned in the foregoing text because of the unique position that country may for various reasons be expected to occupy. In this connection we only wish to point out that, judging from available evidence, the foreign trade of the Soviet Union will even after the war take the form of barter trade controlled in detail by the State.

A similar system for the organization of foreign trade may, for some years after the war, be applied in several countries on the Continent. This will be true primarily of the countries occupied by the Allies, and probably

also of some of the liberated countries, as a result either of economic necessity or of an extreme political development.

In the foregoing analysis no consideration has been given to the fact that during the first transition period, while the war with Japan is still going on, lack of tonnage may present real difficulties for certain branches of international trade. How the distribution of tonnage for various purposes within the international shipping pool will turn out during different periods cannot as yet be ascertained. There is, however, danger that the restriction of tonnage available to individual countries below the level required for their normal exports and imports may constitute a special reason for trade regulations.

Sweden's Commercial Interests.

As pointed out above, we must expect the commercial positions of various countries to differ greatly during the period of transition immediately following the war. Only in some countries in the world, we can venture to count upon such a foreign exchange situation that they are able to pursue a policy of relatively free trade. It is quite apparent that the markets of these countries will exercise a special attraction on Swedish exports in view of the obvious advantages which trade with such countries offers. In comparison with countries with freer trade relations, countries which are obliged to subject their foreign trade to various kinds of restrictions and regulations must risk a strong deterioration of their terms of trade.

For several reasons, however, Sweden will probably during the years immediately following the war, have to devote a considerable part of its export capacity to those countries that are short of foreign exchange. Such exports may be motivated by the following reasons:

(a) We wish to contribute actively to the economic reconstruction of the world. This appears to us not merely as a humanitarian but also as an economic Swedish interest, since our country is dependent upon the recovery of the world. Exports on credit in one form or another to certain of the countries which are short of foreign exchange will prove to be a necessary part of our assistance to the rehabilitation of world trade.

(b) We have already assumed the obligation of making large deliveries to the war-ravaged countries, primarily to the neighbouring Nordic countries, and it may later appear to be our duty further to extend these credits.

(c) Our export industries have partly since the prewar period been directed towards the group of countries short of foreign exchange. A shift

to other markets cannot be effected so easily or, at any rate, it does not always appear advisable with regard to our long-range commercial interests. For this reason exports cannot, in the near future, reach the volume necessary from the point of view of employment policy, unless they are also directed toward this group of countries.

To a certain extent it may thus appear to be our duty and to lie in our interest to direct our exports toward countries experiencing difficulties in making international payments. The exporting capacity of these countries, even with respect to goods suitable for the Swedish market may, however, be expected to be restricted. In other cases purchases from these countries may be possible, but only at exorbitant prices. We shall perhaps, in order to limit our granting of credits, be forced to some extent to depart from the principle of buying on the cheapest market. A considerable export surplus with corresponding frozen assets is likely to arise from trade with such countries, whether the risks are borne by individuals or by the State.

Should a great part of our export capacity be confined to deliveries to countries more or less short of foreign exchange, a situation might easily arise in which a sufficient export capacity would not be available for other markets - such as, primarily, the United States and the transoceanic raw material countries, from which necessary import goods could be obtained through bilateral or multilateral trade. Possibilities of free imports from such countries may result in a tendency toward a considerable import surplus in relation to these countries. These import surpluses can perhaps for a time be financed by drawing upon the foreign exchange reserve in so far as this is available. It is also conceivable that the export interests of these countries will lead them to grant credits, particularly after the most acute shortage of goods prevailing in the world has been overcome.

A too pronounced concentration of exports on countries short of foreign exchange might thus distort our foreign trade. How far this development will go, will obviously depend on how far the Swedish State or private exporters are prepared to extend the granting of credits. To a certain extent such granting of credits forms, as stated above, part of the Swedish policy to co-operate in international rehabilitation, or conforms with the long-run interest in the development of our exports. The

granting of credits, in addition to the Swedish relief gifts, has however, already gone so far that, in the opinion of the Commission, a considerable moderation will have to be observed in the future, if the Swedish economic system and foreign trade are not to be seriously impaired. In a bill introduced by the Government in the Swedish Parliament in the spring of 1945 certain factors have been stated which tend to limit the scope for granting Swedish credits abroad. The Commission, which supports the views expressed in the proposition, wishes in particular to point to the above-mentioned distorting effect which a too far-reaching and one-sided granting of credits to certain countries might have. This distortion might hold back exports to such markets as offer the best opportunities for development. Exports might, thereby, in the long run have to face adjustment problems of a revolutionary magnitude, the solution of which would meet great difficulties. Our foreign trade might, furthermore, be forced into bilateral channels and the prospects for a profitable multilateral trade would be diminished to a corresponding extent. In this way the costs of imports may increase and the resumption of our normal import may be impeded by difficulties in connection with payments. In the opinion of the Commission the greatest attention should be given to these consequences when forming our future commercial policy. In the granting of credits by the State there is danger that exporters and people in general will underestimate such difficulties and their ultimate consequences for the Swedish national economy. In those cases where credits are granted for other than humanitarian or similar reasons it would seem advisable to consider the question as to whether all or at least part of the risk should not be borne by the private exporters. In this way a limitation of Swedish credits would be achieved that was better adapted to the situation in the export industry.

