

A PICTURE OF WORLD ECONOMIC  
CONDITIONS AT THE BEGINNING  
OF 1932



*Number VII*

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A PICTURE OF WORLD  
ECONOMIC CONDITIONS  
AT THE BEGINNING OF 1932

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*April, 1932*  
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## PREFACE

**T**HE events of the past year have demonstrated perhaps more clearly than ever before that the nations of the world, whatever their national policies and aspirations, are enmeshed in a network of international economic relationships. In this age of rapid communication and expanding industrialism the barriers between the nations that formerly enabled each of them to live a life apart have been swept away.

In 1914, the assassination of an Austrian Archduke in a Balkan city brought the whole world into a disastrous armed conflict. In 1931, the failure of a large bank in Austria involved Germany, Great Britain, and the whole western world in its consequences. In every country an important body of public opinion doubts that any improvement in economic conditions within the nation is possible until vexing problems of international relations are settled.

The need for accurate, impartial information on what is taking place in the world at large is therefore greater than ever before. For a number of years the National Industrial Conference Board has endeavored to supply that need by the publication of a series of books entitled, "A Picture of World Economic Conditions." The present volume, the seventh of the series, deals with the status of affairs at the beginning of 1932 and gives as a background the record of the eventful year 1931, in which a series of unusual occurrences shook the economic system of the occidental world to its very foundations and gave rise to ominous problems in the Orient.

Like the volumes that have preceded it, this issue is made possible in its present form through the generous co-operation of the Foreign Correspondents of the National Industrial Conference Board. From many of them—men, eminent in their countries through their intimate knowledge of economic conditions, wide experience, and international outlook

—direct contributions to the volume have been obtained, and through the body of the Foreign Correspondents as a whole contacts have been established that have led to a better understanding and clearer interpretation of affairs of international importance.

In accordance with the usual practice, this volume is divided into two parts. Part I has been prepared by the Conference Board on the basis of official and other authoritative sources of information. It begins with a brief general survey of the world economic and political situation as a whole. This is followed by a carefully summarized analysis for each country of contemporary facts regarding industrial production, wages, prices, employment, foreign trade, public and private finance, and other economic factors, which give to each country its special importance in the economic commonwealth of nations.

Part II contains original articles specially prepared by Foreign Correspondents of the National Industrial Conference Board. To them the Board expresses its sincere appreciation for their valuable and generous assistance. It is gratifying that in a period of stress like the present, with its heavy demands upon the time and the thought of these men, special contributions have been received in time for inclusion in this volume from Sir Arthur Balfour for Great Britain; Mr. Henri de Peyerimhoff for France; Mr. Antonio Stefano Benni for Italy; Mr. Georges Theunis for Belgium; Mr. E. Heldring for the Netherlands; Mr. Louis Dapples for Switzerland; Mr. H. Gliwic for Poland; Mr. Ernst Meyer and Mr. B. Dessau for Denmark; Mr. J. Throne Holst for Norway; Mr. I. Bajloni for Jugoslavia; Mr. Eugene Vida for Hungary; Mr. Thomas Ashworth and Sir Lennon Raws for Australia; Baron Koyata Iwasaki for Japan; and Mr. Li Ming for China.

In the preparation of its publications, the National Industrial Conference Board avails itself of the experience and judgment of the business executives who compose its membership and of recognized authorities in special fields, in addition to the scientific knowledge and equipment of its Research Staff. The publications of the Conference Board thus finally represent the result of scientific investigation

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and broad business experience, and the conclusions expressed therein are those of the Conference Board as a body.

Under the immediate direction of the President of the Board and with the supervision of the Staff Economic Council, Part I of this report was prepared by Mr. Vaso Trivanovitch and assistants, of the Conference Board's Research Staff.

MAGNUS W. ALEXANDER  
*President*

New York City  
April, 1932

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**PART I**  
**WORLD ECONOMIC CONDITIONS AT**  
**THE BEGINNING OF 1932**

PART I  
WORLD ECONOMIC CONDITIONS AT  
THE BEGINNING OF 1932

GENERAL SURVEY

FINANCIAL DISTURBANCES

**I**N A general review of world economic conditions at the beginning of 1932, the financial storm that swept over Europe in 1931 deserves first attention. The financial difficulties of the Credit-Anstalt, the largest private bank in Austria, which became apparent in May, 1931, and made it necessary for the Austrian Government to guarantee the bank's liabilities, marked the beginning of the financial crisis. The disturbance spread rapidly throughout Central Europe and was followed by a series of startling developments in the field of international finance.

The critical situation in Germany, created by the withdrawal of foreign and domestic funds, intensified by unsatisfactory political conditions and unbalanced budgets, led to the proposal of the President of the United States for a postponement of reparations and intergovernmental debt payments for a period of one year, beginning July 1, 1931. The relief that the acceptance of this proposal brought to Germany failed to correct the situation. Political difficulties, which came to the surface in conversations between the various governments concerning the moratorium, destroyed the favorable psychological impression created by the American offer. The freezing of German and Central European short-term credits placed Great Britain in a difficult financial position. The budgetary difficulties, political complications, and the requirements of other countries, whose funds had become immobilized in Central Europe, led to the withdrawal of funds from London. The financial support given to the Bank of England by the central banks of the United States and France was insufficient to meet the demand for gold on the Bank of England, and on Sep-

tember 21, 1931, it became necessary for the Bank to suspend gold payments.

This action of Great Britain was followed by many countries. At the beginning of 1932, the United States, France, the Netherlands, Belgium, Switzerland, and South Africa were the only countries that permitted free movement of gold and foreign exchange. Germany, Italy, and practically all Central and Southeastern European countries remained on the gold standard, but introduced restrictions on foreign exchange transactions. In Great Britain, the Scandinavian countries, Canada, Cuba, Australia, India, Latin America, and Japan, gold payments were temporarily suspended, except under license in some countries.

Depreciated currencies and fluctuations in foreign exchanges, caused by these developments, have created serious obstacles to the movement of international trade. They have been followed by higher tariffs and severe import restrictions, which under the guise of protecting domestic markets are used to prohibit the importation of certain classes of goods. Re-establishment of normal trade relations will not be possible until currency disorders are eliminated, trade embargoes ameliorated, and world commercial transactions placed on a stable basis.

#### INTERNATIONAL TRADE

Total value of foreign trade of 22 countries, which account for about 75% of total world trade, declined from \$40,685 million in 1930 to \$29,614 million in 1931, as shown in Table 1. In 1929 the value of foreign trade of these countries was \$48,319 million.<sup>1</sup> The value of exports and imports in 1931 was \$11,071 million lower than in 1930, and \$18,705 million lower than in 1929. The value of commodity exports declined from \$19,042 million in 1930 to \$13,843 million in 1931. During the same period the value of commodity imports declined from \$21,643 million to \$15,771 million.<sup>2</sup>

<sup>1</sup> National Industrial Conference Board, "Major Forces in World Business Depression," New York, 1931, p. 9.

<sup>2</sup> The difference in the value of imports and exports is due largely to different methods of evaluation.

Analysis of imports and exports by individual countries, however, points to certain significant and encouraging conclusions. In 1931 there was an almost complete cessation of foreign financing. Unable to secure foreign financial support, the debtor countries found it necessary to restrict severely their purchases of foreign goods and to exert all possible efforts to maintain their exports. In this attempt they have on the whole been remarkably successful.

TABLE 1: VALUE OF EXPORTS AND IMPORTS, 22 COUNTRIES, 1930 AND 1931

In million dollars

Countries	Exports			Imports		
	1930	1931	Percentage Decline	1930	1931	Percentage Decline
Great Britain.....	2,777 <sup>1</sup>	1,894 <sup>2</sup>	-31.8	5,081	4,196	-17.4
Germany.....	2,867	2,286	-20.2	2,476	1,602	-35.3
France.....	1,679	1,193	-29.0	2,058	1,654	-19.6
Italy.....	638	528	-17.3	912	611	-33.0
Belgium.....	730	647	-11.4	866	668	-22.9
Netherlands.....	691	527	-23.7	972	761	-21.7
Sweden.....	416	285	-31.5	446	364	-18.4
Norway.....	183	117	-36.1	285	215	-24.6
Denmark.....	433	333	-23.1	463	367	-20.7
Switzerland.....	342	262	-23.4	516	437	-15.3
Czechoslovakia.....	518	389	-24.9	466	349	-25.1
Poland.....	273	210	-23.1	252	164	-34.9
Jugoslavia.....	120	85	-29.2	123	85	-30.9
Austria.....	386	310	-19.7	265	188	-29.1
14 European countries.....	12,053	9,066	-24.8	15,181	11,661	-23.2
United States.....	3,843	2,424	-36.9	3,061	2,090	-31.7
Canada.....	886	605	-31.7	1,009	628	-37.7
Argentina.....	513	427	-16.8	617	345	-44.1
Brazil.....	320	225	-29.7	261	130	-50.2
Chile.....	161	113	-29.8	170	86	-49.4
Colombia.....	109	95	-12.8	61	40	-34.4
4 Latin American countries.....	1,103	860	-22.0	1,109	601	-45.8
Australia <sup>2</sup> .....	431	328	-23.9	519	187	-64.0
Japan.....	726	560	-22.9	764	604	-20.9
Total 22 countries.....	19,042	13,843	-27.3	21,643	15,771	-27.1

<sup>1</sup> United Kingdom goods.

<sup>2</sup> Financial years ended September 30.

Table 1 includes 7 creditor countries—Great Britain, the United States, France, the Netherlands, Switzerland,

Sweden, and Belgium. The other 15 countries belong to the debtor class. The total value of imports of the debtor countries in 1931 was 35.2% lower than in 1930, while the value of their exports declined only 22.8%. In 1930 these countries had an excess of commodity imports amounting to \$79 million, as compared with an excess of commodity exports of \$1,010 million in 1931. The value of imports of the 7 creditor countries, on the other hand, declined 21.8% from 1930 to 1931, while the decrease in the value of their exports was 31.0%.

The value of imports of the 4 leading Latin American countries—Argentina, Brazil, Chile, and Colombia—declined from \$1,109 million in 1930 to \$601 million in 1931, or 45.8%. During the same period the value of exports of these countries declined from \$1,103 million to \$860 million, or 22.0%. In 1931 these 4 countries had an excess of commodity exports of \$259 million, as compared with an excess of commodity imports of \$6 million in 1930. In Australia the excess of commodity imports of \$88 million in 1930 was transformed in 1931 into an excess of commodity exports of \$141 million.

Similar readjustments in the balances of merchandise trade have taken place in other debtor countries. In Germany the value of imports was 35.3% lower in 1931 than in the preceding year, while the value of exports declined only 20.2%. The corresponding figures for Poland are 34.9% and 23.1%; for Austria, 29.1% and 19.7%; for Italy, 33.0% and 17.3%. In all creditor countries, with the exception of Belgium, the value of exports shows a greater decline than the value of imports. The value of British exports in 1931 was 31.8% lower than in 1930, while the value of imports declined only 17.4%. The decline in French exports was 29.0%, as compared with a decline in imports of 19.6%. The corresponding figures for the United States are 36.9% and 31.7%; for Switzerland, 23.4% and 15.3%; for Sweden, 31.5% and 18.4%.

These figures show that a gradual adjustment is taking place in the balances of merchandise trade of the debtor and creditor countries that will tend to facilitate the movement of international funds and assist in a recovery of prices by

relieving the pressure on the balances of payments of the debtor countries. If this adjustment is accompanied by a return of these countries to sound methods of public finance, the foundation will be laid for economic recovery and for resumption of international financing, which will be required in large volume for the development of the natural resources of the undeveloped parts of the world.

#### INTERNATIONAL MOVEMENT OF GOLD

The year 1931 was characterized by large and disturbing movements of gold. The total gold reserves of central banks and governments of 34 countries amounted to \$10,929 million at the end of January, 1932, as compared with \$10,619 million at the end of 1930, as shown in Table 2. During the same period, the gold reserves of the 7 creditor countries increased from \$7,606 million to \$8,635 million, while those of the 27 debtor countries declined from \$3,013 million to \$2,294 million. During the first six months of 1931, all creditor countries, with the exception of Sweden, showed an increase in gold reserves. From the end of June, 1931, to the end of January, 1932, however, following the European financial crisis, the gold reserve of the United States was reduced by \$484 million, and that of Great Britain, by \$205 million. On the other hand, France increased her gold reserve by \$596 million; Switzerland, by \$310 million; Belgium, by \$153 million; and the Netherlands, by \$151 million.

At the end of January, 1932, the United States held 36.7% of the total gold reserves of the world; France, 25.7%; and the 7 creditor countries combined, 79.0%. Up to 1928 the debtor countries as a group were able to maintain or increase their gold reserves, but beginning with 1929 their supply of gold diminished rapidly. The loss of gold was particularly marked in Germany, Argentina, Brazil, Australia, Canada, and Japan. With the exception of Germany, all these countries were forced off the gold standard.

The stability of Central and Eastern European exchanges in the last half of 1931 was maintained through the assistance received from the central banks of the creditor countries and the Bank for International Settlements. The European



TABLE 2: GOLD RESERVES OF CENTRAL BANKS AND GOVERNMENTS, 34 COUNTRIES, 1913 AND 1920 TO JANUARY, 1932

In millions

Country	1913	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929	1930	June, 1931	Jan., 1932
<b>Creditor countries</b>														
United States	\$1,290	\$2,451	\$3,221	\$3,505	\$3,834	\$4,090	\$3,985	\$4,083	\$3,977	\$3,746	\$3,900	\$4,225	\$4,593	\$4,009
Great Britain	165	754	755	743	745	748	695	729	737	748	710	718	793	588
France	679	685	690	708	709	710	711	711	954	1,253	1,633	2,100	2,212	2,808
Belgium	48	51	51	52	52	52	53	86	100	125	163	191	199	352
Switzerland	33	105	106	103	104	98	90	91	100	103	115	137	162	472
Netherlands	61	256	244	234	234	203	178	166	161	175	180	171	200	351
Sweden	27	75	74	73	73	63	62	60	62	63	65	64	64	55
<b>Total</b>	<b>\$2,303</b>	<b>\$4,377</b>	<b>\$5,141</b>	<b>\$5,418</b>	<b>\$5,751</b>	<b>\$5,964</b>	<b>\$5,774</b>	<b>\$5,926</b>	<b>\$6,091</b>	<b>\$6,213</b>	<b>\$6,766</b>	<b>\$7,606</b>	<b>\$8,223</b>	<b>\$8,635</b>
<b>Debtor countries</b>														
Europe: Germany	279	260	237	239	111	181	288	436	444	650	544	528	339	226
Italy	265	204	211	217	216	218	219	221	239	266	273	279	282	296
Austria	..	..	..	..	1	1	2	7	12	24	24	30	30	25
Poland	..	3	6	10	13	20	26	27	58	70	78	63	64	67
Rumania	29	35	35	42	46	48	48	49	51	49	55	56	53	58
Jugoslavia	11	12	14	12	13	14	14	17	17	17	18	19	27	31
Hungary	..	..	..	..	7	10	29	34	35	35	28	28	20	18
Bulgaria	11	7	7	7	8	8	8	8	9	9	10	10	11	11
Denmark	20	61	61	61	56	56	56	56	49	46	46	46	46	39
Czechoslovakia	..	4	12	20	27	27	27	27	29	34	37	46	46	49
Greece	5	11	11	11	12	12	13	13	15	7	8	7	6	11
Norway	12	39	39	39	39	39	39	39	39	39	39	39	39	42
Portugal	8	9	9	9	9	9	9	9	9	9	9	9	11	13
Spain	92	474	485	487	488	489	489	493	502	494	495	470	468	434
America: Canada	116	113	95	146	127	151	157	158	152	114	78	110	87	80
Argentina	256	474	472	472	466	444	450	450	529	607	434	412	350	252
Brazil	89	33	43	46	49	54	54	56	101	148	150	10	0	0
Colombia	..	..	..	..	5	9	9	9	18	20	24	17	10	6
Peru	2 <sup>1</sup>	21	21	21	21	21	21	22	23	21	21	18	16	17
Uruguay	11	57	57	57	57	57	57	57	59	68	68	60	58	53
Asia: India	124	116	118	118	109	109	109	109	119	124	128	128	151	162
Japan	65	556	611	605	602	586	576	562	542	541	542	412	425	215
Java	10	88	59	61	63	54	73	79	72	68	56	56	46	45
Australia	22	122	124	127	131	130	162	109	106	109	89	75	75	51
New Zealand	25	37	37	38	38	37	38	38	38	35	32	33	34	32
Africa: Egypt	10	16	16	16	16	16	16	17	18	18	19	20	21	21
South Africa	34	50	49	52	52	53	43	37	40	39	36	32	31	40
<b>Total</b>	<b>\$1,496</b>	<b>\$2,802</b>	<b>\$2,829</b>	<b>\$2,913</b>	<b>\$2,775</b>	<b>\$2,850</b>	<b>\$3,018</b>	<b>\$3,143</b>	<b>\$3,326</b>	<b>\$3,665</b>	<b>\$3,339</b>	<b>\$3,013</b>	<b>\$2,746</b>	<b>\$2,294</b>
<b>Grand total</b>	<b>\$3,799</b>	<b>\$7,179</b>	<b>\$7,970</b>	<b>\$8,331</b>	<b>\$8,526</b>	<b>\$8,814</b>	<b>\$8,792</b>	<b>\$9,069</b>	<b>\$9,417</b>	<b>\$9,878</b>	<b>\$10,105</b>	<b>\$10,619</b>	<b>\$10,969</b>	<b>\$10,929</b>

<sup>1</sup>1914.

allies of France—Poland, Rumania, and Jugoslavia—which found themselves in an extremely difficult economic and financial situation in consequence of the decline in prices of agricultural commodities, cessation of reparation receipts, and inability to reduce governmental expenditures in proportion to the decline in revenues, obtained financial support in the French capital market. It is questionable whether these countries are sufficiently strong financially to maintain the gold standard and meet their foreign obligations if there is no increase in their exports or if they do not receive outside financial assistance.

The uneven distribution of gold cannot be corrected until there is an adjustment in the balances of international payments of the various countries and a resumption of international financing along sound and conservative lines. The gold situation was somewhat improved through the unexpected addition of about \$170 million to the world's monetary gold supply by Indian gold exports by the middle of March, 1932. Indian gold shipments contributed to relieve the pressure on sterling, but they found their way finally to the already excessive gold reserves of certain European countries. The ability of France to import gold may be considerably reduced in 1932. The French balance of foreign trade in merchandise shows a steadily increasing excess of imports. Cessation of reparation receipts, lower income from foreign investments and shipping services, and probably a marked reduction in income from tourist expenditures will all tend to decrease the power of France to add to her enormous reserve of gold.

#### THE OUTLOOK FOR 1932

At the beginning of 1932 there are signs of improvement in certain parts of the world. In Great Britain the budget of the government has been balanced, and political conditions have improved considerably as the result of a nation-wide determination to restore a sound national economy and to maintain international prestige. The steady decline in British production and trade and the increase in unemployment appear to have been arrested. The situation in Australia

shows material improvement. The Federal election of December 9, 1931, made it certain, through the victory of the conservative elements, that Australia would adhere to sound methods of public finance. The internal debt was converted successfully in 1931, and there are no internal maturing obligations until 1938. A number of state loans fall due in London in 1932, but with one exception they have optional dates of repayment. In addition Australia has adjusted her balance of merchandise trade to the needs of a debtor nation. The situation in Latin America appears in some aspects more encouraging than a year ago. Latin American countries are making determined efforts to balance their budgets, and a sweeping readjustment in the movement of foreign trade has taken place. Economic recovery in these countries will depend on their ability to sell their products at remunerative prices.

TABLE 3: PERCENTAGE CHANGES IN WHOLESALE PRICES OF CERTAIN COMMODITIES, 1930 AND 1931

Commodity and Place	Percentage Change in Price			
	January to December, 1930	January to July, 1931	July to December, 1931	January to December, 1931
Wheat, Kansas City .....	-40.3	-36.2	+18.2	-24.6
Rye, Posen .....	-22.2	+29.3	+17.9	+52.5
Coffee, New York .....	-32.0	- 7.4	+11.1	+ 2.9
Linseed, La Plata .....	-40.9	+3.9	-27.7	-24.8
Cotton, New York .....	-41.6	-8.8	-32.3	-38.2
Silk, New York .....	-41.5	-16.0	-16.5	-29.9
Jute, London .....	-40.2	+5.6	- 9.4	- 4.4
Copper, European ports <sup>1</sup> .....	-38.9	-18.2	-15.2	-30.7
Petroleum, Kansas-Oklahoma .....	-30.9	-71.8	+195.8	-16.5
Sugar, New York .....	-11.3	+ 4.2	-10.3	- 6.5

<sup>1</sup> Cartel prices.

One of the generally favorable developments in 1931 was the relative stabilization of prices of certain raw materials and agricultural commodities. The decline in market prices of wheat, rye, coffee, linseed, jute, petroleum, copper, and silk was considerably less in 1931 than in the preceding year. Percentage changes in prices, shown in Table 3, are calculated in terms of American dollars, sterling quotations being converted into dollars on the basis of average monthly rates of exchange.

The trend of prices and world economic activity in 1932 will be determined to a large extent by political developments. Political considerations dominate the situation on the continent of Europe. The question of German reparation payments will be considered by the Conference of Governments, scheduled to be held on June 13, 1932, at Lausanne. The Conference will have before it the reports of the Committee Appointed on the Recommendation of the London Conference, issued in August, 1931, and of the Young Plan Advisory Committee, issued in December, 1931, calling attention to the seriousness of the German financial situation and to the imperative need for reaching a permanent, mutually satisfactory solution of the reparation problem, thus eliminating one of the most disturbing factors in the world economic situation. The re-election of President von Hindenburg in Germany may be regarded as a constructive development, as it will facilitate French-German co-operation.

The Reparation Conference will be preceded by the general election in France. The trend of political opinion in France, contrary to the situation in most other countries, has been toward the Left Socialist parties, which bear no responsibility for the present economic difficulties of France and are on the whole more lenient in their attitude towards Germany and less concerned with the maintenance of French military supremacy in Europe. A victory of the Left parties would also affect the flow of French funds to the European allies of France, as one of the issues in the election may be the willingness of the present régime to support military dictatorships in Jugoslavia, Rumania, and Poland. France holds the key to the European situation on account of her great financial and military power, and the outcome of the general election may profoundly affect the political and economic development of Europe.

Another important event in 1932 will be the Economic Conference of the British Empire, scheduled to be held at Ottawa, Canada, in the month of July. The imposition of a general tariff in Great Britain has opened the question of imperial tariff preferences. The importance of Great Britain as an importer of foodstuffs and raw materials and of the

British Dominions and Colonies as exporters of these commodities and importers of manufactured goods accounts for the great interest shown in a system of imperial tariff preferences. The obstacles to such an arrangement, arising out of the nationalist aspirations of the Dominions, appear, however, to be exceedingly great, and the advantage to Great Britain, which sells a major part of its exports to non-British countries, is subject to doubt.

The development of economic and political affairs in the United States in 1932 will also be carefully watched by the rest of the world. In the early part of the year, the financial situation showed considerable improvement. The number of bank failures decreased greatly, and hoarded money began to return into circulation. The constructive measures passed by the Congress of the United States, embodied in the Glass-Steagall Act, increasing the credit facilities of the Federal Reserve System, and in the Reconstruction Finance Corporation Act, providing a mechanism for meeting financial emergency requirements of the American industrial and banking system, have greatly strengthened the domestic situation and removed the fear concerning the stability of the dollar. One urgently necessary step has not yet been taken. The budget of the Federal Government remains unbalanced. There is no doubt, however, that both houses of the Congress realize the importance of placing the federal finances on a sound basis. It is hoped that in its final form the revenue measure will provide adequate income for the Government without imposing an undue or inequitable burden on industry and trade. The balancing of the federal budget, if soundly accomplished, will remove the main obstacle to a return of complete confidence in the financial position of the country.

On the whole, the world economic situation at the beginning of 1932 appears to be more favorable than it was a year ago. The basis of this conclusion is not any definite improvement in world economic activity but rather the obvious determination of the leading countries to face the facts and to discard temporary expedients and unsound experiments in favor of constructive action in the solution of domestic and international problems. If political problems are suc-

cessfully solved, there appears to be no sound reason why the world should not gradually begin to recover from the business depression that started almost three years ago. On the other hand, if political difficulties should be allowed to cause a financial collapse of Central Europe, the result might be disastrous to the credit structure of the world. International factors were largely responsible for the intensification of the depression. International co-operation, and that means primarily co-operation in the political field, appears indispensable for a general revival of world trade and industrial activity.

## GREAT BRITAIN

ON Sunday, September 20, 1931, the first Coalition Cabinet, acting upon recommendation received from the Deputy Governor of the Bank of England, voted to suspend Subsection 2 of Section 1 of the Gold Standard Act of 1925, whereby the Bank of England is required to sell gold at a fixed price.<sup>1</sup> On September 21, the suspension of gold payments was approved by the British Parliament.

The causes that left the Bank no alternative in this matter are numerous and varied. The chaotic condition of the national finances, called clearly to the attention of the world by reports of several Royal Commissions, and the threat of a general election, coupled with an underestimate of the financial difficulties of other countries, led to sales of sterling on a large scale. From the middle of July to the date of suspension, funds amounting to about \$1,000 million were withdrawn from the London market. During this same period the gold and bullion holdings of the Bank of England declined about \$150 million, and French and American exchange credits totaling \$650 million had been practically exhausted.

The devastating effects of the world trade depression, driving lower and lower the prices of the basic commodities and simultaneously reducing the purchasing power of the nations that had heretofore been the best customers for British products, are plainly reflected in the figures of British foreign trade, which show a steady increase of imports over exports. A number of factors that have been the subject of much criticism since the end of the post-war industrial boom in 1921, such as an inelastic wage system, unrationalized and antedated industrial methods and equipment, and increasing unemployment, together with the difficulties created by the return to the gold standard in 1925, impaired the competitive

<sup>1</sup> This subsection reads: "The Bank of England shall be bound to sell to any person who makes demand in that behalf at the head offices of the Bank and during office hours of the Bank, and pay the purchase price in any legal tender, gold bullion at the price of £3 17s 10½d per ounce troy gold of the standard fineness prescribed for gold coin by the Coinage Act of 1870, but only in the form of bar containing approximately 400 ounces troy of fine gold."

ability of the British producers on the world markets and intensified the disequilibrium in the British balance of international payments. Furthermore, the collapse of credit in Germany, Austria, and Hungary in the summer of 1931 tied up a large volume of British short-term funds, and other countries that had money in Germany, Austria, and Hungary were obliged to draw upon Great Britain. The withdrawal of funds became so large that Great Britain was compelled to suspend gold payments after a strenuous attempt to retain the confidence in the pound sterling, which has long been established as an international standard of value.

The temporary abandonment of the gold standard should in time and under normal conditions tend to lower Great Britain's excessive surplus of commodity imports and bring about a flow of gold into England, the depreciated pound sterling serving as a stimulus to exports and as a deterrent to imports. The extent to which England will benefit will be determined primarily by world economic conditions and by the measures resorted to by the other countries in order to offset whatever competitive advantage may be obtained by the British exporters through currency depreciation. This bounty need not be ephemeral if industry in Great Britain is willing to go through a process of reorganization that will enable it to compete favorably on the foreign markets.

The effect of sterling depreciation on the invisible items in the balance of payments will not be uniform. The lower value of sterling in terms of dollars, francs, and Reichsmarks may lead to an improvement in the shipping industry, since it will be cheaper to travel and transport goods on British ships. The income from shipping service is the most important item in the balance of payments, with the exception of the income from foreign investments. The transfer of interest and amortization payments by the debtor countries to Great Britain will be facilitated by the decline in the external value of sterling. This factor alone, however, will not materially improve the balance of payments. It should be observed that British foreign investments amount to almost \$20,000 million and that no Bolivian, Peruvian, very few Brazilian state and municipal, and hardly any Colombian issues are held in London. The recent defaults by these coun-



tries do not, therefore, seriously affect Great Britain. The yield from foreign investments is determined primarily by the economic position of the debtor countries and will not increase until world trade and world industrial activity recover substantially from the present levels. The depreciation of sterling is equivalent to a reduction of sterling debts in terms of gold. To the extent that sterling has depreciated in value, the debtor countries are able to discharge their obligations by giving a smaller quantity of their exports in order to secure the means of payment, that is sterling exchange. Thus, the effects of the depreciation in sterling are likely to be favorable so far as the income from shipping services and foreign investments is concerned. The receipts on account of banking and other commissions, on the other hand, will show a decline. British banking houses, which hitherto have transacted a universal financial business, are likely to experience a marked decline in commissions as a result of the loss of confidence in the British monetary unit. However, if the fluctuations in the exchange value of sterling do not continue over an unduly long period of time, this loss need not be permanent, as no other financial center is equipped and sufficiently experienced to take the place of London as the banker of the world. New York, Paris, and Amsterdam are not in a position to develop, within a short time, adequate facilities for the financing of world trade.

#### FOREIGN TRADE

The value of commodity exports<sup>1</sup> in 1931 was £389.2 million, \$1,894 million, as compared with £570.7 million, \$2,777 million, in 1930, showing a decline of 31.8%. During the same period the value of imports declined only 17.4%, from £1,044.0 million, \$5,081 million, to £862.2 million, \$4,196 million, as shown in Table 4. The decrease in imports was due largely to lower prices. In terms of 1930 prices, imports in 1931 were 19.3% lower than in the preceding year. The volume of imports in 1931 was 2.3% higher than in 1930. The volume of exports of United Kingdom goods, on the

<sup>1</sup>United Kingdom goods only. Exports of imported merchandise were £86.8 million, \$422.4 million, in 1930, and £64.0 million, \$290.2 million, in 1931.

other hand, declined 23.8%, and that of imported goods, 4.4%, as compared with 1930. Particularly unfavorable is the decline in exports of finished manufactures. The value of these exports was 34.0% lower, and their volume, 25.8% lower in 1931 than in 1930.

TABLE 4: FOREIGN TRADE OF GREAT BRITAIN, 1930 AND 1931

In millions

Commodity Group	Imports					Exports of United Kingdom Produce				
	1930		1931		Percentage Decrease	1930		1931		Percentage Decrease
	£	Dollars	£	Dollars		£	Dollars	£	Dollars	
Food, drink, and tobacco.....	475.1	2,312	417.0	2,029	-12.2	48.2	235	35.5	173	-26.3
Raw materials and half-finished products.....	250.5	1,219	173.4	844	-30.8	63.8	310	47.1	229	-26.2
Manufactures.....	307.4	1,496	262.0	1,275	-14.8	440.0	2,141	290.6	1,414	-34.0
Animals not for food.	3.7	18	3.3	16	-10.8	1.5	7	1.1	5	-26.7
Parcel post, non-dutiable.....	7.3	36	6.5	32	-11.0	17.2	84	14.9	73	-13.4
Total.....	1,044.0	5,081	862.2	4,196	-17.4	570.7	2,777	389.2	1,894	-31.8

In spite of the great decline in British foreign trade, Great Britain is still by far the largest importer of foreign commodities, and the value of British exports is exceeded only by that of the United States and Germany. Great Britain is the second largest exporter of finished manufactures. The decrease in exports, however, has been very serious. From 1913 to 1930 the value of British imports increased from £659 million, \$3,207 million, to £958 million, \$4,662 million, while exports increased only from £525 million, \$2,555 million, to £571 million, \$2,776 million. In volume, imports increased 18%, while exports declined 32%. Before the War, Great Britain owed its prosperity to the ability of the coal, iron and steel, textile, and engineering industries to compete successfully in foreign markets and to provide employment for the British working population. The continued depression in these industries in recent years accounts largely for the decline of exports and the increase of unemployment.

While the maintenance of a large volume of imports, facilitated by the enormous decline in the prices of foodstuffs and raw materials, has enabled Great Britain to maintain the standard of living of the wage-earners, the decline in the volume of exports has been mainly responsible for the increase in the number of unemployed workers. Statistics of unemployment show clearly that it is concentrated largely in industries and areas that were the basis of British economic life before the World War. The mass of unemployment is found in the heavy industries and lately in certain textile trades, particularly cotton and wool, all of which are of first importance in British export trade.

The decline of exports is thus a matter of greatest moment to Great Britain. The causes of the decline may be divided into internal and external. Among the latter may be mentioned the growth of manufacturing industries in countries that before the World War satisfied their requirements through imports of foreign manufactures; the political unrest in many countries, particularly in China and India; the currency disorders in Europe and the methods of stabilization followed by the various European countries, which gave a temporary stimulus to the exports to the disadvantage of Great Britain; and perhaps, most important of all, the great decline in prices of raw materials and foodstuffs, which has decreased the ability of the countries producing these commodities to buy foreign manufactures.

The internal difficulties of Great Britain can be traced to the stabilization of the pound sterling at the pre-war par of exchange in 1925. When the decision was made not to revise the gold parity of sterling, it was assumed that the world price level would remain relatively stable and that there would be a recovery in British exports. These two expectations were not fulfilled. The enormous decline in prices disturbed profoundly the economic balance of Great Britain. It worked to the advantage of those sections of the community whose incomes were fixed in terms of money either by means of contract or, as in the case of wages, through collective agreements, and to the disadvantage of persons receiving non-contractual incomes. Furthermore, the increase in the purchasing power of the pound sterling raised the burden of

the national debt and created financial difficulties for the Government.

So far as the decline of prices was not accompanied by an increase in productive efficiency, it resulted in a reduction of profits. The index number of British wholesale prices, the average of 1924 being taken as 100, declined steadily from 159 in 1925 to 99 in October, 1931, while weekly wages remained practically stationary, the index number in July, 1931, being 97.0. During the same period the cost of living declined 30%. The ability of the British trade unions to resist successfully attempts to reduce wage rates in accordance with the decline in the cost of living has no doubt placed the British producer in an unfavorable position in the world markets.

From the fiscal point of view Great Britain was more severely affected by the fall of prices than any other European country, because of the stabilization of its currency at pre-war par of exchange. In other words, while France, Belgium, and all central European countries eliminated the larger part of their indebtedness through the process of currency inflation, followed by currency devaluation, Great Britain refused to resort to this expedient.

#### THE ABNORMAL IMPORTS ACT OF 1931

The steady decline in British exports and the growth in the surplus of commodity imports have given rise to a movement for tariff protection that would give preferential treatment to imports from the Dominions. Tariff protection, it is claimed by the leaders of the Conservative Party, was given the approval of the people at the general election in October, 1931. Whether or not this is the correct interpretation of the electoral results cannot be proved, because the issues in the election were exceedingly mixed and complicated, but the fact remains that a large majority in the British House of Commons favors the imposition of a protective tariff and has already taken measures to make that protection effective for certain industries. The most important measure was the passage of the Abnormal Imports Act, which became effective on November 20, 1931.

The Act gives temporary powers to the Board of Trade to take such steps as may be necessary to arrest the abnormal growth of imports and reserves to Parliament "a clear field for future action." The Board of Trade is given the right to impose a duty of not more than 100% ad valorem on wholly or mainly manufactured articles imported into Great Britain in abnormal quantities, exclusive of Empire products, covered by the Finance Act of 1919. In 1930 the value of imports of commodities covered by the Abnormal Imports Act was £307.5 million, \$1,496.4 million. The duties are imposed by the order of the President of the Board of Trade, with the concurrence of the Treasury, and are subject to approval by Parliament within 28 days after the date of application.

First application of this new tariff weapon was made on November 25, 1931. A duty of 50% was levied upon articles that had an import value of £30.1 million, \$146.4 million, in 1929 and of £28.0 million, \$136.1 million, in 1930. The following articles, imported into Great Britain in 1930 in quantities valued at £500,000, \$2,433,250, or more, were affected by this order: glazed wall and hearth tiles; domestic glassware; tools; electrical vacuum cleaners; wireless sets and parts; typewriters and parts; manufactures of wool, wholly or partly of wool; stockings and hose, wholly or partly of silk or rayon; gloves; paper; tires and tubes for cycles, other than motorcycles; and perfumery. Other articles affected, having an import value of less than £500,000, \$2,433,250, in 1930, are: pottery for domestic use; sanitary ware; cutlery; handkerchiefs, wholly or partly of linen; overcoats and mantles; and linoleum.

Order Number 2 made liable to a 50% duty articles that had an import value amounting to £7.8 million, \$38.0 million, in 1929 and to £6.7 million, \$32.5 million, in 1930. Articles included in this Order are: glass bottles and jars; battery carbons; yarn, wholly or partly wool; coir mats and matting; household linen, wholly or partly linen; jute tissues in piece, wholly or partly jute; jute carpets and rugs, wholly or partly jute; candles and tapers; sporting guns and rifles; air guns and air rifles; and spoons and forks of metal, other than gold or silver.

Under Order Number 3, effective December 19, 1931, im-

ports of illuminating glassware, photographic cameras, and unexposed plates, electric glow lamps and parts, cotton manufactures, cordage and ropes, outer garments of hosiery, electrical fixtures, and other articles of smaller import value likewise were made subject to a duty of 50%. In 1930 the articles falling under these classifications imported into Great Britain amounted to £20.5 million, \$99.8 million.

#### NATIONAL FINANCE

The budget for the fiscal year 1931-32, presented to Parliament in April, 1931, by Mr. Snowden, Chancellor of the Exchequer, contained no provision for a large increase in the tax burden. New taxation was to make up only one fifth of the prospective deficit of £37.4 million, \$181.8 million. It was felt at the time that further taxation of industry would have been the last straw and that any increase in direct taxation would "have deepened the psychological depression," since taxes imposed by local and national authorities absorbed at that time very near one third of the total national income.<sup>1</sup> The inadequacy of the proposed measure was immediately recognized and held to be unsound and "based upon false optimism difficult to justify."<sup>2</sup> Mr. Snowden quite frankly admitted that his proposals were a makeshift, and his excuse for not facing the issue sternly at that time was the apprehensive state of the public mind.

The seriousness of the financial position of the Exchequer and the insolvent condition of the Unemployment Insurance Fund led to the appointment of the Royal Commission on Unemployment Insurance in December, 1930, and the Committee on National Expenditure in March, 1931. The Royal Commission on Unemployment Insurance, appointed to "inquire into the provisions and workings of the Unemployment Insurance Scheme, and to make recommendation with regard to (1) its future scope, the provisions which it should contain by which it may be made self supporting, (2) the arrangements which should be made outside the scheme for the un-

<sup>1</sup> The Economist, London, May 2, 1931, p. 928.

<sup>2</sup> The Statist, London, May 2, 1931, p. 714.

employed who are capable and available for work,"<sup>1</sup> issued its first report in June, 1931. Apart from the elimination of certain anomalies, the Commission submitted a scheme recommending (1) a reduction of the period for which the benefit is paid, (2) an increase in the amount of contributions, and (3) a reduction of benefit,<sup>2</sup> whereby the burden on the Exchequer would be reduced from £89.3 million, \$434.6 million, to £59.7 million, \$290.3 million, and the Insurance Fund would show a deficit of only £7.7 million, \$37.2 million.

The second Committee, the Committee on National Expenditure, was charged with the function of investigating the condition of the national finances and recommending to the Chancellor of the Exchequer any economies that might be effected. In the report of this Committee, issued in July, 1931, the budgetary deficit for the fiscal year 1932-33 was estimated at £119.0 million, \$579.1 million. This figure was arrived at as follows:

Estimated additional expenditures to be met out of revenue in 1932-33.....	£62,000,000	\$301,723,000
Expenditures above budget estimates.....	12,000,000	58,398,000
Advance to unemployment fund.....	40,000,000	194,660,000
Advance to road fund.....	10,000,000	48,665,000
Non-recurrent revenue items during 1932-33.....	37,000,000	180,060,500
Dollar Exchange Fund appropriation.....	20,000,000	97,330,000
Dollar Exchange Fund appropriation of surplus of assets over liabilities.....	3,000,000	14,599,500
Rating Relief Suspense Account.....	4,000,000	19,466,000
Foreinstallment of income tax payments.....	10,000,000	48,665,000
Probable reduction in income tax receipts 1932-33..	20,000,000	97,330,000
Total.....	£119,000,000	\$579,113,500

The report included recommendations of economies whereby this estimated deficit of £119.0 million, \$579.1 million, might be reduced by £96.6 million, \$470.1 million. A plan calling for reorganization of the Unemployment Insurance Fund, along lines similar to those contained in the scheme proposed by the Commission on Unemployment Insurance, was to account for £66.5 million, \$323.6 million, of the total saving to be effected. Advances to the Road Fund were to be diminished £7.9 million, \$38.4 million, and grants to "Education," by £13.6 million, \$66.2 million. These three items

<sup>1</sup> "First Report of Commission on Unemployment Insurance," Cmd. 3872, London, 1931, p. 4.

<sup>2</sup> *Ibid.*, p. 29.

make up 91% of the total recommended economies of £96.5 million, \$469.6 million. The report also expressed the opinion that borrowing, as practised by the Unemployment Insurance Fund and the Road Fund, "is in reality adding to fixed debt to relieve current expenditure and is opposed to the principles of sound finance hitherto accepted without question in this country"<sup>1</sup> and advised discontinuation of this practice after 1931. Since April, 1931, the Unemployment Insurance Fund had been borrowing from the Exchequer, in addition to the heavy charge for the transitional benefit which falls directly upon the Exchequer, at the rate of £1 million, \$4.9 million, per week.

The increasing burden placed upon the Exchequer by the Unemployment Insurance Fund was primarily responsible for the disorganization of the national finances. The political crisis, which resulted in the formation of a coalition cabinet under the leadership of the former Labor Premier, Mr. Ramsey MacDonald, grew directly out of the attempt to correct this situation. The first task of the new government was to provide the country with a balanced budget. On September 10, 1931, Mr. Snowden introduced an emergency budget. He reported that the budget for the current year would show a deficit of £74.7 million, \$363.5 million, and predicted a budgetary deficit for the year 1932-33 of £170.1 million, \$827.8 million, figures decidedly higher than those calculated by the Committee on National Expenditure.

Proposals to restore equilibrium to the budget for these two fiscal years include provisions to increase the revenue from taxation and a scheme involving extensive economies. Increased rates on income taxes and higher duties on beer, tobacco, petrol, and entertainment are to yield additional revenue which, it is estimated, will amount in the full financial year 1932-33 to £81.5 million, \$396 million. It is estimated that economies in expenditures will result in a saving of £70.0 million, \$341 million, in the budgetary year 1932-33. It is impossible to estimate the exact saving which will be effected by these measures in the current year,

<sup>1</sup> "Committee on National Expenditure Report," Cmd. 3920, London, 1931, p. 15. For a detailed discussion of the British unemployment insurance scheme, see National Industrial Conference Board, "Unemployment Benefits and Insurance," New York, 1931, pp. 27-45.



but it is estimated that with the increase in tax revenue it will be sufficient to balance the budget.<sup>1</sup>

Economies to be effected as a result of measures relating to unemployment insurance are expected to amount to £35.8 million, \$174.0 million. These measures are: (1) reduction of 10% in weekly benefit rates, except for dependent children; (2) increase in the weekly contributions to 10d., 20.3 cents, each from employers, employees, and the Exchequer; (3) limitation of the insurance benefit to 26 weeks; (4) imposition of a needs test for receipt of transitional benefit, the amount of assistance in any case being determined by the Public Assistance Authorities of the locality; and (5) cessation of borrowing by the Unemployment Insurance Fund.<sup>2</sup>

#### CAPITAL ISSUES

New capital issues in Great Britain in 1931 amounted to £88.7 million, \$431.7 million, as compared with £236.2 million \$1,149.5 million, in the preceding year, according to figures compiled by the Midland Bank, Ltd. The geographic distribution of new capital issues is shown in Table 5.

TABLE 5: GEOGRAPHIC DISTRIBUTION OF NEW CAPITAL ISSUES, GREAT BRITAIN, 1930 AND 1931  
In thousands

Countries	1930		1931		Percentage Decline
	Pounds	Dollars	Pounds	Dollars	
Great Britain.....	127,356	619,778	42,588	207,255	66.6
India and Ceylon.....	28,661	139,479	22,469	109,345	21.6
Other British countries..	41,385	201,400	14,363	69,898	68.4
Foreign countries.....	38,757	188,611	9,246	44,996	76.1
Total.....	236,159	1,149,268	88,666	431,493	62.5

There was an almost complete cessation of foreign capital issues in the last four months of 1931. During that period, British Dominions and colonies borrowed only about £110,000, \$535,260, and foreign countries, £10,000, \$48,660. The total issues, domestic and foreign, in 1931 were only 36% of

<sup>1</sup> Preliminary accounts for the fiscal year 1931-32 indicate that the year will close with a small surplus.

<sup>2</sup> The Economist, September 12, 1931, p. 461.

the average for the last 13 years, 1919 to 1931. The decline in capital issues was particularly drastic in the second half of the year, when only £18 million, \$88 million, of new capital was raised.<sup>1</sup> The abnormally low figures reflect the low level of production and trade activity and the lack of confidence in the ability of British industry and trade to recover, at least in the immediate future, a considerable part of their former earning capacity. The trend in the coming year will depend, as the Midland Bank points out, on the improvement in general confidence, which in turn is connected with developments in the international sphere, such as war debts, conditions in Germany and Central Europe, the movement of prices in terms of gold, and with such domestic factors as the condition of the budget, the burden of taxation, the balance of international payments, and so on.

After months and years of hesitation and uncertainty, in which domestic politics played the dominant rôle, Great Britain finds itself at the parting of the roads. The suspension of gold payments and the temporary adoption of a system of managed currency were radical, even though unavoidable, steps to be undertaken by as conservative an institution as the Bank of England. Even more radical and truly revolutionary in its probable effect on British industry and trade is the contemplated adoption of a general protective tariff. The strongest advocates of tariff protection for British producers do not deny that the abandonment of the traditional policy of free trade, within the limits of special protection for certain industries through Safeguarding Acts, is a desperate measure, justified only by the extremely unsatisfactory condition of British trade and by the absolute refusal of foreign countries to follow the recommendations of the International Economic Conference, held in Geneva in 1927, that tariff barriers should be lowered in the interest of world trade and world economic stability. Since 1927 instead of tariff reductions there have been tariff increases in all commercially important countries, particularly in the United States, France, Germany, and Italy. The annoyance which the British people came to feel with this state of affairs and the steady decline in British commodity exports were re-

<sup>1</sup> Midland Bank, *op. cit.*, December, 1931-January, 1932, pp. 1-3.

flected in the election of pro-tariff candidates who now constitute a majority in the British House of Commons.

The imposition of a general protective tariff for Great Britain, however, is fraught with extraordinary difficulties. Tariff protection is often thought of in connection with an Empire Economic Union, brought about through a system of preferential duties. Empire products are not subject to tariffs imposed under the Abnormal Imports Act. They will remain exempt until the Imperial Economic Conference concludes its work in the summer of 1932. An economic union between Great Britain and its Dominions would be a powerful factor in world economy. Is it likely, however, that the Dominions will give up their own policies of protection, their own plans for the development of strong manufacturing industries behind a high protective wall? Even if the Dominions agree to accept British goods on terms more favorable than those from other countries, would it mean an absolute increase in British exports or simply a shifting of trade from old into new channels? Would tariff protection result in greater efficiency and lower costs of production? What will be the effect of a general tariff on internal prices and cost of living? The opponents of tariff protection point out that the problem of Great Britain is not to reduce the volume of imports but to increase the volume of exports. How can the volume of exports be increased, they ask, by means of a general tariff which, in order to be effective, must raise domestic prices?

As a way out of the dilemma, the advocates of low tariffs recommend a new interpretation of the "most-favored-nation" clause. In order to bring about a reduction of tariff barriers, they contend that it should be possible for a country to grant more favorable terms to such low-tariff countries as the Netherlands, Sweden, and Great Britain than to countries like the United States, Spain, France, Italy, Germany, and so on, without being guilty of tariff discrimination. British and American goods are allowed to enter Czechoslovakia, for example, on precisely the same conditions, but Czechoslovak exports enter Great Britain on much more favorable terms than the United States. Plans for preferential trade agreements have been under consideration by a

number of countries in recent years. The agricultural countries of Central and Southeastern Europe have held a number of conferences for the purpose of solving the problems of tariffs and trade competition, but without much success. The conference between the Scandinavian countries, going on at the present time, may yield more encouraging results, as it is not faced with political and racial difficulties.

## GERMANY

THE financial crisis in Germany in the summer of 1931 revealed again the extreme dependence of the country's financial system on the confidence of foreign investors. Disturbing political developments, declining economic activity, and the unsound position of the public treasury undermined the confidence of Germany's foreign creditors and resulted in dangerous withdrawals of short-term credits and in a flight from the mark within Germany. The fact that a large proportion of the short-term advances was used by the German banks as working capital in the internal economy of Germany made the strain upon the German banking system particularly severe. At the end of July, 1931, the total foreign indebtedness of Germany was about 29,000 million Reichsmarks, \$6,908 million. With the help of foreign loans Germany was able from 1924 to 1931 to balance its international payments, that is, to pay for the surplus of commodity imports, to pay reparations and interest and amortization charges on private debts, and to acquire adequate reserves of gold and foreign exchange. The short-term indebtedness of Germany at the end of July, 1931, amounted to about 12,000 million Reichsmarks, \$2,858 million. Of this sum, however, about 4,000 million Reichsmarks, \$953 million, consisted of short-term non-banking credits, which were to a marked extent offset by direct German credits abroad and which were not likely to be withdrawn so suddenly as banking credits.<sup>1</sup>

There are no accurate estimates of German assets abroad. The Sub-Committee of the Basle Committee of Experts, which examined the question of German foreign investments, reported that there was an "almost complete absence of data on which to work."<sup>2</sup> On the basis of such statistics as were available, however, the Sub-Committee estimated German long-term investments abroad at 5,000 million Reichsmarks,

<sup>1</sup> "Report of the Special Advisory Committee," Basle, December, 1931, pp. 5-6, 28-29.

<sup>2</sup> *Ibid.*, p. 32.

\$1,191 million, and German short-term credits at 2,400 million Reichsmarks, \$572 million, at the end of July, 1931. The Sub-Committee felt that these figures should be considerably increased owing to the flight of capital, which has taken place from Germany in recent months, but in the absence of evidence of any kind it could make no estimate of the size of capital emigration.<sup>1</sup>

According to information presented by the Basle Report, Germany will have to pay in 1932 between 1,600 million Reichsmarks, \$381 million, and 1,850 million Reichsmarks, \$441 million, on account of interest and amortization charges on its private foreign debts. Payments on account of the short-term debt were estimated at between 600 million Reichsmarks, \$143 million, and 700 million Reichsmarks, \$167 million.

During the first seven months of 1931 the withdrawal of short-term credits from Germany amounted to 2,900 million Reichsmarks, \$691 million. Since the autumn of 1930 the repayment of short-term credits by Germany was estimated by the International Committee of Bankers at 5,000 million Reichsmarks, \$1,191 million. The withdrawal of these large sums of money put an enormous strain on the German banking system. The situation was temporarily relieved by the acceptance on the part of Germany's creditors of President Hoover's moratorium proposal for suspension of all inter-governmental debt payments for a period of 12 months, beginning with July 1, 1931.

This relief, however, was not sufficient to stem the crisis. Economic co-operation did not result in closer political relations. Even after the conclusion of the French-American agreement, regarding the adoption by France of the moratorium proposal, on July 6, 1931, the withdrawal of money from Germany continued, and in the middle of July the reserves of the Reichsbank fell for the first time below the 40% cover prescribed by law. On July 13 the Darmstaedter und Nationalbank was forced to suspend payments. This was followed by a run on all public and private banks, and the government found it necessary to issue an emergency decree declaring a bank holiday.

<sup>1</sup> *Ibid.*, p. 33.

The London Conference of Creditor Powers, which issued its report on July 23, came to no positive conclusion regarding the measures necessary to insure the maintenance of the financial stability of Germany, beyond recommending that the \$100 million central bank credit granted to Germany under the auspices of the Bank for International Settlements be extended for a period of three months and that measures be undertaken by the financial institutions in the creditor countries to maintain the volume of credits already extended to Germany. The Wiggin Committee, composed of representatives nominated by the governors of central banks and established by the Bank for International Settlements at the suggestion of the London Conference, was equally unsuccessful in devising a plan for the flotation of a long-term debt for Germany and for the replacement of the much-needed capital that had been withdrawn during the crisis. The Committee was able to reach an agreement with the representatives of the German Government for the prolongation of the then existing volume of short-term credits for a period of 6 months, subject to the renewal of the Bank for International Settlements loan. The agreement was to expire on February 29, 1932.

The freezing of German short-term credits through the Standstill Agreement was an emergency measure and covered only the short-term investments by foreign banks, amounting to about 6,400 million Reichsmarks, \$1,524 million, at the end of July, 1931.<sup>1</sup> This temporary and uncertain arrangement and the uncertainty concerning the renewal of reparation payments made it impossible for the German Government and for the leaders of German industry and finance to look into the future with any degree of confidence. The problem could not be solved by Germany alone. Reconstruction of German economy could not be undertaken until a satisfactory agreement was reached with foreign creditors concerning the payment of political debts and the gradual repayment of short-term credits. Taking advantage of its right under Article 119 of the Young Plan, the German Government, in a letter dated November 19, 1931, informed

<sup>1</sup> About 1,200 million Reichsmarks, \$286 million, of short-term credits were not covered by the agreement.

the Bank for International Settlements that "they had come to the conclusion in good faith that Germany's exchange and economic life might be seriously endangered by the transfer in part or in full of the postponable portion of annuities" and requested the Board of the Bank to convene the Special Advisory Committee to examine the economic and financial position of Germany from all points of view.

The Special Advisory Committee met for the first time on December 8 at the Bank for International Settlements and issued its report on December 23, 1931. After an examination of the German balance of international payments, the position of the Reichsbank, production and employment, public finance, foreign long-term loans, and short-term credits, the Committee reached the following conclusion:

"It is evident from the facts outlined in the preceding chapters that Germany would be justified in declaring—in accordance with her rights under the Young Plan—that in spite of the steps she has taken to maintain the stability of her currency she will not be able in the year beginning in July next to transfer the conditional part of the annuity."<sup>1</sup>

The Committee, however, did not confine its remarks strictly to the Young Plan and its provisions. They pointed out that under the Young Plan Germany was given the right to request the postponement of the conditional part of the annuity as a measure of safeguard during a period of "relatively short depression." The unprecedented magnitude of the present crisis warrants, in the opinion of the Committee, an adjustment of all intergovernmental debts, reparations, and other war debts, to the "existing troubled situation of the world." Such an adjustment the Committee pointed out "is the only lasting step capable of re-establishing confidence which is the very condition of economic stability and real peace."<sup>2</sup>

The report of the Advisory Committee was welcomed in Germany as a clear proof that Germany cannot pay reparations. France, the principal creditor of Germany, was willing to agree to a further postponement of reparation payments, but refused to consider cancellation or even a permanent adjustment to a new and lower level. The French thesis was

<sup>1</sup> Report of the Special Advisory Committee, *op. cit.*, p. 19.

<sup>2</sup> *Ibid.*, p. 20.



that it would be impossible to determine the future capacity of Germany to pay reparations on the basis of the exceedingly abnormal economic conditions prevailing in Germany and throughout the world. The situation was further complicated by the refusal of the United States to participate in any conference of the governments for the purpose of considering a general scaling down of intergovernmental debts. The Government of the United States maintained its former stand that there was no connection between reparation payments by Germany and the payment of war debts to the United States.

The reparation creditors of Germany, however, agreed to call a conference of the governments in Lausanne, Switzerland, in January, 1932, in spite of the refusal of the United States to take part in it or even to send an official or unofficial observer. Before the date set for the Lausanne Conference, a number of developments occurred that made its postponement necessary. The most important development was the statement, issued in the early part of January by the head of the German Government, Dr. H. Brüning, that Germany is not in a position to make payments under the present system of reparations. So far as the German Government was concerned, Dr. Brüning stated clearly and emphatically, the Young Plan had outlived its usefulness. The statement created an international sensation and gave rise in France to a feeling of intense opposition to what was interpreted by the French as an open repudiation on the part of Germany of contractual obligations voluntarily assumed. The German reply to this charge was that Germany had no intention to repudiate any of its obligations and that Dr. Brüning had simply stated a fact, when he said that Germany could not pay.

The International Committee of Bankers met in Berlin in December, 1931, and after six weeks of study and discussion reached an accord on January 23, 1932, for the extension for one year of the agreement covering the short-term credits to Germany. The new agreement covers about 5,360 million Reichsmarks, \$1,277 million, of short-term credits, maturing before March 1, 1933. No schedule of repayments has been fixed. The rate of repayment will be determined by a special

advisory committee in co-operation with the representatives of the German Government. The creditors are given the option of funding the short-term debt either by converting cash advances to the German banks into ten-year notes bearing 6% interest or by converting unsecured cash advances into blocked five-year investments within Germany. The creation of a trust fund is provided for the handling of unsecured credits. Each German debtor bank is required to deliver to the Reichsbank, as trustee, an account of all unsecured cash advanced together with assets covering 15% of such advances. It is estimated that this trust fund will amount to about 200 million Reichsmarks, \$48 million. The trust fund will remain intact until unsecured credits are repaid, but any German bank that reduces its borrowings of this character by 50% is entitled to reduce the amount of assets deposited with the Reichsbank to 15% of the existing figure.

In all its details the agreement represents an attempt to relieve the tremendous pressure on the German financial structure and at the same time to give adequate protection against loss to foreign creditors. The conclusion of the agreement and the degree of co-operation shown by the representatives of 11 foreign creditor countries and Germany stand out as a remarkable achievement and an important step in the direction of genuine international co-operation in the struggle against the forces of world business depression. The solution reached in Berlin provides temporary relief to Germany and enables that country to make plans during a period of 12 months without fear of sudden withdrawals of short-term credits. This relief, however, is not by itself sufficient to restore confidence in the German economic structure and may be entirely deprived of its value if the political creditors of Germany do not approach the problem of reparations in a spirit of realism and international good will.

So far there have been no signs that a mutually satisfactory basis for understanding will be reached by Germany and its principal creditor, France. On January 29, 1932, the German Government issued a statement containing German estimates of the total amount paid by Germany to its creditors on account of reparations since the end of the War. The

## OTHER EUROPEAN COUNTRIES

### BELGIUM

THE economic situation in Belgium continues to remain more favorable than in most countries. As a creditor country and an importer of raw materials and foodstuffs, Belgium has not been severely affected by the world decline in prices. Absence of internal political difficulties has also been a constructive factor. Furthermore, until this year there have been no budgetary deficits, and in 1930 the tax burden was reduced by 1,500 million francs, \$41.7 million. This reduction, however, the decline in receipts, and the increase in expenditures owing to business depression will result in a substantial deficit for the fiscal year 1931-32. Measures to offset this deficit have been undertaken. New taxes and increases in the rates of old taxes are expected to increase the revenue in 1931-32 by 700 million francs, \$19.5 million. To cover the excess of expenditure, the Government issued in July, 1931, a loan of 1,000 million francs, \$27.8 million, bearing an interest of 5% and redeemable in 75 years. Ordinary budgetary revenues for the fiscal year 1932-33 have been estimated at 9,506 million francs, \$264.3 million, as against expenditures of 9,075 million francs, \$252.3 million.

Table 13 shows the success with which operations begun in 1926 to fund the floating debt of the country have been carried on. The internal and external short-term indebtedness outstanding in 1926 amounted to 10,958 million francs, \$304.6 million, as compared with 770 million francs, \$21.4 million, in 1931. During this same period the total public debt was reduced by 6,436 million francs, \$178.9 million. Although the Government was compelled to borrow 2,437 million francs, \$67.7 million, in the course of the year ended September, 1931, the process of amortization was continued, and the net increase in the public debt for the year amounted to only 415 million francs, \$11.5 million.

TABLE 13: PUBLIC INDEBTEDNESS OF BELGIUM, 1926, 1930, AND 1931

In thousands

Item	1926		1930		1931	
	Francs	Dollars	Francs	Dollars	Francs	Dollars
Internal debt						
Funded.....	22,031,000	612,462	23,454,000	652,021	25,891,000	719,770
Short and medium term.....	9,908,000	275,442	2,280,000	63,384	770,000	21,406
Total.....	31,939,000	887,904	25,734,000	715,405	26,661,000	741,176
External debt						
Funded.....	25,831,000	718,102	26,235,000	729,333	25,723,000	715,099
Short and medium term.....	1,050,000	29,190	..	..	..	..
Total.....	26,881,000	727,292	26,235,000	729,333	25,723,000	715,099
Total—external and internal.....	58,820,000	1,635,196	51,969,000	1,444,738	52,384,000	1,456,275

*Foreign Trade*

For the year 1931 the value of commodity imports exceeded commodity exports by 676 million francs, \$17.1 million, the value of the former having declined 23.2% and the latter 11.3% in comparison with the preceding year, as shown in Table 14. The trade deficit for 1930 was 4,867 million francs, \$134.3 million, which marks an improvement of 4,191 million francs, \$116.5 million, in the balance of payments for 1931. As compared with 1930 the volume of imports declined 8.0%, and that of exports increased 3.7% during 1931.

*Industrial Production*

During 1931 the condition of industry remained relatively satisfactory. The average monthly production of coal was 2,253,000 tons, which almost equals the monthly production in the preceding year. The dominating factors in the coal industry, however, were falling prices, increasing stocks, and a reduction in wage costs of approximately 25% since July, 1930, while production and employment remained comparatively stable. The stocks of coal at the pit heads increased to 3,543,000 tons on December 31, 1931, from 2,485,000 tons at the end of 1930 and 321,880 tons at the end of 1929. The financing of

the surplus of receipts from foreign trade is the most important means of remedying Germany's credit difficulties. Several factors, however, have operated to prevent Germany from benefiting in full by this favorable position of foreign trade. Intensified competition in foreign markets has forced German exporters to grant unusually long credits to foreign customers, and at the same time it has become more and more the policy of German importers, because of the increased cost of credit and the uncertainties arising out of the fluctuations of foreign exchanges, to offer immediate payment for imports. This process, combined with excessive repayment of foreign credits and the refusal of German exporters to repatriate their foreign balances, has deprived Germany of the full immediate benefit of the large surplus of commodity exports. Restrictive measures by the Reichsbank to control receipts of foreign exchange continue to be necessary, and, commencing in December, 1931, all goods for export must be reported, and purchase of German loans floated on foreign markets has been strictly prohibited.<sup>1</sup>

It is impossible to foresee the future of German foreign trade. It is obvious, however, that numerous changes in the world economic movements have taken place during 1931 that are bound to exercise a restraining influence on German trade activities and render more difficult the maintenance of a large export surplus. The Institut für Konjunkturforschung estimates that four fifths of total German exports goes to countries which are today confronted with currency difficulties or are taking steps along protectionist lines. In view of the intensified competition in all markets, it is reasonable to look for a further drop in the price of manufactured articles, which Germany exports in great quantities, without a further proportional decline in the price of raw materials. Imports may be further contracted, but the present volume of exports sets the minimum for imports at a point not considerably lower than the present import level. These additional difficulties are facing Germany today and must be overcome if the export surplus is to be maintained in the future. On the other hand, the governmental decree, issued in December, 1931, has as its fundamental purpose the re-

<sup>1</sup> Institut für Konjunkturforschung, September 3, 1931, p. 34.

duction of production costs, and it may correspondingly enhance the competitive ability of German products in foreign markets.

#### MEASURES TAKEN TO COMBAT THE CRISIS

The measures taken by the German Government to combat the crisis are embodied in the four Emergency Decrees of the President of the Reich, issued under Article 48 of the Constitution without the approval of the Reichstag. The aim of the Government's policy has been to maintain the gold standard and to re-establish confidence in the economic and financial stability of Germany. For a number of years the budgets of the Federal Government, the states, and the communes were one of the most disturbing factors in German economy. From 1924-25, when all German governmental authorities had large revenue surpluses, to 1930-31 the German Governments lived beyond their income, and no serious attempt was made to balance the budgets.

The steps taken by the German Government to place its system of public finance on a sound basis were unusually drastic and complete. In 1931-32 salaries and pensions were reduced by 276 million Reichsmarks, \$65.7 million; debt-service charges, by 11.2 million Reichsmarks, \$2.7 million; and miscellaneous expenditures by 216.7 million Reichsmarks, \$51.6 million. The total saving through internal economies was 504 million Reichsmarks, \$120.1 million. Through the postponement of reparation payments, the German budget was relieved of the necessity of transferring 820 million Reichsmarks, \$195.3 million, not including the contribution of the German Railway Company, amounting to 495 million Reichsmarks, \$117.9 million. Against these decreases, expenditures on social services increased 163 million Reichsmarks, \$38.8 million, and on internal war charges, not including war pensions, 137 million Reichsmarks, \$32.6 million, leaving a net decrease in expenditures in 1931-32 of 1,024 million Reichsmarks, \$243.9 million.

The reform of the unemployment reinsurance system was particularly drastic. The contributions to the unemployment fund were raised in October, 1930, from 4.5% to 6.5%

production. The quantity of wheat raised was less than in 1930 and of an inferior quality. The bad situation of the farmer was further aggravated by declining prices and a falling-off in consumption, especially of luxury food products. Discontent with the situation was expressed in increased agitation for tariff protection.

The position of the National Bank of Belgium remains very strong. The gold reserve was 12,712.2 million francs, \$353.4 million, on January 21, 1932, as compared with 6,866.8 million francs, \$190.9 million, on January 22, 1931. During the same period the note circulation increased from 15,994.0 million francs, \$444.6 million, to 18,379.8 million francs, \$511.0 million. The ratio of gold reserves to total sight liabilities was 65.8% on January 21, 1932, as compared with 66.6% on the corresponding date of 1930. Foreign bills and balances abroad amounted to 4,450.3 million francs, \$123.7 million, on January 22, 1931. A year later, the return of the National Bank showed no holdings of foreign bills and no balances abroad.

The total number of workers in Belgium is estimated at 1,617,000. Of this total about 860,000 workers are subject to unemployment.<sup>1</sup> About 85% of the latter are insured against unemployment. On December 5, 1931, 93,467 insured workers were totally unemployed, and 134,799 workers had only part-time employment. In other words, 13.3% of all insured workers were totally unemployed, and 19.2% were partly unemployed.

The decline in wholesale and retail prices and in the cost of living was greater in Belgium than in the other industrial countries. The index number of wholesale prices in terms of gold, base, April, 1914=100, declined from 95 in January to 83 in December, 1931. During 1930 the index number fluctuated from 116 to 98. The index number of retail prices was 110 in December, 1931, as compared with 122 at the beginning of the year. During the same period the index number of the cost of living, base, 1921=100, declined from 217 to 192.

<sup>1</sup> Banque Nationale de Belgique, "Bulletin d'Information et de Documentation," Brussels, January 25, 1932, p. 38.

## NETHERLANDS

Netherlands is one of the few remaining countries where no restriction has been placed upon the normal operation of the gold standard system. Furthermore, Mr. L. J. H. Trip, upon assuming the presidency of the Bank of Netherlands which was left vacant by the resignation of Mr. Vissering in October, 1931, stated that he considered as his primary duty the maintenance of the gold standard in the Netherlands.<sup>1</sup> The Bank of Netherlands is in an unusually strong position as shown in Table 15. There is every indication that for the present the National Bank has given up the gold exchange standard and has turned to gold exclusively as reserve for the currency in circulation. On December 16, 1931, the percentage of gold to notes in circulation was 89.2, having increased to this point from 52.1 on December 15, 1930. During the same period the portfolio of foreign bills declined from 248 million guilders, \$100 million, to 88 million guilders, \$35 million. The currency circulation was increased by only slightly less than 200 million guilders, \$79.8 million, while deposits showed a growth of 171.8 million guilders, \$69.1 million. This unusual increase in the deposits with the central bank is definite evidence of the amount of credit available and of the desire on the part of

TABLE 15: BALANCE SHEET OF THE BANK OF NETHERLANDS, 1929, 1930, AND 1931

In thousands

Item	December 16, 1929		December 15, 1930		December 14, 1931	
	Guilders	Dollars	Guilders	Dollars	Guilders	Dollars
<b>Assets</b>						
Gold .....	447,483	179,888	426,193	171,330	906,967	364,601
Silver .....	..	..	24,652	9,910	27,926	11,226
Home bills discounted. ....	60,194	24,198	48,680	19,569	85,539	34,387
Foreign bills .....	219,573	88,268	247,876	99,646	87,513	35,180
Loans and advances .....	85,619	34,419	89,187	35,853	109,612	44,064
Advances to government ..	..	..	..	..	..	..
<b>Liabilities</b>						
Notes in circulation .....	818,252	328,937	818,417	329,004	1,016,813	408,759
Deposits .....	29,736	11,954	42,770	17,194	214,571	86,258
Ratio of gold to note circulation .....	54.7%		52.1%		89.2%	

<sup>1</sup> "The Economist," London, October 17, 1931.



fidence of foreign investors in the economic and political stability of Germany is re-established. Before this can be accomplished, the controversy over reparation payments must be eliminated as a factor in international negotiations. In Germany the payment of reparations has become a political and moral issue of first magnitude. It endangers the stability of the Government, as well as the stability of the economic system and the European status quo.

## FRANCE

**D**URING the past year France has played an unusually important rôle in world affairs. Its great financial strength and the ease with which the resources of its private finance can be mobilized to serve the needs of national policy make it possible for France to exercise a marked influence in other financial centers. The recovery of France from the post-war financial and economic disorganization presents an amazing record of efficiency and strength of purpose. Although this recovery was to a marked degree facilitated by the receipt of German reparation payments, it was due mainly to the sound fiscal policies introduced by the National Cabinet of Raymond Poincaré and to the thrift and industriousness of the French people. The policy of France in the field of economics and that of politics is best expressed by the word "security." The security idea dominates the French people as a whole.

The basis of French economic security lies in a fine balance between agriculture and manufacturing, which makes France less dependent on foreign trade than any other important country. France has no large exportable surpluses in any branch of agricultural or mining production, and its manufacturing industries rely mainly on the domestic market. The French Government has followed a policy of economic nationalism in an endeavor to maintain the economic independence of France.

In the political field the basis of security is a large army and a group of allied countries, Poland, Jugoslavia, Rumania, and Czechoslovakia, which represent a French bloc in international councils. Politically, security means absolute protection against foreign invasion, and this desire is not surprising if it is remembered that, from any frontier of France, Paris can be reached by train in 12 hours' time. Financial strength and military power have given France an international importance unequalled since the days of Napoleon I.

Until the last quarter of 1930, France showed great resistance to the world business depression. Since that time,

exception of slight increases in March and in August, 1929, has been gradual and uninterrupted. The wholesale index number for January, 1929, was 146, as compared with 99 in October, 1931. During this same period the index number for the cost of living declined only from 169 to 151, and remained in October, 1931, 50% above the level for 1913. The prevailing high cost of living is a serious impediment to all attempts by industry to lower the cost of production by decreasing the labor charge.

TABLE 16: CAPITAL ISSUES, NETHERLANDS, 1928-1931  
In million guilders and dollars

	1928		1929		1930		1931		Percent- age De- crease 1930 to 1931
	Guilders	Dollars	Guilders	Dollars	Guilders	Dollars	Guilders	Dollars	
Internal....	356	143.1	334	134.3	352	141.5	296	119.0	-15.9
Foreign....	318	127.8	144	57.9	249	100.1	42	16.9	-83.1
Total....	674	270.9	478	192.2	602	241.6	338	135.9	-43.8
Bonds.....	341	137.1	299	120.2	30	12.1	10	4.0	-66.7
Shares.....	333	133.9	178	72.0	572	229.9	328	131.9	-42.7

The amount of new capital issues in the Netherlands in 1931 amounted to only 338 million guilders, \$135.9 million, which is a decline of approximately 44% in comparison with the preceding year. There was almost a total absence of foreign capital issues in 1931, as shown in Table 16. There has been a marked change during the past four years in the ratio of bonds and shares in the total capital issues. In 1928 the ratio of bonds to shares was one to one; in 1931 it was 34 to 1.

#### SWEDEN

One week after Great Britain suspended gold payments Sweden was compelled to resort to the same drastic measure in order to avoid depletion of its gold reserve. On September 26, 1931, the date of the abandonment of the gold standard by Sweden, the gold stocks of the State Bank stood at 199 million kronor, \$53.3 million, as compared with 241 million kronor, \$64.6 million, at the beginning of 1931. The balances of the State Bank abroad were reduced

from 261 million kronor, \$69.9 million, on January 3, 1931, to 28 million kronor, \$7.5 million, on September 26. This rapid diminution of gold reserves and holdings abroad is accounted for by a growing trade deficit and withdrawal of foreign deposits. For the first 3 quarters of 1931, the excess of imports over exports amounted to 85 million kronor, \$22.8 million, as compared with 30 million, \$8.0 million, for the corresponding period in 1930, and an export surplus of 5 million kronor, \$1.3 million, in 1929. The financial crisis in Germany in July, followed shortly by the departure from the gold standard by Great Britain, produced in a short time the situation which had been feared. During the 4 months, June-September, 1931, the commercial banks were called upon to repay 277 million kronor, \$74.2 million, of foreign deposits. In the week preceding suspension, the loss of gold and foreign exchange by the State Bank alone amounted to approximately 93 million kronor, \$24.9 million.

The financial difficulties experienced are not necessarily indicative of the industrial position of the country. Although there took place violent fluctuations in many branches of activity, the general level of production during the first ten months of 1931, as shown in Table 17, was well maintained. The present position may still be judged as fairly satisfactory, after considering the severe declines which were recorded in most other countries during the past three years. The index number of production, base, 1923-1924=100, was 131 in 1930 and 135 in 1929, a record year, and 125 in December, 1931.

The wood-goods industry suffered from a lack of orders. Keener competition on the part of Russia, Poland, and Finland expressed itself in price declines. Total sales up to the middle of December, 1931, amounted to only 710,000 standards, and the volume of exports for the first three quarters of the year was reduced by slightly more than 50%. For the first eleven months of 1929 and 1930 total sales were 965,000 and 837,000 standards, respectively. The volume of sales on the paper and pulp market likewise showed a substantial reduction owing primarily to the tendency of buyers to purchase for immediate need only. The sulphite industries of Sweden, Norway, Finland, Germany, Austria,

TABLE 7: DEVELOPMENT OF FOREIGN TRADE, FRANCE,  
1924-1931

In millions

Year	Exports		Imports		Surplus of Imports (-) or Exports (+)	
	Francs	Dollars	Francs	Dollars	Francs	Dollars
1924	41,468	1,626	39,928	1,565	+ 1,540	+ 61
1925	45,755	1,794	44,095	1,729	+ 1,660	+ 65
1926	59,678	2,339	59,598	2,336	+ 80	+ 3
1927	54,924	2,153	53,049	2,080	+ 1,875	+ 74
1928	51,374	2,014	53,435	2,095	- 2,061	- 81
1929	50,139	1,965	58,220	2,282	- 8,081	-317
1930	42,835	1,679	52,511	2,058	- 9,676	-379
1931	30,421	1,193	42,199	1,654	-11,778	-462

TABLE 8: VALUE OF FOREIGN TRADE, FRANCE,  
1930 AND 1931

In millions

Group of Commodities	1930		1931		Percentage Increase(+) or Decrease (-)
	Francs	Dollars	Francs	Dollars	
Exports					
Foodstuffs.....	5,885	231	4,285	168	-27.2
Raw materials.....	9,992	392	7,180	281	-28.1
Manufactures.....	26,956	1,057	18,965	743	-29.6
Total.....	42,835	1,679	30,421	1,193	-29.0
Imports					
Foodstuffs.....	11,822	463	13,999	549	+18.4
Raw materials.....	29,325	1,150	19,038	746	-35.1
Manufactures.....	11,364	445	9,163	359	-19.4
Total.....	52,511	2,058	42,199	1,654	-19.6

The prospects of an early revival of foreign trade are slight. The free flow of goods from one country to another has been seriously interrupted owing to causes that find their origin primarily in the world-wide depression. France is one of the few countries where the gold standard system continues to function normally and is at a disadvantage in competing with countries operating under a depreciated currency or with exchange restrictions. Trade with Great Britain, which has been the best market for French merchandise, will be severely hampered by the imposition of the British Abnormal Imports Act of 1931. The loss of income on account

of tourist expenditures in France will no doubt have a pronounced effect on the French balance of international payments.

Since the beginning of 1931 France has extended the use of the quota system. It now applies to various classes of imports, including coal, nitrate, radios, fertilizers, wines, and timber. These articles are permitted to enter the country only upon special license and in compliance with fixed annual import quotas.

### PRODUCTION AND UNEMPLOYMENT

A gradual decline of activity in all branches of industry occurred in 1931. The mining, metallurgical, and textile industries were particularly depressed, as shown in Table 9.

TABLE 9: INDEX NUMBERS OF PRODUCTION, FRANCE,  
1925-1931

Base, 1913=100

Period	General Index	Mechanical Engineering	Metallurgy	Textile	Building <sup>1</sup>	Mining	Auto-mobile
1925.....	107	115	101	85	80	104	461
1926.....	124	132	113	94	114	114	543
1927.....	109	114	112	90	80	117	524
1928.....	127	138	125	99	97	117	610
1929.....	139	157	129	92	123	123	657
1930.....	140	157	125	85	137	123	637
July.....	141	161	124	82	139	121	652
August.....	139	159	125	80	138	121	630
September.....	137	156	120	80	137	120	600
October.....	136	152	120	84	134	120	584
November.....	135	149	119	86	132	121	584
December.....	134	146	118	85	131	119	583
1931.....							
January.....	133	144	117	83	130	119	591
February.....	133	144	117	83	130	119	598
March.....	132	144	113	82	130	117	596
April.....	131	143	111	81	128	113	581
May.....	129	142	111	78	126	113	569
June.....	126	140	103	71	124	107	565
July.....	123	138	101	64	123	105	555
August.....	121	135	103	65	121	106	531
September.....	118	132	101	65	121	105	514
October.....	117	128	94	63	121	107	492
November.....	114	124	89	62	121	108	483
December.....	111	118	82	59	122	105	471

<sup>1</sup> Adjusted for normal seasonal changes.

48 million kronor, \$12.9 million, in 1927 to 125 million kronor, \$33.5 million, in 1930. Income from this source in 1922 amounted to only 15 million kronor, \$4.0 million. Sales of Swedish securities to foreign countries were maintained at almost the same level during the 4 years under discussion, but the amount expended for the repurchase of Swedish foreign issues increased from 30 million kronor, \$8.0 million, in 1927, to 130 million kronor, \$34.8 million, in 1930. The movements of gold and silver have been almost negligible and represented a loss of only 3 million kronor, \$0.8 million, in 1930.

The index number of wholesale prices, base, 1913=100, declined from 115 in January, 1931, to 107 in September, and then showed an increase to 111 in December, 1931. The increase is due chiefly to the rise in the price of imported goods which Sweden consumes in great quantities. Every effort has been exerted to maintain the internal purchasing power of the krona. There has taken place a slight decrease in the cost of living, the index number for the cost of living, base, July, 1914=100, having declined from 161 in January to 158 in October, 1931.

National finances remain in a satisfactory position. The budgetary year, ended June, 1931, showed a surplus, and the depreciated krona has not added greatly to the public debt, 85% of which is placed internally and payable in kronor.<sup>1</sup> The Swedish national debt at the end of 1931 was 1,851.4 million kronor, \$470.3 million, showing an increase of 46.3 million kronor, \$11.8 million, for the year. The discount rate of the State Bank, which was raised from 3% in February, 1931, to 8% on September 28, 1931, has subsequently been lowered to 6.5%. The ratio of gold reserve to notes in circulation has been maintained at practically the same level since the date of the suspension of gold payments. The ratio was 40.4% on September 26, 1931, and 39.9% on December 12, 1931.

<sup>1</sup> Skandinaviska Kreditaktiebolaget, Quarterly Report, October, 1931.

CZECHOSLOVAKIA<sup>1</sup>

The credit crisis which swept across Central Europe in the summer of 1931, followed shortly by the repercussions caused by the suspension of gold payments on the part of numerous countries, did not seriously disturb the financial position of Czechoslovakia. With national finances established on a firm basis and with an insignificant amount of short-term indebtedness, it was possible for the banking structure of the country to bear the pressure placed upon it. The discount rate of the National Bank was raised to 5% on August 5, 1931, and to 6.5% on September 23, 1931. On December 22, 1931, the rate was lowered to 6%. Restrictions placed on foreign exchange operations have not interfered with normal trade transactions.

The National Bank remains in a firm position. The gold reserve remained practically unchanged in 1931, and there has been no increase in the number of notes in circulation.

The sharp reduction of about 1,302 million crowns, \$38 million, in the amount of the foreign exchange holdings and balances held abroad of the bank, which took place during 1931, was offset by an increase in almost like amount in the number of bills discounted and advances made on securities. The following figures, in millions, record the changes in the most important items in the balance sheet of the National Bank during 1931:

Date	Gold		Balances Abroad and Foreign Exchange		Security Advances and Bills Discounted		Notes in Circulation	
	Crowns	Dollars	Crowns	Dollars	Crowns	Dollars	Crowns	Dollars
December 23, 1930..	1,546	46	2,415	71	141	4	6,958	206
June 30, 1931.....	1,540	46	1,921	57	479	14	6,988	207
August 31, 1931....	1,530	45	1,387	41	1,114	33	6,979	207
October 31, 1931....	1,552	46	1,128	33	1,604	47	7,218	214
December 23, 1931..	1,599	47	1,113	33	1,543	46	6,724	199

During the first 11 months of 1931 the value of commodity exports exceeded imports by 1,441 million crowns, \$43 million, as shown in Table 19. The value of exports for the

<sup>1</sup> Sources of information: Monthly reports of the National Bank of Czechoslovakia; The Economist; Société d'Études et d'Informations Economiques, Tchécoslovaquie, Novembre-Décembre, 1931; Commerce Reports.



50,640 million francs, \$1,985 million. It is questionable, however, that these estimates will be realized, if there is no improvement in the business situation.

Political inadvisability and dangers connected with the passage of the budget for 1932-33, in view of the general elections set for this spring, were responsible for the fact that a budget was drafted only for the 9-month period, April 1, 1932, to December 31, 1932. At the expiration of this period the fiscal year will be made to coincide with the calendar year. The calendar year was abandoned in 1930. The new Chamber, which will convene in June, 1932, will have to propose measures for the correction of the increasing financial difficulties of the country.

The publication of the fourth annual report of the Caisse d'Amortissement showed the effectiveness of its operations during the past 5 years, 1926-30. The Caisse d'Amortissement was organized in 1926 for the purpose of reducing the floating debt of the State. It has functioned with such success that it has since been able to extend its operations and has aided substantially in extinguishing a part of the funded public debt. By means of open market purchases the Caisse Autonome has reduced the volume of defense bonds by 20,000 million francs, \$784 million. On December 31, 1931, 28,000 million francs, \$1,098 million, of these bonds were outstanding. By extending maturities of all issues to 2 years and reducing the rates of interest, it has been able to transform monthly charges from between 7,000 million francs, \$274 million, and 8,000 million francs, \$314 million, to 1,200 million francs, \$47 million, and the annual interest cost is now 1,767 million francs, \$69 million, as against 2,700 million francs, \$106 million, in 1926. The income of the Caisse d'Amortissement is derived from the surtax on property transfers, inheritance taxes, budget surplus, mobilization of German annuity payments, and the net profits of the tobacco monopoly.

In September, 1931, the Caisse d'Amortissement made an agreement with the Minister of Finance to take over the larger part of the contractual debts owed by the State "to private persons or collectives, and public and private or-

ganizations."<sup>1</sup> Savings to be effected by the conversion of rentes were to provide funds for this additional expenditure, which for the current fiscal year will amount to about 1,900 million francs, \$74 million. This conversion has to date been prevented because of unsatisfactory financial and economic developments. The temporary cessation of reparation payments by Germany has presented the Caisse d'Amortissement with a serious problem. Slightly more than two thirds of the income of the institution in 1930, or 2,251 million francs, \$88.3 million, was allocated to it out of the German annuities, and a new source of revenue must be provided to make up this deficiency.

<sup>1</sup> "Bulletin Quotidien," Paris, Supplement No. 194, September 12, 1931.

## RUSSIA<sup>1</sup>

THE Soviet economy has reached a point of resistance in its rapid upward movement. The ease with which the production schedules of the Five-Year Plan were accomplished during the first year, 1928-1929, led to an upward revision of the original program in the fall of 1929. In the second year, however, the revised estimates were not attained, although the original schedules were generally fulfilled. The significant failure was the coal industry. At the end of the second year, the government decided to change the financial year to coincide with the calendar year. A special production program was prepared for the last quarter of 1930, which became known as the "shock quarter." Notwithstanding an extraordinary amount of propaganda to arouse the enthusiasm of the workers, the production program for the shock quarter was not completed.<sup>2</sup> In the third year of the plan, 1930-31, most of the basic industries failed to carry out the original schedules of the Plan, and in some cases the output was actually lower than in the preceding year.

Under the Plan the output of coal in 1931 should have been 83 million tons; the actual production was 56 million tons, as compared with 46 million tons in 1929-1930. A production of 8.8 million tons of steel and 8.3 million tons of pig iron was planned for 1931. The output of steel was 5.3 million tons, as compared with 5.6 million in the preceding year. The output of pig iron in 1931 was 4.9 million tons, as compared with 5 million tons produced in 1929-30. In 1931 the iron and steel industries accomplished only about 50% of the program, and the actual production was less than in the preceding year. In 1932 the program calls for an output of

<sup>1</sup> Par value of the Russian ruble is 51.46 cents. All conversions of Russian rubles into United States dollars in this book are made at that rate of exchange, since there is no dependable method of measuring the probable decline in the purchasing power of the ruble. It should also be kept in mind that all information coming out of Soviet Russia is strictly censored by the government. While the self-criticism of the Soviet press is remarkable, it is nevertheless a fact that it is very difficult to obtain accurate information regarding the working of the Soviet economic system.

<sup>2</sup> See National Industrial Conference Board, "A Picture of World Economic Conditions at the Beginning of 1931," Vol. VI, New York, 1931, pp. 42-47.

90 million tons of coal, 9.5 million tons of steel, and 9 million tons of pig iron. The accomplishment of this program is, to say the least, problematical. The output of copper in 1931 was 48,000 tons, as compared with 47,000 tons in 1929-30 and a scheduled output of 100,000 tons for 1931.

The lagging in Soviet production was due to a variety of factors. Shortage of raw materials, particularly metals, inadequate transportation facilities, and faulty labor and management policies deserve special attention. A number of significant changes were made in the government's labor and management policies in June, 1931. According to a statement made by Mr. Joseph Stalin, General Secretary of the Communist Party, in June, 1931, there are very few enterprises in Soviet Russia in which the turnover of labor is not at least 30% or 40% during the half or even the quarter year. The only cure for this, Mr. Stalin stated, "is to eliminate the equalization of wages and the old wage scale. We must not tolerate a situation where a steel worker receives the same wage as a sweeper. . . . Skilled laborers . . . must be attached to the enterprise. . . . They can be attached to the enterprise only by promotions, by wage increases, by establishing scales which would be an incentive to acquiring greater skill."<sup>1</sup> Furthermore, Mr. Stalin recommended the splitting up of the unwieldy industrial combines, including from 100 to 200 enterprises, into several smaller enterprises for the sake of more efficient control. Finally, he suggested that the members of the technical intelligentsia should be given rights and privileges equal to those of the industrial workers. The announcement of the doctrine of "greater reward for greater service" was followed by important increases in wage rates among the skilled workers and by marked improvement in the status of the old intelligentsia.

These changes indicate that the Soviet Union is charting a new course, the effects of which may be more significant and more far-reaching than those of the New Economic Policy. They represent a drift toward the methods and policies that have proved their value under the system of private enterprise. Their introduction also indicates that

<sup>1</sup> Amtorg Trading Corporation, "Economic Review of the Soviet Union," New York, August 1, 1931, p. 340.

the Soviet leaders are able and willing to face the realities and give up even the most cherished dogmas of pure Communism under the pressure of economic necessity.

#### TRANSPORTATION SYSTEM

The total railroad mileage in the Soviet Union in 1931 was 53,100 miles, or 45% higher than in 1913. The volume of freight in 1931 was two and a half times as large as in 1913. During the same period the passenger traffic was about trebled. The Soviet Union has 0.39 kilometers of railroads to every 100 square miles of territory and 5.2 kilometers of railroads to every 10,000 inhabitants. The corresponding figures for the United States are 5.7 kilometers per 100 square miles of territory and 34.7 kilometers per 10,000 inhabitants.<sup>1</sup> The number of locomotives in operation in 1929-30 was 18,073, or about the same as in 1913. The program for 1931 called for the addition of 1,028 new locomotives, but only a small percentage of this total was delivered at the end of the first nine months. The number of freight and passenger cars is extremely inadequate to cope with the growth in industrial and trade activity. The number of freight cars was 464,000 in 1930, with an average capacity of 16.5 tons per car. It was planned to construct 60,000 cars in 1931, but actually a much smaller figure was accomplished.<sup>2</sup> In October, 1931, there were about 480,000 freight cars in operation, and 85% of these were of the four-wheel type. The new cars are to be eight-wheel with a capacity of from 20 tons to 50 tons. The number of passenger cars in 1931 was about 20,000, as compared with 12,969 in 1913. The number of passengers in 1930 was over 510 million, as compared with 185 million in 1913. During the first half of 1931 the number of passengers was 24.5% larger than in the corresponding period of 1930.<sup>3</sup> The 1931 program for modernizing Soviet railroads by introducing block-signalling, automatic coupling, air brakes, and electrification was far from accomplished owing to the lack of necessary materials for the construction of factories for the manufacture of railroad supplies. At the Conference of the Central Committee of the Communist Party, held in October,

<sup>1</sup> *Ibid.*, January 1, 1932, p. 3.

<sup>2</sup> *Ibid.*, p. 4.

<sup>3</sup> *Ibid.*, p. 5.

1931, the failure of the transportation system was attributed to "changes of personnel, lack of individual responsibility, the practice of keeping the difference of pay between unskilled and skilled labor at too low a margin, and in general to organizational weaknesses."<sup>1</sup>

#### FOREIGN TRADE

The influence of unfavorable world economic conditions is reflected in figures of Russian foreign trade. As an exporter of foodstuffs and raw materials and an importer of finished manufactures Russia was unfavorably affected by the world movement of prices. The Soviet Government has been unusually reluctant to publish detailed information about the development of foreign trade in 1931. The figures for the first nine months of the year show that Soviet Russia had an excess of merchandise imports amounting to \$42.4 million. The value of imports was \$276.7 million, and that of exports, \$234.3 million. Exports for the year as a whole are estimated at about \$400.0 million, and imports, at from \$475.0 million to \$500.0 million. The total deficit for the year, including the surplus of commodity imports and the expenditure on account of foreign shipping services, is estimated at \$125.0 million.<sup>2</sup>

The decline in foreign trade would have been much greater, if the Soviet Union had not received new credits from Germany to the amount of \$75.0 million. These credits mature within the next two years, and to insure their repayment the Soviet Government is planning to make such reductions in imports as may be required by the trend of prices and world demand for Soviet products. The most drastic change in the geographic distribution of Soviet trade was the great decline in Soviet imports from the United States and a large increase in imports from Germany. In 1929-30, imports from the United States were \$144.2 million and from Germany, \$120.6 million. In the first nine months of 1931, imports from the United States amounted to \$49.0 million, and those from Germany, to \$136.6 million.

The principal obstacle to the development of Soviet trade

<sup>1</sup> *Idem.*

<sup>2</sup> *The New York Times*, February 2, 1932.

is the lack of a discount market for Soviet paper. Although during the last 8 years the Soviet Government has met all its bills arising out of its foreign purchases, a large volume of Soviet paper is being sold by industrial and commercial enterprises at discounts varying from 20% to 40% of face value, owing to the lack of confidence in the political and economic stability of the Soviet Government. The result is that the Soviet Union must pay a much higher price for its purchases abroad than other countries. The lack of a regular discount market for Soviet bills may be attributed partly to the failure of the Soviet Government to come to an agreement with foreign creditors concerning the debts of the former Russian Empire.

#### FINANCIAL PLAN FOR 1932

According to government estimates, the national income of the Soviet Union in 1932 will amount to 49,200 million rubles, \$25,318 million, showing an increase of 30.0% over 1931. The figure set for 1932 was originally planned for 1931, but the actual income in 1931 was 37,800 million rubles, \$19,452 million, according to preliminary results.<sup>1</sup> Table 10 shows the unified financial plan of the Soviet Union. The plan embodies not only the budget of the Union but also those of all the republics of the Union and includes all the resources of the financial and economic institutions of the country.

The most important source of income under the plan is the revenue derived from the profits of the socialized national economy. The largest single item is the tax on state and cooperative trade, estimated to yield 15,020 million rubles, \$7,729 million, in 1932, showing an increase of 50.1% as compared with 1931. The total revenue from socialized economy in 1932 is estimated at 21,763 million rubles, \$11,199 million, or 37.1% more than in 1931. Direct taxation and subscription to state loans are expected to yield 4,890 million rubles, \$2,516 million, in 1932, showing an increase of 70.5% over 1931. On the expenditure side, the development of national economy will take 73% of the budget in 1932. The financing of national economy in 1932 will cost 20,061 million rubles,

<sup>1</sup> "A Picture of World Economic Conditions at the Beginning of 1931," *op. cit.*, p. 52; "Economic Review," *op. cit.*, January 15, 1932, p. 32.

TABLE 10: UNIFIED FINANCIAL PLAN OF THE SOVIET UNION,  
1931 AND 1932

In millions

Revenues	1931 Estimate		Plan for 1932		Percentage Increase (+) or Decrease (-)
	Rubles	Dollars	Rubles	Dollars	
Resources of socialized economy					
Accumulations.....	3,435.2	1,767.8	4,439.5	2,284.6	+29.2
Deductions from profits.....	967.3	497.8	1,246.9	641.7	+28.9
Railways.....	2,275.9	1,171.2	2,937.5	1,511.6	+29.1
Taxes.....	11,062.0	5,692.5	16,231.0	8,352.5	+46.7
State and co-operative trade.....	10,005.8	5,149.0	15,020.0	7,729.3	+50.1
Special merchandise fund.....	755.0	388.5	985.4	507.1	+30.5
Socialized economy loans.....	1,373.4	706.8	1,092.4	562.1	-20.5
Total socialized economy.....	15,870.6	8,167.0	21,762.9	11,199.2	+37.1
Resources of the population.....	2,865.5	1,474.6	4,890.0	2,516.4	+70.5
Agricultural tax.....	518.5	266.8	600.0	308.8	+15.7
Cultural fund and housing.....	490.5	252.4	800.0	411.7	+63.1
Loans.....	1,580.8	813.5	2,750.0	1,415.2	+74.0
Other income.....	1,714.9	882.5	776.1	399.4	-54.7
Total income.....	20,454.0	10,525.6	27,429.0	14,115.0	+34.1

Expenditures	Incurred in 1931		Plan for 1932		Percentage Increase
	Rubles	Dollars	Rubles	Dollars	
Financing national economy.....	15,304.0	7,875.4	20,060.9	10,323.3	+31.1
Industries, supreme Economic Council.....	6,265.2	3,224.1	8,106.6	4,171.7	+29.4
Agriculture.....	2,446.6	1,259.0	3,479.5	1,790.6	+42.2
Trade supplies and food industries.....	1,751.3	901.2	2,802.0	1,441.9	+60.0
Railways.....	2,144.0	1,103.3	2,487.0	1,279.8	+16.0
Communications.....	476.0	244.9	698.4	359.4	+46.7
Social and cultural undertakings.....	1,233.9	635.0	1,526.7	785.6	+23.7
Education.....	1,121.5	577.1	1,372.8	706.4	+22.4
Commissariat of army and navy.....	1,131.9	582.5	1,278.5	657.9	+13.0
Administration.....	380.4	195.8	582.6	299.8	+53.2
Reserve Fund of the Council of People's Commissars of the U. S. S. R.....	610.2	314.0	839.8	432.2	+37.6
Expenses on state loans.....	378.6	194.8	1,000.0	514.6	+164.1
Funds transferred to local budgets.....	1,231.4	633.7	1,429.0	735.4	+16.0
Other expenses.....	183.6	94.5	211.5	108.8	+15.2
Total expenditures.....	20,454.0	10,525.6	26,929.0	13,857.7	+31.7
Reserve.....	..	..	500.0	257.3	..
Grand total.....	20,454.0	10,525.6	27,429.0	14,115.0	+34.1

\$10,323 million, as compared with 15,304 million rubles, \$7,875 million in the preceding year, an increase of 31.1%. The development of industries under the control of the Supreme Economic Council will cost 8,107 million rubles,



\$4,172 million, in 1932, as compared with 3,480 million rubles, \$1,791 million, to be spent on agriculture. Expenditures for education will amount to 1,373 million rubles, \$706 million, while the cost of national defense is estimated at 1,279 million rubles, \$658 million. Military expenditures in 1932 will show an increase of 13.0% over 1931. The 1932 budget provides 2,487 million rubles, \$1,280 million, for the development of railroads, as compared with 2,144 million rubles, \$1,103 million, spent for that purpose in 1931.

#### THE POSITION OF LABOR

From 1926-27 to 1930 the number of persons working for hire in the Soviet Union, excluding agricultural labor, increased from 8,866,000 to 12,429,000, or 40%. The average annual increase in the number of wage-earners during this period was about 12%. The average annual increase in the total population was only 2.7%.<sup>1</sup> The number of agricultural workers increased from 2,123,700 in 1926-27 to 2,158,000 in 1930. The number of workers employed in census industries, which include all industrial establishments employing 15 workers or more and using mechanical power and all those establishments which do not use mechanical power but em-

TABLE 11: NUMBER OF WORKERS IN CENSUS INDUSTRIES, SOVIET UNION, 1928 AND 1930<sup>1</sup>

Industry	1928	1930	Percentage Increase (+) or Decrease (-)
All census industries.....	2,690,000	3,642,000	+35.4
Coal.....	253,500	293,800	+15.9
Iron and steel.....	194,500	236,800	+21.7
Oil, extraction.....	33,900	37,200	+ 9.7
Machine building.....	330,700	623,500	+88.5
Chemical.....	97,600	145,900	+49.5
Wood working.....	102,600	186,400	+81.6
Cotton textile.....	512,200	420,100	-18.0

<sup>1</sup> Ibid., p. 460.

ploy at least 30 workers, was 3,642,000 in 1930, as compared with 2,690,000 in 1928. Table 11 shows the number of workers in various census industries.

<sup>1</sup> "Economic Review," op. cit., October 15, 1931, p. 459.

Most of the workers in census industries work 7 hours per day except in the cotton textile industry. About 86% of all workers are organized in labor unions. In the first quarter of 1931 the average monthly wages of workers in census industries were 87.93 rubles, \$45.25, as compared with 64.64 rubles, \$33.26, in 1929, an increase of 36%. In addition to money wages, the Soviet authorities point out that the workers receive the so-called "socialized wages" in the form of accident and illness insurance, old age pensions, payments to dependents, free medical aid, maternity benefits, vacations with pay, free working clothes, etc. The value of these socialized wages was estimated at 16.62 rubles, \$8.55, per month in 1928-29. The number of persons receiving insurance benefits was 1,234,200 in 1931.

The increase in money wages, however, does not necessarily imply that the economic status of the worker has been correspondingly improved. There is no dependable method of measuring the purchasing power of the Russian ruble. The Soviet Government has apparently discontinued the publication of its index numbers of wholesale and retail prices. The index number of wholesale prices, base, 1913 = 100, in January, 1931, was 178.7. Since that time no figures of wholesale prices have become available. It is suggestive, however, to observe that the volume of banknotes in circulation increased from 112,256,000 chervonetzi, \$577.7 million, on January 1, 1929, to 153,697,000 chervonetzi, \$790.9 million, on January 1, 1930, and to 267,321,000 chervonetzi, \$1,375.6 million, on December 1, 1931.

There is little doubt that, compared with the economic status of the workers in the industrial countries of Western Europe and the United States, the position of Soviet workers is considerably less favorable. There is in the Soviet Union an extreme scarcity of all consumption goods with the exception of the bare necessities of life. Although the Soviet Union has made notable progress in building up an industrial system and in reorganizing agriculture on a collective basis, it still remains essentially a nation of backward peasantry, low standards of living, great social turmoil, and strict class or military dictatorship.

## ITALY

THE most important development in Italy in 1931 was the reform of the banking system. As in other countries where central banks of issue were established before the private banks had reached a position of any importance, the Bank of Italy has not only the function of a central bank but also the functions of commercial banking institutions. It is not only a bank for banks, but it also has direct dealings with commercial and industrial enterprises, thus competing with private banks in the discount market. The close relationship between banks and industry was partly due to the fact that, through the competition of the Central Bank of Issue, private banks were deprived of a large volume of business arising out of the discount market, but also to the fact that the growth of large industries was impossible without the support of the banks. Bank credit, based on bank deposits, was thus to a greater or smaller extent, according to prevailing conditions, tied up in permanent industrial investments, and in some instances bank policies fell under the control of industrial enterprises.

The development of Italian private banks since the World War was very similar to the German experience. The expansion of the iron and steel, chemical, and other industries, which started during the World War, was financed largely through bank credits. During the period of post-war inflation, the banks extended their participation in industrial enterprises, particularly in the rapidly growing rayon industry. The bank portfolios were overloaded with industrial securities. The stabilization of the lira at an artificially high level in 1927 and the policy of deflation, practised by the Bank of Italy from 1927 to 1930, made it impossible for the banks to dispose of their security holdings. Further extension of bank credit to industrial customers became essential during the world business depression, as the domestic and foreign investment markets became closed to the issue of Italian securities. A large percentage of banking assets became immobilized in industrial participations,

making it necessary, in order to maintain bank liquidity, to devise a method of separating investment and banking functions and relieving deposit banks from the burden of frozen assets.

For this purpose the Government decided, at the beginning of November, 1931, to establish the Istituto Mobiliare Italiano, with a capital of 500 million lire, \$26.3 million. The Istituto is a semi-official public utility corporation under the supervision of the Ministry of Finance. One half of the capital stock is subscribed by the Cassa Depositi e Prestiti, Postal Savings Office, and one half by the concerns participating in the Consorzio Mobiliare Finanziario, which owns a majority of the shares of the largest private Italian banking institution, Banca Commerciale Italiana. On this occasion the capital stock of the Consorzio was increased from 210 million lire, \$11.0 million, to 630 million lire, \$33.1 million. The principal reason for the formation of the Istituto Mobiliare was to relieve the Banca Commerciale from the burden of its holdings of industrial shares. These holdings were transferred to a newly organized company, Società Finanziaria Industriale, the transaction being financed largely by the Istituto Mobiliare. Industrial participations of the Banca Commerciale were estimated at 3,500 million lire, \$184.1 million. The Istituto Mobiliare cannot receive savings deposits or open current accounts. It will grant loans to business enterprises on the security of their shares, bonds, and debentures for a period not exceeding 10 years and will participate in the share capital of business enterprises. The Istituto will issue its own debentures and interest-bearing bonds, with or without collateral security, to the amount not exceeding ten times its capital stock, or 5,000 million lire, \$263.0 million.

The sale of the security holdings of the Banca Commerciale Italiana to the Società Finanziaria was made at a price which involved no loss to the bank. The Company will not be under pressure to liquidate its holdings, and it may find it possible to dispose of them without loss. The whole transaction is highly ingenious. The obligations of the Istituto Mobiliare will find a ready market owing to the semi-official character of the institution. The Banca Commerciale will

be relieved of a burden that threatened to become unbearable and will regain its full freedom of action in the field of commercial banking. The capital stock of the Istituto Mobiliare has been oversubscribed. According to a statement by Premier Mussolini, the aim of the Istituto will not be "to save decayed or decadent concerns, but to help sound business, hampered in its progress by the depression."<sup>1</sup> The President of the Istituto, Senator Mayer, asserted emphatically that the institute will not be used as an instrument for the nationalization of industry.<sup>2</sup>

#### PUBLIC FINANCE

The financial year ended June 30, 1931, closed with a deficit of 896 million lire, \$47.1 million. It is estimated that the deficit in the current financial year will be substantially larger. During the first six months of 1931-32, actual receipts were 8,895.3 million lire, \$467.9 million, as compared with budgetary estimates of 10,067.7 million lire, \$529.6 million. Actual expenditures, on the other hand, were slightly higher than budgetary estimates, the corresponding figures being 10,564.3 million lire, \$555.7 million, and 10,551.4 million lire, \$555.0 million. The deficit for the first six months of the current financial year was 1,669.0 million lire, \$87.8 million. The great decline in revenues was due largely to lower returns from taxes on business transactions.

On November 30, 1931, the funded internal debt of the Italian Government amounted to 86,417 million lire, \$4,545.5 million, as compared with 84,427 million lire, \$4,440.9 million, on the corresponding date a year ago. During the same period the floating debt increased from 4,514 million lire, \$237.4 million, to 5,578 million lire, \$293.4 million. The increase in the funded debt was due largely to new issues of 9-year Treasury bonds.

For the twelve months, ended November 30, 1931, there was a slight improvement in the national treasury accounts. The cash balance increased by 1,740 million lire, \$91.5

<sup>1</sup> Association of Italian Corporations, "Business and Financial Report," January 1, 1932, p. 1.

<sup>2</sup> *Idem.*

million, to 2,321 million lire, \$122.1 million, and treasury credits rose 904 million lire, \$47.6 million. This total increase in liquid assets, amounting to 2,644 million lire, \$139.0 million, was almost completely offset by increased liabilities of 2,291 million lire, \$120.5 million.

#### PRODUCTION AND UNEMPLOYMENT

The monthly production of crude steel for the year 1931 averaged 121,000 metric tons. The monthly average for 1930 was 148,000 metric tons. In December, 1931, membership in the steel consortium to control sales and production was made compulsory by governmental decree. It is thought that this is only a temporary measure and will not be extended beyond the 6 months for which it was planned. The output of zinc during the first 10 months of 1931 was also somewhat lower; that of aluminum and lead, however, was maintained at a level slightly higher than in the same period in 1930. The shipbuilding industry remained active throughout the year, with adequate contracts from the Italian navy and merchant marine. Conditions in the artificial silk and the paper industries were relatively satisfactory. A further slowing up of production took place in the cotton, wool, and silk branches.

The number of totally and partially unemployed workers increased greatly during 1931. At the end of October, 799,744 workers were without employment, and 32,828 were only partially employed. On the same date in 1930, the figures for the two classifications were 446,496 and 19,081, respectively. In Italy unemployment benefit is on a strictly insurance basis, contributions being made only by employers and employees and not by the State.<sup>1</sup> The application of the insurance plan has not yet been extended to include agricultural workers, among whom a large percentage of unemployment exists, 22% in September, 1931. An extensive program of public works is in operation, which, it is estimated, will ultimately furnish 300,000 unemployed with work. On January 31, 1932, the number of totally

<sup>1</sup> "Unemployment Benefits and Insurance," *op. cit.*, p. 65.

unemployed workers increased to 1,051,000, the largest in the history of the country.

#### AGRICULTURE

Production of wheat in 1931 is estimated at 6.7 million metric tons from a planted area of 12.2 million acres, showing an increase of 250,000 metric tons over the preceding year. The increase in production was due to higher yield per acre and to the addition of 300,000 acres to the planted area. The average annual production of wheat during the past 6 years was 6,183,100 metric tons, as compared with 4,927,300 metric tons for the 6 years immediately preceding the War. On June 30, 1931, a governmental decree ordered millers to satisfy 95% of their hard wheat milling requirements by purchasing home-grown produce. Other decrees in October, 1931, and January, 1932, lowered this percentage to 75% and then to 50%. The year's crops of barley, oats, and rye were average. The yield of tobacco, maize, tomatoes, and sugar, however, was unfavorable, owing to severe drought in northern Italy.

Returns of the agricultural census made in March, 1930, show that out of a population of 41.3 million, farming is the main occupation of 8.8 million persons of both sexes. Other statistics show that more than 5 million farmers till their own land, and another several million own the land in partnership. The livestock census of March, 1930, showed the existence of 6,892,732 head of cattle, 9,896,038 sheep, 3,157,434 pigs, 1,791,701 goats, 967,406 horses, and 1,292,269 asses and mules.

#### PRICES AND COST OF LIVING

The general index number for wholesale prices, base, 1913=100, prepared by Professor Bachi and shown in Table 12, declined from 341.7 in January to 318.9 in December, 1931. At the beginning of 1930, the index number of wholesale prices was 417.4. The price decline in 1931 was less drastic than in the preceding year. It is interesting to observe that certain groups of commodities actually in-

TABLE 12: BACHI'S INDEX NUMBERS OF WHOLESALE PRICES, ITALY, 1931  
Base, 1913 = 100

Item	1931											
	January	February	March	April	May	June	July	August	September	October	November	December
Vegetable foods.....	337.4	337.2	348.1	354.4	358.3	346.9	343.0	345.4	351.5	351.9	348.9	352.0
Animal foods.....	375.6	363.1	354.0	352.0	338.8	336.1	323.3	329.1	325.7	335.7	327.6	329.8
Chemical products.....	330.4	327.7	325.3	324.2	323.9	323.3	321.5	321.3	315.2	316.9	315.5	314.6
Textiles.....	280.4	283.8	287.8	276.9	265.4	265.7	267.9	254.1	249.4	249.0	247.9	243.4
Ores and metals.....	351.6	344.6	338.6	331.9	324.2	321.2	322.1	322.7	317.7	320.1	315.2	305.4
Building materials.....	452.8	445.0	442.7	438.5	434.6	424.8	423.5	407.1	405.9	389.3	392.9	385.7
Plant products.....	264.0	264.8	271.1	279.2	277.5	262.2	251.8	262.5	260.4	274.5	285.4	294.2
Miscellaneous goods.....	413.2	404.0	405.0	402.6	396.8	389.6	390.5	384.0	377.9	388.0	389.4	390.3
General index number.....	341.7	338.1	339.3	337.0	331.7	326.5	324.3	321.6	319.1	322.2	320.4	318.9



creased in price during the last year. The index number of vegetable foodstuffs rose from 337.4 in January to 352.0 in December, 1931. The index number of plant products increased during the same period from 264.0 to 294.2. These are the commodities which determine largely the cost of living for the working population. The index number of the cost of living declined only from 133 in January to 129 in December, 1931.

#### FOREIGN TRADE .

The value of Italian commodity exports in 1931 was 10,040.1 million lire, \$528.1 million, as compared with 12,119.2 million lire, \$637.5 million, in the preceding year. During the same period the value of imports declined from 17,346.6 million lire, \$912.4 million, to 11,624.3 million lire, \$611.4 million. The excess of commodity imports was reduced from 5,227.4 million lire, \$275.0 million, in 1930 to 1,584.2 million lire, \$83.3 million, in 1931. The reduction in the import surplus will no doubt ease the pressure on the Italian balance of international payments, but the total decline in the value of foreign trade, amounting to 7,801.4 million lire, \$410.4 million, cannot be regarded as a favorable development. According to the President of the National Export Institute, the volume of exports during the first 10 months of 1931 was actually higher than during the corresponding period of 1930.<sup>1</sup>

On the whole the Italian economic system has thus far successfully resisted the effects of the world business depression. In the absence of foreign financial support, the Italian Government has met all its obligations by appealing to the domestic capital market for such assistance as was required. The successful flotation of the 9-year Treasury bonds in May, 1931, enabled the Government to redeem at par all bonds maturing in 1931 and not presented for conversion. The shock of the British suspension of gold payments was successfully resisted, and the lira was maintained at its par value. The reform of the banking system was a significant and constructive measure, although it raises the question of the extent to which the Government intends to

<sup>1</sup> The Association of Italian Corporations, *op. cit.*, January 1, 1932, p. 2.

exercise direct control over Italian industry, banking, and trade. Since the general public is unwilling to buy securities, unless they are in some form guaranteed by the State, some of the leading Italian business institutions have found it necessary to seek financial support from semi-public bodies, which are similar in character to the Istituto Mobiliare Italiano. The recent amalgamation of the leading shipping concerns—the Navigazione Italiana, the Lloyd Sabauda, and the Cosulich Line—into a new company, called “Italia,” is an example of this process. A semi-public body, Istituto di Credito Navale will play an important rôle in the financing and management of the new company.

## OTHER EUROPEAN COUNTRIES

### BELGIUM

THE economic situation in Belgium continues to remain more favorable than in most countries. As a creditor country and an importer of raw materials and foodstuffs, Belgium has not been severely affected by the world decline in prices. Absence of internal political difficulties has also been a constructive factor. Furthermore, until this year there have been no budgetary deficits, and in 1930 the tax burden was reduced by 1,500 million francs, \$41.7 million. This reduction, however, the decline in receipts, and the increase in expenditures owing to business depression will result in a substantial deficit for the fiscal year 1931-32. Measures to offset this deficit have been undertaken. New taxes and increases in the rates of old taxes are expected to increase the revenue in 1931-32 by 700 million francs, \$19.5 million. To cover the excess of expenditure, the Government issued in July, 1931, a loan of 1,000 million francs, \$27.8 million, bearing an interest of 5% and redeemable in 75 years. Ordinary budgetary revenues for the fiscal year 1932-33 have been estimated at 9,506 million francs, \$264.3 million, as against expenditures of 9,075 million francs, \$252.3 million.

Table 13 shows the success with which operations begun in 1926 to fund the floating debt of the country have been carried on. The internal and external short-term indebtedness outstanding in 1926 amounted to 10,958 million francs, \$304.6 million, as compared with 770 million francs, \$21.4 million, in 1931. During this same period the total public debt was reduced by 6,436 million francs, \$178.9 million. Although the Government was compelled to borrow 2,437 million francs, \$67.7 million, in the course of the year ended September, 1931, the process of amortization was continued, and the net increase in the public debt for the year amounted to only 415 million francs, \$11.5 million.

TABLE 13: PUBLIC INDEBTEDNESS OF BELGIUM, 1926, 1930, AND 1931

In thousands

Item	1926		1930		1931	
	Francs	Dollars	Francs	Dollars	Francs	Dollars
Internal debt						
Funded.....	22,031,000	612,462	23,454,000	652,021	25,891,000	719,770
Short and medium term.....	9,908,000	275,442	2,280,000	63,384	770,000	21,406
Total.....	31,939,000	887,904	25,734,000	715,405	26,661,000	741,176
External debt						
Funded.....	25,831,000	718,102	26,235,000	729,333	25,723,000	715,099
Short and medium term.....	1,050,000	29,190	..	..	..	..
Total.....	26,881,000	727,292	26,235,000	729,333	25,723,000	715,099
Total—external and internal.....	58,820,000	1,635,196	51,969,000	1,444,738	52,384,000	1,456,275

*Foreign Trade*

For the year 1931 the value of commodity imports exceeded commodity exports by 676 million francs, \$17.1 million, the value of the former having declined 23.2% and the latter 11.3% in comparison with the preceding year, as shown in Table 14. The trade deficit for 1930 was 4,867 million francs, \$134.3 million, which marks an improvement of 4,191 million francs, \$116.5 million, in the balance of payments for 1931. As compared with 1930 the volume of imports declined 8.0%, and that of exports increased 3.7% during 1931.

*Industrial Production*

During 1931 the condition of industry remained relatively satisfactory. The average monthly production of coal was 2,253,000 tons, which almost equals the monthly production in the preceding year. The dominating factors in the coal industry, however, were falling prices, increasing stocks, and a reduction in wage costs of approximately 25% since July, 1930, while production and employment remained comparatively stable. The stocks of coal at the pit heads increased to 3,543,000 tons on December 31, 1931, from 2,485,000 tons at the end of 1930 and 321,880 tons at the end of 1929. The financing of

TABLE 14: VOLUME AND VALUE OF FOREIGN TRADE, BELGIUM, 1930 AND 1931

Group of Commodities	Volume in Tons			Value in Thousand Francs and Thousand Dollars				
	1930	1931	Percentage Changes	1930		1931		Percentage Changes
				Francs	Dollars	Francs	Dollars	
	Imports							
Livestock.....	31,669	39,579	+25.0	217,048	6,034	217,390	6,043	+0.2
Food and drink.....	3,796,615	4,503,836	+18.6	6,787,025	188,679	5,570,625	154,863	-17.9
Raw materials and half-finished products.....	37,075,514	33,232,527	-10.4	14,574,752	405,178	10,858,148	301,857	-25.5
Manufactures.....	1,127,883	899,762	-20.2	9,348,623	259,892	7,095,781	197,263	-24.1
Total.....	42,031,680	38,675,704	-8.0	30,927,448	859,783	23,741,944	660,026	-23.2
Exports								
Livestock.....	17,188	22,286	+29.7	152,646	4,244	213,808	5,944	+40.1
Food and drink.....	718,931	1,035,500	+44.0	1,932,972	53,737	2,015,205	56,023	+4.3
Raw materials and half-finished products.....	16,839,598	17,842,847	+6.0	7,979,101	221,819	7,887,870	219,283	-1.1
Manufactures.....	6,171,263	5,718,677	-7.3	15,995,488	444,675	13,009,596	361,667	-18.7
Total.....	23,746,980	24,619,309	+3.7	26,060,207	724,474	23,126,479	642,916	-11.3

these stocks remains a question of utmost concern. Falling-off in consumption and increased competition on the domestic market, particularly as a result of large quantities of coal imported from France, were responsible for the price reduction, which amounted to 15% in general and 24% in the case of certain grades.

As compared with the average monthly output in 1930, the output of pig iron and crude steel in 1931 declined 6% and 7%, respectively. Owing to the flexibility of labor costs and comparatively low overhead charges, the heavy industry in Belgium is better prepared to meet the fall in prices that is taking place than are the large steel-producing concerns in other important countries. It is estimated that blast furnaces are operating up to 75% of capacity.

The position of the window-glass industry was somewhat improved in 1931 as a result of an agreement signed by the Union des Verreries Mécaniques and the Glaver concern to share the domestic market and control production. The glass industry as a whole, however, received a severe setback due to the suspension of the gold standard and the imposition of a prohibitive tariff by Great Britain. As in the case of the cup-making branch, for example, the British market, which in 1930 absorbed its products valued at 50 million francs, \$1.4 million, has been completely eliminated since the enactment of the Abnormal Imports Act. The textile trade also has suffered severely because of the British tariff. The slight stimulus given to production in October arising out of increased orders from Great Britain in anticipation of protectionist measures, was more than offset by the reaction of the actual imposition of the 50% tariff duty. The textile industry in Belgium is in no small degree dependent upon the British market, ranging for various articles from 20% to as high as 90% of total production. This critical situation has been further accentuated by large imports of textile goods from Great Britain, selling at prices that have undergone no great change since the devaluation of the pound sterling. The situation in the automobile industry remained satisfactory in 1931. The diamond industry is in a state of declining activity.

Excessive rainfall in 1931 was detrimental to agricultural

production. The quantity of wheat raised was less than in 1930 and of an inferior quality. The bad situation of the farmer was further aggravated by declining prices and a falling-off in consumption, especially of luxury food products. Discontent with the situation was expressed in increased agitation for tariff protection.

The position of the National Bank of Belgium remains very strong. The gold reserve was 12,712.2 million francs, \$353.4 million, on January 21, 1932, as compared with 6,866.8 million francs, \$190.9 million, on January 22, 1931. During the same period the note circulation increased from 15,994.0 million francs, \$444.6 million, to 18,379.8 million francs, \$511.0 million. The ratio of gold reserves to total sight liabilities was 65.8% on January 21, 1932, as compared with 66.6% on the corresponding date of 1930. Foreign bills and balances abroad amounted to 4,450.3 million francs, \$123.7 million, on January 22, 1931. A year later, the return of the National Bank showed no holdings of foreign bills and no balances abroad.

The total number of workers in Belgium is estimated at 1,617,000. Of this total about 860,000 workers are subject to unemployment.<sup>1</sup> About 85% of the latter are insured against unemployment. On December 5, 1931, 93,467 insured workers were totally unemployed, and 134,799 workers had only part-time employment. In other words, 13.3% of all insured workers were totally unemployed, and 19.2% were partly unemployed.

The decline in wholesale and retail prices and in the cost of living was greater in Belgium than in the other industrial countries. The index number of wholesale prices in terms of gold, base, April, 1914=100, declined from 95 in January to 83 in December, 1931. During 1930 the index number fluctuated from 116 to 98. The index number of retail prices was 110 in December, 1931, as compared with 122 at the beginning of the year. During the same period the index number of the cost of living, base, 1921=100, declined from 217 to 192.

<sup>1</sup> Banque Nationale de Belgique, "Bulletin d'Information et de Documentation," Brussels, January 25, 1932, p. 38.

## NETHERLANDS

Netherlands is one of the few remaining countries where no restriction has been placed upon the normal operation of the gold standard system. Furthermore, Mr. L. J. H. Trip, upon assuming the presidency of the Bank of Netherlands which was left vacant by the resignation of Mr. Vissering in October, 1931, stated that he considered as his primary duty the maintenance of the gold standard in the Netherlands.<sup>1</sup> The Bank of Netherlands is in an unusually strong position as shown in Table 15. There is every indication that for the present the National Bank has given up the gold exchange standard and has turned to gold exclusively as reserve for the currency in circulation. On December 16, 1931, the percentage of gold to notes in circulation was 89.2, having increased to this point from 52.1 on December 15, 1930. During the same period the portfolio of foreign bills declined from 248 million guilders, \$100 million, to 88 million guilders, \$35 million. The currency circulation was increased by only slightly less than 200 million guilders, \$79.8 million, while deposits showed a growth of 171.8 million guilders, \$69.1 million. This unusual increase in the deposits with the central bank is definite evidence of the amount of credit available and of the desire on the part of

TABLE 15: BALANCE SHEET OF THE BANK OF NETHERLANDS, 1929, 1930, AND 1931

In thousands

Item	December 16, 1929		December 15, 1930		December 14, 1931	
	Guilders	Dollars	Guilders	Dollars	Guilders	Dollars
<b>Assets</b>						
Gold.....	447,483	179,888	426,193	171,330	906,967	364,601
Silver.....	..	..	24,652	9,910	27,926	11,226
Home bills discounted....	60,194	24,198	48,680	19,569	85,539	34,387
Foreign bills.....	219,573	88,268	247,876	99,646	87,513	35,180
Loans and advances.....	85,619	34,419	89,187	35,853	109,612	44,064
Advances to government..	..	..	..	..	..	..
<b>Liabilities</b>						
Notes in circulation.....	818,252	328,937	818,417	329,004	1,016,813	408,759
Deposits.....	29,736	11,954	42,770	17,194	214,571	86,258
Ratio of gold to note circulation.....	54.7%		52.1%		89.2%	

<sup>1</sup> "The Economist," London, October 17, 1931.



the banks that have deposited these funds to fortify their liquidity.<sup>1</sup>

National finances are in a comparatively satisfactory position. Strict measures of retrenchment and the creation of additional revenues, however, were necessary to restore equilibrium to the budget for 1931, which promised to close with a substantial deficit. The revenue yield for the first eleven months of 1931 declined 21.1 million guilders, \$8.4 million, below the estimates and was 52.4 million guilders, \$20.9 million, less than in the corresponding period of 1930. This decline is attributed to the lower yield from registration and import duties and from the excise duties on beer and sugar. A bill passed by the Second Chamber in November, 1931, raised the tax on petrol from 3 cents, \$0.012, per litre to 4.5 cents, \$0.018, and a second bill increased all import duties by 25%, which raises the general level to about 10%. The budgetary situation is somewhat further relieved by the existence of a surplus from the years 1929 and 1930, approximating 81 million guilders, \$32.6 million. Estimates for expenditure during the financial year 1932 call for a slight reduction in the amount of the votes to practically all governmental departments and altogether represent a saving to the budget of about 19 million guilders, \$7.6 million, as compared with the preceding year. Owing to the decreased yield from taxation, allowance was made for a decline in revenue of about 59 million guilders, \$23.7 million.

The results of the foreign trade for the first eleven months of 1931 show a substantial decrease in the import surplus, as compared with the same months in 1930.<sup>2</sup> The following figures, in million guilders and dollars, give the trade returns for the first eleven months of the last four years:

Item	1928		1929		1930		1931	
	Guilders	Dollars	Guilders	Dollars	Guilders	Dollars	Guilders	Dollars
Imports.....	2,474	994.5	2,538	1,020.3	2,253	905.7	1,753	704.7
Exports.....	1,821	732.0	1,846	742.1	1,601	643.6	1,231	494.9
Import surplus...	653	262.5	692	278.2	652	262.1	522	209.8

<sup>1</sup> Amsterdamsche Bank N. V., "Bulletin," Amsterdam, October, 1931.

<sup>2</sup> For the year as a whole, the value of imports was 1,893 million guilders, \$761.0 million, and that of exports, 1,312 million guilders, \$527.4 million. The corresponding figures for 1930 were 2,418 million guilders, \$972.0 million, and 1,719 million guilders, \$691.0 million.

The production of coal in 1931 was most satisfactory. The monthly average for this period was 1,075,000 tons, the highest average yet attained. In 1929 and 1930 the monthly average was 965,000 tons and 1,018,000 tons, respectively. Domestic sales and exports were maintained at a satisfactory level throughout most of the year. Exports to France, however, have been severely restricted, owing to the application of the quota system for coal by that country. During the three years 1928-1930, the French markets absorbed about 20% of the total Dutch output of coal. The French decree of July, 1931, limits by 75% all imports of coal on the basis of these three years. On December 1, 1931, there were employed in the Limburg mines 38,128 miners as compared with 27,405 on the corresponding date in 1930.<sup>1</sup>

The cotton and woolen industries are in a depressed state. Exports to Great Britain have been severely contracted owing to tariff protection, and competition on the domestic market has been greatly intensified. The shoe industry, like the textile trade, is losing ground on the home market as well as in foreign countries. The greatest decline in activity and increase in unemployment is in the diamond industry, which has been hardest hit by the crisis. Dutch shipping and shipbuilding interests have strongly felt the unsatisfactory economic position of the country and international trade. The quantity of merchandise discharged at Rotterdam decreased about 25% in 1931, and the decline in loading was about 10%.

Increase in unemployment took place in practically all branches of activity. The total number of unemployed in December, 1931, was 245,981, as against 136,228 in December, 1930. In November, 1931, there were 197,258 unemployed persons, 106,216 of whom benefited by unemployment insurance.

The index number of wholesale prices in the Netherlands, base average 1901-10=100, declined from 117 in January to 99 in October, 1931. By June, 1931, wholesale prices had fallen to the pre-war level, and in October the index number stood 11% below the average for 1913. The decline in wholesale prices, which began in January, 1929, with the

<sup>1</sup> "Economist," January 2, 1932, p. 21.

exception of slight increases in March and in August, 1929, has been gradual and uninterrupted. The wholesale index number for January, 1929, was 146, as compared with 99 in October, 1931. During this same period the index number for the cost of living declined only from 169 to 151, and remained in October, 1931, 50% above the level for 1913. The prevailing high cost of living is a serious impediment to all attempts by industry to lower the cost of production by decreasing the labor charge.

TABLE 16: CAPITAL ISSUES, NETHERLANDS, 1928-1931  
In million guilders and dollars

	1928		1929		1930		1931		Percent- age De- crease 1930 to 1931
	Guilders	Dollars	Guilders	Dollars	Guilders	Dollars	Guilders	Dollars	
Internal.....	356	143.1	334	134.3	352	141.5	296	119.0	-15.9
Foreign.....	318	127.8	144	57.9	249	100.1	42	16.9	-83.1
Total....	674	270.9	478	192.2	602	241.6	338	135.9	-43.8
Bonds.....	341	137.1	299	120.2	30	12.1	10	4.0	-66.7
Shares.....	333	133.9	178	72.0	572	229.9	328	131.9	-42.7

The amount of new capital issues in the Netherlands in 1931 amounted to only 338 million guilders, \$135.9 million, which is a decline of approximately 44% in comparison with the preceding year. There was almost a total absence of foreign capital issues in 1931, as shown in Table 16. There has been a marked change during the past four years in the ratio of bonds and shares in the total capital issues. In 1928 the ratio of bonds to shares was one to one; in 1931 it was 34 to 1.

#### SWEDEN

One week after Great Britain suspended gold payments Sweden was compelled to resort to the same drastic measure in order to avoid depletion of its gold reserve. On September 26, 1931, the date of the abandonment of the gold standard by Sweden, the gold stocks of the State Bank stood at 199 million kronor, \$53.3 million, as compared with 241 million kronor, \$64.6 million, at the beginning of 1931. The balances of the State Bank abroad were reduced

from 261 million kronor, \$69.9 million, on January 3, 1931, to 28 million kronor, \$7.5 million, on September 26. This rapid diminution of gold reserves and holdings abroad is accounted for by a growing trade deficit and withdrawal of foreign deposits. For the first 3 quarters of 1931, the excess of imports over exports amounted to 85 million kronor, \$22.8 million, as compared with 30 million, \$8.0 million, for the corresponding period in 1930, and an export surplus of 5 million kronor, \$1.3 million, in 1929. The financial crisis in Germany in July, followed shortly by the departure from the gold standard by Great Britain, produced in a short time the situation which had been feared. During the 4 months, June-September, 1931, the commercial banks were called upon to repay 277 million kronor, \$74.2 million, of foreign deposits. In the week preceding suspension, the loss of gold and foreign exchange by the State Bank alone amounted to approximately 93 million kronor, \$24.9 million.

The financial difficulties experienced are not necessarily indicative of the industrial position of the country. Although there took place violent fluctuations in many branches of activity, the general level of production during the first ten months of 1931, as shown in Table 17, was well maintained. The present position may still be judged as fairly satisfactory, after considering the severe declines which were recorded in most other countries during the past three years. The index number of production, base, 1923-1924=100, was 131 in 1930 and 135 in 1929, a record year, and 125 in December, 1931.

The wood-goods industry suffered from a lack of orders. Keener competition on the part of Russia, Poland, and Finland expressed itself in price declines. Total sales up to the middle of December, 1931, amounted to only 710,000 standards, and the volume of exports for the first three quarters of the year was reduced by slightly more than 50%. For the first eleven months of 1929 and 1930 total sales were 965,000 and 837,000 standards, respectively. The volume of sales on the paper and pulp market likewise showed a substantial reduction owing primarily to the tendency of buyers to purchase for immediate need only. The sulphite industries of Sweden, Norway, Finland, Germany, Austria,

Czechoslovakia, and the Memel District, involving an output of 3.2 million tons, agreed to limit production by 30% during the year July 1, 1931, to June 30, 1932.<sup>1</sup>

Production of pig iron and crude steel averaged 33,800 tons and 43,200 tons, respectively, during the first ten months of 1931, as compared with a monthly average of 39,000 tons for pig iron and 52,000 tons for crude steel in 1930. The volume of exports of pig iron for the first nine months of 1931 amounted to 1,108,000<sup>2</sup> tons, as against 2,187,000 tons for the corresponding period of the preceding year. Domestic consumption, however, remained comparatively stable. The number of unemployed trade union members at the end of October, 1931, was 68,000, an increase of 23,000 above the registered number for the same month in 1930.

TABLE 17: INDEX NUMBERS OF PRODUCTION, SWEDEN, 1930 AND 1931

Base, 1923-1924 = 100

Month	Iron Ore		Iron and Steel		Wood		Paper and Pulp		Total Index	
	1930	1931	1930	1931	1930	1931	1930	1931	1930	1931
January . . . . .	217	119	136	97	91	65	232	173	151	113
February . . . . .	189	135	125	106	140	117	176	143	144	123
March . . . . .	185	135	121	111	139	99	196	150	149	122
April . . . . .	215	136	121	119	133	96	196	141	149	120
May . . . . .	226	113	118	99	131	75	164	89	140	93
June . . . . .	198	129	112	109	112	99	134	134	123	117
July . . . . .	196	86	127	107	101	78	150	131	130	107
August . . . . .	158	95	113	104	102	75	139	123	120	103
September . . . . .	193	120	127	124	97	75	148	138	127	114
October . . . . .	175	110	117	99	103	88	144	135	126	110
November . . . . .	152	..	110	107	98	..	143	144	120	116
December . . . . .	149	..	115	121	93	..	145	152	120	125

### *Balance of Payments*

Table 18 shows the Swedish balance of international payments for the years 1927 to 1930, as prepared by the Swedish Board of Trade. Compilation of this balance was somewhat hampered owing to lack of reliable information for some

<sup>1</sup> Index, Svenska Handelsbanken, Stockholm, September, 1931.

<sup>2</sup> Index, Svenska Handelsbanken, Stockholm, December, 1931. Refers to shipments of the Graengensberg Company.

TABLE 18: BALANCE OF INTERNATIONAL PAYMENTS,  
SWEDEN, 1927-1930

In millions

Item	1927		1928		1929		1930	
	Kro- nor	Dol- lars	Kro- nor	Dol- lars	Kro- nor	Dol- lars	Kro- nor	Dol- lars
Merchandise trade.....	+33	+9	-133	-36	+41	+11	-114	-31
Invisible items								
Freight receipts after deduct- ing expenditures.....	+183	+49	+183	+49	+205	+55	+189	+51
Remittances of Swedish- Americans to home country	+35	+9	+35	+9	+35	+9	+30	+8
Income from Swedish capital abroad.....	+48	+13	+60	+60	+110	+29	+125	+34
Interest and dividends on Swedish securities abroad..	-24	-6	-30	-8	-75	-20	-90	-24
Interest paid to foreign coun- tries on foreign holdings in Sweden.....	-5	-1	-5	-1	-5	-1	-15	-4
Expenditure of Swedish trav- elers abroad.....	-24	-6	-28	-8	-30	-8	-25	-7
Total invisible items and goods..	+246	+66	+82	+22	+281	+75	+100	+27
Transfer of capital								
Sales to foreign countries of Swedish securities.....	+100	+27	+84	+23	+130	+35	+124	+33
Sales to foreign countries of foreign securities.....	+61	+16	+41	+11	+38	+10	+74	+20
Other influx of capital.....	+205	+55	+67	+18	+90	+24	+20	+5
Repurchase of Swedish securi- ties.....	-30	-8	-56	-15	-95	-25	-130	-35
Purchase of foreign securities..	-177	-47	-134	-36	-112	-30	-405	-109
Other efflux of capital.....	-50	-13	-185	-50	-80	-21	-25	-7
Total net transfer of capital....	+109	+29	-183	-49	-29	-8	-342	-92
Gold, silver, and coin.....	-1	<sup>1</sup>	-13	-3	-15	-4	-3	-1
Allowance for incomplete or doubtful data.....	-354	-95	+114	+31	-237	-64	+245	+66

<sup>1</sup> Less than \$0.5 million.

items, but the trade figures and those for freight and tourist returns, and dividend and interest payments are relatively complete and accurate. Sweden, which became a creditor nation in 1922, has steadily been able to strengthen its position. Capital was exported to the extent of 177 million kronor, \$47.4 million, in 1927, 134 million kronor, \$35.9 million, in 1928, 112 million kronor, \$30.0 million, in 1929, and 405 million kronor, \$108.5 million, in 1930. Revenue from interest on capital invested abroad increased from

48 million kronor, \$12.9 million, in 1927 to 125 million kronor, \$33.5 million, in 1930. Income from this source in 1922 amounted to only 15 million kronor, \$4.0 million. Sales of Swedish securities to foreign countries were maintained at almost the same level during the 4 years under discussion, but the amount expended for the repurchase of Swedish foreign issues increased from 30 million kronor, \$8.0 million, in 1927, to 130 million kronor, \$34.8 million, in 1930. The movements of gold and silver have been almost negligible and represented a loss of only 3 million kronor, \$0.8 million, in 1930.

The index number of wholesale prices, base, 1913=100, declined from 115 in January, 1931, to 107 in September, and then showed an increase to 111 in December, 1931. The increase is due chiefly to the rise in the price of imported goods which Sweden consumes in great quantities. Every effort has been exerted to maintain the internal purchasing power of the krona. There has taken place a slight decrease in the cost of living, the index number for the cost of living, base, July, 1914=100, having declined from 161 in January to 158 in October, 1931.

National finances remain in a satisfactory position. The budgetary year, ended June, 1931, showed a surplus, and the depreciated krona has not added greatly to the public debt, 85% of which is placed internally and payable in kronor.<sup>1</sup> The Swedish national debt at the end of 1931 was 1,851.4 million kronor, \$470.3 million, showing an increase of 46.3 million kronor, \$11.8 million, for the year. The discount rate of the State Bank, which was raised from 3% in February, 1931, to 8% on September 28, 1931, has subsequently been lowered to 6.5%. The ratio of gold reserve to notes in circulation has been maintained at practically the same level since the date of the suspension of gold payments. The ratio was 40.4% on September 26, 1931, and 39.9% on December 12, 1931.

<sup>1</sup> Skandinaviska Kreditaktiebolaget, Quarterly Report, October, 1931.

CZECHOSLOVAKIA<sup>1</sup>

The credit crisis which swept across Central Europe in the summer of 1931, followed shortly by the repercussions caused by the suspension of gold payments on the part of numerous countries, did not seriously disturb the financial position of Czechoslovakia. With national finances established on a firm basis and with an insignificant amount of short-term indebtedness, it was possible for the banking structure of the country to bear the pressure placed upon it. The discount rate of the National Bank was raised to 5% on August 5, 1931, and to 6.5% on September 23, 1931. On December 22, 1931, the rate was lowered to 6%. Restrictions placed on foreign exchange operations have not interfered with normal trade transactions.

The National Bank remains in a firm position. The gold reserve remained practically unchanged in 1931, and there has been no increase in the number of notes in circulation.

The sharp reduction of about 1,302 million crowns, \$38 million, in the amount of the foreign exchange holdings and balances held abroad of the bank, which took place during 1931, was offset by an increase in almost like amount in the number of bills discounted and advances made on securities. The following figures, in millions, record the changes in the most important items in the balance sheet of the National Bank during 1931:

Date	Gold		Balances Abroad and Foreign Exchange		Security Advances and Bills Discounted		Notes in Circulation	
	Crowns	Dollars	Crowns	Dollars	Crowns	Dollars	Crowns	Dollars
December 23, 1930..	1,546	46	2,415	71	141	4	6,958	206
June 30, 1931.....	1,540	46	1,921	57	479	14	6,988	207
August 31, 1931....	1,530	45	1,387	41	1,114	33	6,979	207
October 31, 1931....	1,552	46	1,128	33	1,604	47	7,218	214
December 23, 1931..	1,599	47	1,113	33	1,543	46	6,724	199

During the first 11 months of 1931 the value of commodity exports exceeded imports by 1,441 million crowns, \$43 million, as shown in Table 19. The value of exports for the

<sup>1</sup> Sources of information: Monthly reports of the National Bank of Czechoslovakia; The Economist; Société d'Études et d'Informations Économiques, Tchécoslovaquie, Novembre-Décembre, 1931; Commerce Reports.



period amounted to 11,978 million crowns, \$355 million, and that of imports to 10,536 million crowns, \$312 million. The trade surplus in the corresponding period of 1930 was 1,629 crowns, \$48 million. During the first 11 months of 1931 the total value of foreign trade declined approximately 26%, exports showing a reduction in value amounting to 25%, and imports, to 27%. The greater part of the decline in the value of exports is accounted for by the reduction in the volume of shipments to Central European countries. The value of exports to Hungary declined 71%; to Austria, 27%; to Germany, 33%; to Yugoslavia, 42%; to Poland, 39%; and to Rumania, 44%. Approximately 50% of total Czechoslovakian exports in 1930 went to these countries. France and Russia were the only two countries that increased the extent of their purchases in Czechoslovakian markets in 1931.

TABLE 19: VALUE OF FOREIGN TRADE, CZECHOSLOVAKIA,  
FIRST 11 MONTHS, 1930 AND 1931

Group of Commodities	In millions				Percent- age De- crease
	1930		1931		
	Crowns	Dollars	Crowns	Dollars	
Imports					
Livestock.....	669.0	19.8	201.6	6.0	-69.9
Foodstuffs and beverages..	2,344.9	69.4	2,114.0	62.6	- 9.8
Raw materials.....	6,612.0	195.7	4,502.0	133.3	-31.9
Finished manufactures....	4,742.4	140.4	3,685.4	109.1	-22.3
Return merchandise.....	38.9	1.2	33.3	1.0	-14.4
Total.....	14,407.2	426.5	10,536.3	311.9	-26.9
Exports					
Livestock.....	50.5	1.5	21.9	0.6	-56.7
Foodstuffs and beverages..	1,536.2	45.5	1,007.9	29.8	-34.4
Raw materials.....	2,548.2	75.4	1,855.9	54.9	-27.2
Finished manufactures....	11,850.6	350.8	9,063.0	268.3	-23.5
Return merchandise.....	50.2	1.5	28.8	0.9	-42.7
Total.....	16,035.7	474.7	11,977.5	354.5	-25.3

A slowing down of industrial activity was recorded in all branches of industry in 1931. The exchange restrictions in numerous countries, particularly in the neighboring states, tariff enactments, and difficulties in the calculation of prices

TABLE 20: GEOGRAPHIC DISTRIBUTION OF FOREIGN TRADE, CZECHOSLOVAKIA, FIRST 10 MONTHS, 1930 AND 1931

In millions

Country	Imports						Exports					
	1930		1931		Increase or Decrease		1930		1931		Increase or Decrease	
	Crowns	Dollars	Crowns	Dollars	Crowns	Dollars	Crowns	Dollars	Crowns	Dollars	Crowns	Dollars
France.....	478.0	14.1	369.1	10.9	-108.9	-3.2	322.0	9.5	359.5	10.6	+37.5	+1.1
Italy.....	313.0	9.3	285.3	8.4	-27.7	-0.8	412.7	12.2	283.2	8.4	-129.5	-3.8
Jugoslavia.....	318.6	9.4	277.0	8.2	-41.6	-1.2	1,158.2	34.3	676.5	20.0	-481.7	-14.3
Hungary.....	722.9	21.4	104.7	3.1	-618.2	-18.3	838.8	24.8	243.4	7.2	-595.4	-17.6
Germany.....	3,363.0	99.5	2,677.0	79.2	-686.0	-20.3	2,464.4	72.9	1,655.6	49.0	-808.8	-23.9
Poland.....	748.0	22.1	500.5	14.8	-247.5	-7.3	525.8	15.6	323.2	9.6	-202.6	-6.0
Austria.....	997.6	29.5	692.1	20.5	-305.5	-9.0	2,060.1	61.0	1,499.3	44.4	-560.8	-16.6
Rumania.....	474.9	14.1	422.5	12.5	-52.4	-1.6	506.5	15.0	285.9	8.5	-220.6	-6.5
United States.....	660.4	19.5	407.2	12.1	-253.2	-7.5	846.2	25.0	680.5	20.1	-165.7	-4.9
Russia.....	264.5	7.8	216.3	6.4	-48.2	-1.4	266.6	7.9	400.0	11.8	+133.4	+3.9
Switzerland.....	347.1	10.3	290.0	8.6	-57.1	-1.7	431.1	12.8	364.1	10.8	-67.0	-2.0

reacted especially severely against this country, which exports practically one half of its total industrial production. The industries primarily dependent upon the foreign markets, as, for example, the producers of earthenware, china, glass, leather, sugar, and malt, were placed in a particularly difficult situation by these drastic changes in international trade relationships.

The monthly production of coal during the first 11 months of 1931 was 1,094,000 tons, as compared with a monthly average of 1,214,000 tons in 1930. The output of pig iron and crude steel for the same period averaged 20,000 tons less per month for each product than in the preceding year. The average monthly production of pig iron was 100,000 tons and that for crude steel 133,000 tons during the first 11 months of 1931.

The metallurgical, machine, glass, and leather industries are in a depressed state owing to the inadequacy of domestic and foreign orders. The engineering and building trades are quiet. The greatest depression is still manifest in the textile industry; the decline in 1931, however, was not so great as that in 1930. The cotton branch suffered from falling prices and a decrease in the amount of exports, while woollen production was maintained at the 1930 level.

The number of unemployed workers in November, 1931, totaled 337,654, as compared with 155,203 in the same month of the preceding year. Unemployment for the year was at the lowest ebb in July, when the number was 210,908.

The index number for wholesale prices, base, July, 1914 = 100, declined from 110 in January to 104 in November, 1931. The index number of the cost of living, base, July, 1914 = 100, rose from 106.0 in January to 106.8 in June, 1931, and then declined to 101.8 in November. In November, 1930, the index number was 114.9.

The budget for the year 1930 closed with a deficit of 666 million crowns, \$20 million, instead of with the estimated surplus of 53 million crowns, \$2 million. It is expected that 1931 will show a similar deficit. The budget for 1932 has been balanced by increasing the rate of the income tax and introducing measures of economy. The budgetary estimates for the current year call for expenditures amounting to

9,319 million crowns, \$276 million, which marks a reduction of 520.0 million crowns, \$15 million, over the preceding year. Receipts were estimated at 9,323 million crowns, \$276 million, which makes allowance for a diminution of 520 million crowns, \$15 million, below the estimated receipts for 1931. Of the total national debt, amounting to 37,551 million crowns, \$1,112 million, 25,901 million crowns, \$767 million, is held internally; 8,350 million crowns, \$247 million, externally; and the balance of 3,300 million crowns, \$98 million, is in the form of treasury certificates.

## CANADA

**A**s a predominantly agricultural country, Canada has been severely affected by the decline in prices of agricultural products. The reduction in the purchasing power of the farming population amounted in 1931 to about \$200 million. The value of principal farm crops declined from \$631.6 million in 1930 to \$431.3 million in 1931. In 1929 the value of farm crops was \$950.0 million. Although there has been a considerable increase in acreage, the composite output of sixteen principal crops in 1931 was less than in any year since 1919.<sup>1</sup> The wheat prospects for the current year are considered to be fairly satisfactory. It is estimated that Argentina and Australia will produce about 60 million bushels of wheat less than a year ago. The acreage sown to winter wheat in the United States declined 4,467,000 acres, or 10.4%, as compared with 1930, and the condition of the crop in December, 1931, indicates that the yield will be lower than last season. The 1931 European wheat crop shows an increase of 40 million bushels, as compared with 1930, but there has been a decrease in the European rye crop, not including Russia, of about 139 million bushels, so that an increased demand for wheat may be expected from Europe.

The total value of mineral production in Canada in 1931 is estimated at \$227.8 million, as compared with \$279.9 million in 1930. The production of gold in 1931 amounted to 2,679,700 fine ounces, valued at \$55.4 million. Gold has taken the place of coal as the most valuable mineral product of the country. The output of copper in 1931 was 290,580,000 pounds, a decrease of only 5%, as compared with 1930. In 1931 lead production amounted to 267,851,000 pounds, and zinc production, to 236,861,000 pounds. The former was 20% and the latter 12% lower than in the preceding year. The output of coal declined from 14,780,000 tons in 1930 to 12,251,000 tons in 1931. With the assistance of the Govern-

<sup>1</sup> Dominion Bureau of Statistics, "Monthly Review of Business Statistics," Ottawa, January, 1932, p. 3.

ment, Canadian coal producers have been able greatly to increase their sales in domestic markets that were formerly served almost entirely by foreign coal producers.<sup>1</sup>

Table 21 shows the index numbers of the physical volume of business in Canada for the year 1931. After a moderate improvement in business in the spring, all branches of activity turned downward, and the low point was not reached until the last month of the year. The index number of industrial production in December, 1931, base, 1919-24=100, was 119, as compared with 141.7 in January, 1931, and an average of 190.0 for the year 1929. Particularly drastic was the decline in construction. The index number of construction at the end of 1931 was 80.7, as compared with 246.0 at the beginning of the year and 154.0 in December, 1930. Throughout most of the year, however, the volume of construction was higher than in 1930, owing to a number of unemployment relief projects. The railroads have been severely affected by the decline in business activity, as shown by the index number of car loadings. The Government has appointed a Royal Commission to investigate the condition of the railroads and to make recommendations which, if adopted, would eliminate uneconomic competition and duplication of services. It is estimated that a saving of from \$60 million to \$75 million a year could be made without any impairment of railroad efficiency.<sup>2</sup>

Index numbers of employment for the principal branches of business activity are shown in Table 22 for the year 1931.

#### FOREIGN TRADE

The value of Canadian commodity exports in 1931 was \$605.3 million, as compared with \$886.0 million in 1930, a decline of 31.7%. The value of imports declined from \$1,008.5 million in 1930 to \$628.1 million in 1931, or 37.7%, as shown in Table 23. The surplus of commodity imports was reduced from \$103.0 million in 1930 to only \$10.9 million in 1931. Imports from the United States declined from

<sup>1</sup> *Idem.*

<sup>2</sup> Annual Report of Sir Herbert S. Holt, Chairman of the Royal Bank of Canada, Montreal, January 14, 1932.

TABLE 21: INDEX NUMBERS OF THE PHYSICAL VOLUME OF BUSINESS, CANADA, 1931

Base, 1919-24 = 100

Item	January	February	March	April	May	June	July	August	September	October	November	December
Industrial production	141.7	145.6	153.1	145.6	158.2	133.9	138.5	132.3	137.3	130.5	125.0	119.0
Forestry	153.6	153.7	156.7	177.2	165.8	160.5	152.1	135.6	148.5	147.0	140.9	136.8
Mining	139.5	130.6	147.4	146.1	149.7	112.0	126.5	112.3	124.2	139.5	115.3	132.1
Construction	246.0	262.1	229.1	92.0	120.1	99.0	136.0	119.5	182.2	153.5	158.0	80.7
Manufacturing	124.0	128.7	141.8	145.9	163.6	135.7	137.2	136.3	130.6	121.9	117.7	118.5
Employment in trade	126.5	134.0	138.0	137.5	136.7	137.0	133.0	132.7	131.2	131.5	128.4	129.0
Imports	115.8	119.2	130.5	120.6	143.5	99.8	104.0	92.6	96.0	93.0	92.2	87.8
Exports	83.8	102.4	105.7	107.6	124.5	102.5	81.9	89.6	98.6	84.0	75.2	73.0
Car loadings	103.1	101.2	97.2	114.2	103.5	101.9	96.3	92.3	82.2	82.2	81.0	83.4

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TABLE 22: INDEX NUMBERS OF EMPLOYMENT, CANADA, 1931

Base, 1926 = 100

Industry	January	February	March	April	May	June	July	August	September	October	November	December
All industries	101.7	100.7	102.2	99.7	102.2	103.6	103.8	105.2	107.1	103.9	103.0	99.1
Manufacturing	93.7	96.1	97.6	99.7	100.7	99.4	97.2	94.7	94.7	91.8	88.8	89.6
Mining	114.4	111.6	109.5	108.1	106.0	105.3	104.1	104.5	105.6	108.2	107.9	107.5
Communications	110.6	106.6	103.9	103.3	104.0	104.7	104.8	105.9	105.8	104.2	102.4	100.5
Transportation	95.9	94.0	93.2	94.3	96.6	98.6	97.7	97.8	97.8	95.2	95.4	93.5
Construction and maintenance	110.7	104.5	101.1	96.8	106.6	121.8	137.1	162.8	176.8	164.5	165.4	128.8
Services	123.2	122.2	121.8	122.0	123.1	125.9	130.8	133.0	134.8	125.5	117.5	116.1
Trade	132.9	123.1	122.0	123.1	123.3	124.0	124.0	120.9	120.5	120.8	122.8	125.6

\$653.7 million in 1930 to \$393.8 million in 1931. During the same period imports from Great Britain decreased from \$162.6 million to \$109.5 million; from other parts of the British Empire, from \$65.3 million to \$42.6 million; from France, from \$21.3 million to \$14.2 million; from Germany, from \$17.7 million to \$12.0 million; and from Japan, from \$10.2 million to \$6.8 million. Exports of Canadian produce to the United States decreased from \$395.7 million in 1930 to \$257.1 million in 1931; to Great Britain, from \$235.2 million to \$171.4 million; to other parts of the British Empire, from \$81.2 million to \$49.2 million; to Germany, from \$14.9 million to \$11.5 million; and to Japan, from \$23.4 million to \$15.7 million. The value of exports to France increased from \$13.7 million in 1930 to \$17.3 million in 1931.

TABLE 23: VALUE OF FOREIGN TRADE, CANADA,  
1930 AND 1931

In million dollars

Groups of Commodities	Imports			Exports <sup>1</sup>		
	1930	1931	Per Cent Change	1930	1931	Per Cent Change
Agricultural and vegetable products	192.3	134.4	-30.1	316.3	209.8	-33.7
Animals and animal products . . . . .	59.1	28.6	-51.6	91.6	70.9	-22.6
Fibres, textiles, and textile products.	149.1	90.2	-39.6	7.3	5.4	-26.0
Wood, wood products, and paper	50.0	34.9	-30.2	249.7	185.5	-25.7
Iron and its products . . . . .	223.7	116.2	-48.1	47.6	19.1	-59.9
Non-ferrous metals and their products . . . . .	68.3	38.7	-43.3	115.8	73.8	-36.3
Non-metallic minerals and their products . . . . .	164.8	106.1	-35.6	22.9	15.0	-34.5
Chemicals and allied products . . . . .	36.8	31.3	-14.9	16.3	10.8	-33.7
Miscellaneous commodities . . . . .	64.4	47.7	-25.9	18.7	15.0	-19.8
Total . . . . .	1,008.5	628.1	-37.7	886.0	605.3	-31.7

<sup>1</sup> Canadian produce only. The value of exports of foreign produce was \$19.5 million in 1930 and \$11.9 million in 1931.

The reduction in the surplus of commodity imports may be regarded as a satisfactory accomplishment. During the last part of the year the value of Canadian exports exceeded that of imports. This transition was no doubt facilitated to some extent by the suspension of gold payments in October, 1931, and the decline in the exchange rate of the Canadian



dollar. In September, 1931, the average exchange value of the Canadian dollar was 0.962 United States dollars, 1.00 being par value. The exchange rate declined to 82.71 in December, 1931.

#### PUBLIC FINANCE

The total public debt of Canada is estimated at about \$5,000 million. On December 31, 1931, the net indebtedness of the Federal Government was \$2,316 million, not including \$590 million of bonds of the Canadian National Railways and \$31 million of other bonds guaranteed by the Government. The indebtedness of the provinces and municipalities is estimated at \$2,000 million. In the fiscal year ended March 31, 1931, revenues of the Canadian Government amounted to \$356.2 million, and expenditures to \$440.1 million. The net debt during the year increased from \$2,178 million to \$2,262 million. During the first nine months of the current fiscal year, ending March 31, 1932, total expenditures were \$308.9 million, and total revenues, \$254.6 million. The most important source of revenue is customs duties. Their yield has been drastically reduced owing to the decline in foreign trade and to the protectionist policies of the Canadian Government. A dumping duty of 36 cents on the pound sterling was imposed on British imports in December, 1931, fixing the price of the pound for duty purposes at \$4.40. An additional duty of 10 cents will be imposed if the pound declines to \$4.30.

A special and most satisfactory feature of the Canadian situation is the strength of the banking system. Although the Canadian banks have been under severe pressure owing to the depreciation in the exchange value of the Canadian dollar and the generally low level of business activity and security prices, there have been no bank failures and no contraction in the volume of current loans. At the end of November, 1931, current loans amounted to \$1,102 million, as compared with \$1,184 million a year ago. During the same period, note circulation, savings, and demand deposits remained practically unchanged. Gold held by the Finance Department against notes declined from \$112.1 million on November 30, 1930, to \$68.6 million on November 30, 1931.

## CUBA<sup>1</sup>

THE "Chadbourne Plan" to control world production and exportation of sugar was officially signed on May 9, 1931, by representatives of the sugar interests of Germany, Czechoslovakia, Belgium, Hungary, Poland, Java, and Cuba. The sugar-producing industries of these seven signatory nations account for approximately 80% of the total world production of sugar. The principal features embodied in the plan to balance international production and consumption of sugar are (1) segregation of surplus stocks for orderly marketing over a period of years and (2) the limitation of output of the principal exporting countries so that the future output as well as the annual sales of the segregated surplus stocks will not exceed consumption. The Cuban Institute for the Stabilization of Sugar was created to represent Cuba in all matters concerned with the fulfilment of the international accord. It has been granted unlimited power to negotiate agreements concerning sales, production, and exports of sugar, and to guarantee the performance of all Cuba's obligations relating to the pact.

The plan contains no price-fixing policy, and no geographic limitation is placed upon the disposition of the quantity of sugar allotted to the various countries for exportation. For each pound exported in excess of the fixed quota, a fine of 10 cents has been determined upon. The price of sugar will be set in the international markets. The Chadbourne Plan, however, provides for the release of a portion of the segregated stocks in direct accordance with the market price of the commodity. When the world price is 2 cents per pound, the International Sugar Council has authority to release 5% of the sugar stocks,<sup>2</sup> and, when sugar is quoted at 2.25 cents per pound, an additional release of 5% of the stocks may

<sup>1</sup> Sources of Information: Bulletin of Business Conditions in Latin America and the West Indies; The Royal Bank of Canada; Commercial and Financial Chronicle; The Economist; Barron's; U. S. Commerce Reports; Press Dispatches.

<sup>2</sup> This is in addition to the annual release of 20% of the stocks existing December 31, 1930.

be applied. In case the price rises to 2.5 cents per pound or above that figure, the Council is permitted to act as it sees fit.

Considering the extreme dependence of Cuba on this one commodity, sugar, the economic importance of the success of the plan to the country is apparent. The world markets have become demoralized by vast quantities of sugar, and the prices received were not sufficient to cover operating expenses. Of the 2.5 million tons of sugar that the Chadbourne Plan was designed to liquidate in 5 years, 1,319,000 tons were held by Cuba. The operation of the plan was somewhat hindered during the first year of its existence owing to the trend of the world depression, as reflected in decreased demand and falling prices for sugar. The average price per pound of 96° polarization warehoused at Havana in 1931 was 1.116 cents, as compared with 1.235 cents in 1930. The price of sugar, as quoted on the New York Sugar Exchange, increased slightly during the first 6 months of 1931. In July, 1931, the price was 1.55 cents per pound. A gradual decline in value has taken place since this date, and at the beginning of February, 1932, sugar futures for March were quoted at 0.98 cents, which marks the lowest return for sugar since September, 1930. A return of 2.50 cents per pound is the price at which it is calculated the Cuban producers can operate with a reasonable profit on their investment.

Cuban production of sugar for 1931 was restricted to 3,122,000 tons, while actual production amounted to slightly less than this figure, or 3,120,052 tons. As compared with the preceding year, this is a reduction in volume of 1,550,948 tons. European beet-sugar producers limited output by 40%, as compared with 1930, and it is expected production will be cut still further in 1932. The reduction in the total output of Java producers was very small in 1931 and amounted to only 4.4% of the 1930 crop. At the date on which the Chadbourne Plan was signed, the Java plants were already in the process of grinding for the year.

Cuban exports of sugar in 1931 totaled 2,654,903 tons. Exports to the United States are not included in the quota granted to Cuba by the International Sugar Council. An agreement, however, entered into with American producers

and those in Porto Rico, Hawaii, and the Philippines limited exports to 2.8 million tons.<sup>1</sup> Actual exports to the United States amounted to only 2,027,708 tons. The remainder of total exports, 627,195 tons, went to foreign countries other than the United States. Cuba's export quota under the international agreement is 625,000 tons. Owing to the drop in sales in 1931 and after allowing for internal consumption, stocks rose to 1,540,000 tons at the close of 1931, which is an increase of 481,000 tons, as compared with the beginning of 1930. According to the provisions of the Chadbourne Plan, the volume of any surplus at the end of the year, other than that remaining of the quantity segregated on December 31, 1930, shall be deducted from the production figures for the following year.

Grinding was begun in January, 1932, although quotas had not been assigned by the Cuban Institute to the 40 participating plants. Cuban officials flatly refused a further limitation of production without definite information from the authorities in Java concerning the extent of restriction of production contemplated by that country in 1932. On February 2, 1932, the Javanese authorities announced that planting this May is to be reduced 50%, as compared with that in 1931. This statement removed a great deal of the uncertainty connected with the operation of the Chadbourne Plan. It also removed some of the uncertainty involved in the present situation in Cuba. On February 6, the Cuban Sugar Stabilization Institute announced that the 1932 crop would be restricted to 3,061,000 tons. This figure, however, was not accepted by the International Sugar Council, which demanded a restriction of the Cuban output to 2,369,000 tons. On February 18, 1932, Java announced that it would limit its 1933 sugar quota to 1,350,000, if Cuba agreed to produce no more than 2,350,000 tons in 1932.

Conditions in Cuba remained in a generally depressed state throughout 1931 with only a slight improvement at the beginning of the tourist and grinding season. Weather conditions were favorable, and the yield of crops was good. Cuba is progressively becoming self-sufficient in coffee, butter,

<sup>1</sup> See "Picture of World Economic Conditions at the Beginning of 1931," *op. cit.*, p. 90.

potatoes, cheese, and corn. The yield of coffee in 1931 was 500,000 quintals, and prospects are good for an equally abundant crop in 1932. Importation of coffee has practically ceased. The quality of tobacco produced was disappointing owing to improper selection and curing, and it is expected that the 1932 crop will amount to only 30% of that in 1931. Exports of Cuban tobacco and tobacco products in 1931 were valued at \$22,847,120, or \$10,693,455 less than in 1930. The industry has suffered further owing to labor difficulties that followed the attempts made in September, 1931, to readjust wages of the workers, and as a result of a severe increase in the rate of taxation on tobacco, which was made effective on January 25, 1932.

Activity in the automobile and tire branches remained at a low level in 1931. Sales of automobiles were 82% lower than in 1930, and those of trucks, 61% lower. The present tax on gasoline is approximately 14 cents a gallon, and the fee for licenses ranges from \$50 to \$90. The paper, footwear, lumber, and machinery industries likewise showed no improvement in 1931. The National Manufacturers' Association reported in November, 1931, that local industry was operating at about one third capacity. The cement industry is in a depressed condition owing to lack of orders after completion of the public works construction program. The New Central Highway was inaugurated by President Machado in February, 1931.

It was stated by President Machado that the deficit for the financial year, ended June 30, 1931, would amount to approximately \$11 million. Estimates of expenditures and of revenues for the current year were about 20% lower than in the preceding fiscal year, both having been estimated roughly at \$60 million. In addition to the ordinary budget, there exists the public-works budget, which amounts to about \$13 million. This latter budget covers interest and amortization payments on the funds borrowed to finance the construction of public buildings and the Central Highway. Decreased revenue receipts, caused by diminishing economic activity, necessitated a budgetary revision, and further economies and increases in taxation were recommended by President Machado in October, 1931. The recommendations to

reduce expenditures to about \$45 million and to increase the state revenue have been approved by the Cuban Congress. The increases in the various rates of taxation, which went into force in January, 1932, include those on cigarettes, matches, coffee, asphalt, and gasoline, and the President is now empowered to replace the 1.5% gross sales tax by a tax of 10% ad valorem on imports.

The business depression gave rise to considerable political unrest which developed into an open rebellion against the existing régime. It was short-lived and unsuccessful, however, and by the end of August, 1931, conditions were again practically normal.

## SOUTH AMERICAN COUNTRIES

### ARGENTINA<sup>1</sup>

THE provisional President, General Uriburu, has exerted every effort to place the national finances in order and has made significant progress toward these aims. It was estimated by the Minister of Finance that the budget for the financial year 1931 would show a deficit of 98 million paper pesos, \$29 million. This marks a substantial reduction in the budgetary deficits of the preceding years. The financial years 1929 and 1930 closed with deficits of 199 million paper pesos, \$83 million, and 350 million paper pesos, \$129 million, respectively. Administration expenses during 1931 will exceed revenue receipts by approximately 70 million paper pesos, \$21 million, the former totaling approximately 746 million paper pesos, \$219 million, and the latter 676 million paper pesos, \$199 million. An additional deficit of 28 million paper pesos, \$8 million, which will result from the financing of public works and armaments and entailing an expenditure of 103 million paper pesos, \$30 million, in 1931, will raise the total probable deficit to 98 million paper pesos, \$29 million.

Endeavors to reduce the deficit for the financial year 1931 and to balance the budget for 1932 included both a thorough program of economies and the creation of additional revenue arising out of new sources of taxation, an upward revision of existing customs duties, and the imposition of duty upon articles which heretofore had entered the country duty free. The only articles at present exempt from the high tariff are coal, coke, newsprint, periodicals, seed potatoes, and certain South American products, including coffee. The establishment of a turnover tax of 3% per mille and an increase of 10% in ad valorem duties in October, 1931, was followed

<sup>1</sup> Sources of information: U. S. Commerce Reports; Bulletin of Business Conditions in Latin America and the West Indies, The Royal Bank of Canada; Samuel Montagu, Weekly Review of Foreign Exchanges, London; New York Times dispatches; Ernesto Tornquist & