

THE CRISIS

WHAT IT IS

HOW IT AROSE

WHAT TO DO.

By

Ernest Bevin and G.D.H. Cole.

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APPENDIX

SOME FACTS AND FIGURES

WE have kept figures out of the text of our pamphlet in order to make it more readable. But it seems desirable to add, in an appendix, certain of the more important figures on which our arguments and conclusions are based.

I—THE NATIONAL DEBT

On the average of recent years, the service of the National Debt has been costing Great Britain over £360,000,000 a year. We have spent, on the average, well over £50,000,000 a year in repaying the debt; and yet our total indebtedness has only fallen from £7,829,000,000 in 1920 to £7,413,000,000 in 1931. In interest alone, we have been paying at a rate of over £300,000,000 a year; and even in this year of low interest rates the estimated interest charge alone amounts to £289,500,000.

Meanwhile, there has been a huge fall in the price-level between 1920 and 1931.

Measured in terms of the change in retail prices since 1920, every £100 paid in interest on the debt has gone up in the past ten years by over two-thirds in purchasing power, and in terms of wholesale prices has much more than doubled. The real income paid to the *rentier* class as interest on the Debt is at least two-thirds greater in 1931 than in 1920.

We are spending at present more than three times as much on the service of the National Debt as on benefits to the unemployed.

II—THE WORLD'S GOLD

At the end of 1930, before the last phase of the world crisis had begun, France and the United States between them already held 57 per cent. of the total gold supply of the world, whereas in 1920 they held only 43½ per cent. Thus, the world's gold is silting up uselessly in France and the United States. Great Britain has less than one-fifth as much gold as the U.S.A., and less than one-third as much as France. Here are the actual holdings, in 1920, and at the end of 1930 (\$ millions).

	1920	Percentage of Total	1930	Percentage of Total
U.K.	763	10·5	718	6·6
U.S.A.	2,451	34·6	4,225	38·8
France	686	9·4	2,100	19·0
World Total . .	7,206	—	10,872	—

Great Britain is the next largest holder of gold after France and the U.S.A.; and her losses of gold are nothing beside those of the debtor countries, which are having their entire gold supply steadily drained away. Thus, Australia's gold stock dwindled from £49,000,000 to £18,000,000 between 1928 and 1930; and the gold reserves of such countries as Brazil and Chile were almost wiped out. Between the beginning of 1929 and the end of 1930, the share of creditor countries in the total stock of gold rose from two-thirds to three-quarters, and that of the debtor countries fell from one-third to one-quarter. At the rate at which gold has recently been flowing out of the debtor countries, it would only take a few years to deprive them of all their gold. (See the Report of the Macmillan Committee on Finance and Industry, p. 134.)

III—CREDITORS AND DEBTORS

Great Britain is a creditor country. As we have seen in the text, she imports more goods than she exports; but in normal times she is able not only to pay for the excess by means of her "invisible exports"—interest on overseas investments, receipts from shipping and financial sources, etc.—but also to have a large surplus available for fresh investment overseas. This surplus British investors do actually invest—indeed, the tendency is for them to invest overseas more than the surplus available rather than less. We set out below the Board of Trade estimates for recent years of the British balance of payments, together with the figures for new capital issues made in the London market. These last do not fully correspond to the volume of new investment overseas, but they suffice to give a general indication.

GREAT BRITAIN'S BALANCE OF PAYMENTS (£ million)

	1924	1928	1930
Excess of imports of Merchandise and Bullion	324	358	392
Government receipts from Overseas (net)	-25	15	21
Net National shipping income ..	140	130	105
Net income from Overseas Investment	220	270	235
Net receipt from Short-term Interests and Commissions ..	60	65	55
Net receipts from other sources ..	15	15	15
Total	410	495	431
Estimated total credit balance on above	86	137	39

OVERSEAS CAPITAL ISSUES, 1924-1931
(£ million)

	1924	1928	1930	1931 (to June 30)
British Empire	73	86	70	
Foreign	61	57	39	
Total	134	143	109	43

It will be seen that the balance available for investment overseas shrank greatly in 1930; and it is estimated that it has disappeared altogether this year, and been turned into a debit balance. Nevertheless, considerable new overseas capital issues have been made in London not only in 1930, but also in 1931; and this is one source of the exceptional strain on British credit.

The United States are also a great creditor country. Unlike Great Britain they export more goods than they import; and they have also large masses of capital invested abroad, and claims on Europe for interest on War Debts.

Here is an estimate, from the Report of the Macmillan Committee, of the U.S.A. balance of payments up to 1929.

	1924	1928	1929
Excess of Exports	882	850	734
Excess of Invisible Imports	80	200	250
Net Surplus available for Investment	802	650	484
Net Long-term Lending Overseas	733	708	386
Net Short-term Lending Overseas	-216	226	-13
Net Investment Abroad	517	934	373
Net Import or Export of Bullion—			
Import	236	—	120
Export	—	272	—

It will be seen that America has each year a huge surplus available for overseas investments. Unless she invests the whole of this surplus, or lends it on short-term overseas, gold is bound to flow to the U.S.A. from other countries. But if she does lend it the effect is to increase the amount payable in interest in future years, and thus to swell still further the American balance. This process can only end in default by the debtor countries, unless steps are taken to cancel international debts which have become an impossible burden in face of the fall in prices.

France is also a creditor country, though, like Great Britain, she imports more goods than she exports. She receives a considerable sum in interest on her foreign investments, and also gets large receipts from the tourist traffic. Here is a rough estimate of the French balance of payments for 1930.

FRANCE'S BALANCE OF PAYMENTS IN 1930

(Millions of francs)

Excess of Imports	12,973	Increase from Shipping ..	2,700
Debt Service (including re- payments)	5,398	Tourist Receipts	8,500
Other Loan Payments ..	919	Interest on Foreign Invest- ments, Insurances, etc...	5,500
Sums repatriated by Immi- grants	2,500	Reparations and Young Loan	7,034
	<hr/>		<hr/>
	21,790		23,734
	<hr/>		<hr/>
Foreign Capital Issues ..	1,400	Sales of Foreign Exchange	4,140
Imports of Bullion ..	11,530	Sales of Short-term Foreign Bills, etc.	6,800
	<hr/>		<hr/>
	34,720		34,674

It will be seen that France had a balance on the right side, and that she actually received in gold and precious metals more than the amount of this balance. This was partly because the French did not lend abroad nearly as much as their current surplus, and partly because they actually called in during 1930 a considerable part of the sums which they had lent abroad on short-term in previous years. These are the reasons why gold has been silting up even faster in France than in the United States.

Germany is a great debtor country. It has been officially estimated that she owed abroad in July, 1931 about 14.5 milliards of Reichsmarks net (over £700,000,000 at gold parity). By far the largest amount was owing to the United States, with Great Britain next, and France a long way behind. Here are the estimated figures (million RM.).

	Long Term.	Per- centage.	Short Term.	Per- centage.
German Debt to U.S.A. ..	5,626	55.2	1,629†	37.1
German Debt to Great Britain	1,100	11.5	1,051†	23.9
German Debt to Holland ..	1,174	12.3	336†	7.6
German Debt to France ..	475	5.0	297†	6.8

But in addition to these debts Germany is being called upon to meet heavy payments for reparations. These amounted to over £88,000,000 in 1931, or would have done so if there had been no moratorium.

Clearly, the only means of payment available to Germany is an excess of exports over imports; for she has had little gold (and had lost a good deal even of that little in recent months until she prevented its export). But Germany

† These figures refer to a specimen inquiry covering only 85% of the total short-term investment.

has to import both raw materials and foodstuffs in considerable quantities. It is hard for her to build up an export surplus at all, and utterly impossible for her, especially in face of falling prices and the world slump, to pay anything like the sums demanded of her. Here is an estimate of the actual German balance of payments in recent years.

GERMANY'S BALANCE OF TRADE
(Milliards of Reichsmarks)

	1924	1928	1930
Excess of Imports over Exports	1.8	1.3	—
Excess of Exports over Imports	—	—	1.5
Gold and Foreign Exchange—			
Imports	1.3	0.9	—
Exports	—	—	0.1
Reparation Payments	0.3	2.0	1.7
Revenue from Shipping and Services	0.3	0.5	0.2
Interest on Investment	0.2	0.6	0.8
Deficit on above	2.9	4.3	0.7
Capital Movements—			
Long-term invested in Germany	1.0	1.7	1.6
Short-term invested in Germany	1.5	1.4	—
Other movements	0.4	1.2	—0.9
Total	2.9	4.3	0.7

It will be seen that Germany had, by tremendous efforts, built up an export surplus in 1930, but still on nothing like an adequate scale. The attempt to meet her obligations in 1931 confronted her with bankruptcy, and compelled the granting of a moratorium. Clearly, she will be unable to resume payment next year—or ever, until her obligations are drastically scaled down.