However, the difficulties resulting from such extension of credit, and from a corresponding development of our exports probably cannot be avoided during the period immediately following the war. To the extent and as long as these conditions prevail, it will probably be necessary to subject Sweden's foreign trade to a certain degree of control. Among the viewpoints, which may need to be asserted by the State authorities as against the individual exporter and importer, respectively, the following should receive special mention:

As regards exports:

(a) It may be necessary to limit the total volume of exports to countries with weak currencies. In case exports are financed on the basis of state credits, and the latter are limited as to their total amount, the direct regulation of exports need only apply to the distribution of the total volume of exports among the various commodities. In case the amount of the state credits is not limited it may be necessary also to restrict the total volume of exports. If private exporters bear all or part of the risk, this fact may in itself serve to curtail the total volume of credit. However, the countries with weak currencies can in many cases be expected to be prepared to pay extremely high prices for especially vital goods. Even in such cases it may therefore be necessary to avert a too heavy expansion of exports, particularly if the extension of credits to the country concerned can be expected to result in frozen claims.

In both the last-mentioned cases, too, it may be necessary to influence the composition of the total volume of exports. In view of the tendencies towards trade regulation on the part of countries with weak currencies, it may be in Sweden's best interest to promote the export of one commodity more than that of another which could be more easily sold on other markets. Important commodities could in this way be reserved for those other markets while at the same time the traditional export of a commodity less in demand could be maintained.

(b) It may be desirable, particularly in connection with State extension of credits, to prevent a rise in export prices from influencing the domestic price level. Without taking a stand with regard to the forms for such measures, the Commission desires to call attention to the fact that a problem of this sort has already arisen and has led to a Government proposal for the establishment of price equalization charges which has been submitted to the Parliament.

With respect to imports:

(a) It may in certain cases appear to be a general commercial interest to take advantage of possibilities of importing from those countries, in which assets have been frozen, even if their prices should be higher than those of countries in which substantial import surpluses would otherwise occur. Such regulation of trade must, however, be used with the

greatest moderation: for from the monetary point of view as well as from that of commercial policy it is obviously urgently necessary to apply to the greatest possible extent the guiding principle of free import trade, namely to buy in the cheapest market.

(b) The limitation of our export facilities as well as of our foreign exchange reserve might under unfavourable conditions cause a reduction of our imports from the transoceanic countries where the supply of certain commodities might be abundant.

With respect to the above-mentioned tendencies within international trade, it can be predicted that our exporters and importers during the period immediately following the war will to a great extent be confronted with a monopolistically organized counterpart with which to negotiate. This will certainly be true with respect to trade with the Soviet Union, and probably also of a number of war-torn countries on the European continent. It is to be feared that Great Britain's international trade may, especially under unfavourable conditions, tend in the same direction. Situations may then arise, in which the Swedish State cannot idly look on, while various Swedish importers and exporters are played off against each other. This could result in the deterioration of our terms of trade vis-à-vis the outside world. Such dangers do not necessarily exist when there are strong Swedish organisations in the exporting and importing trades. But in certain cases it may be necessary, through State regulation - or potential facilities for such regulation - to see that a uniform policy is adopted. The larger the portion of our international trade subject to bilateral regulations, the greater will be the dangers of the above-mentioned nature. Prewar experience shows that price formation within the free section of international trade has as a potential alternative a strong moderating influence on abnormal price tendencies within a more restrictionist section. For this reason it is a Swedish interest that a dominating portion of our foreign trade be concentrated on countries having a multilateral and relatively free trade system.

During the first transitional period, furthermore, the shortage of tonnage for certain purposes, due in part to measures taken by the international shipping pool, may necessitate a system of priorities for both exports and imports.

All of these incentives to continued regulation of international trade during the period immediately following the war, are primarily aiming at obtaining a temporary improvement in our position with respect to import facilities, foreign exchange assets and inflationary risks. Another motive for such regulations is introduced, if the future export markets for certain commodities is taken into consideration. During the years immediately following the conclusion of the war there will seem to be wellfounded reasons for interfering with international trade from a short-term point of view. However, it should be a general principle that such regulations should be introduced only when very substantial advantages for the national economy can thereby be achieved. Minor short-term advantages should not motivate restrictive regulations of international trade, particularly as regards the possibility of buying on the cheapest and selling on the most advantageous market, and of establishing valuable and lasting commercial connections. Such restrictions may easily result in retaliation on the part of other countries and the advantages gained from such measures of commercial policy will thus, at least in the long run, become illusory. In estimating the importance of these various viewpoints, we should not merely take into consideration the individual case but should also be guided by the knowledge that we run the risk of contributing our bit towards entangling world trade in bonds which may be hard to undo. By an opposite, more generous policy, we could support the tendencies towards free trade which we hope will grow increasingly strong. We also have to remember that since the inter-war period Sweden has had the reputation of being a free-trade country. This represents a good will which should not be thoughtlessly thrown away.

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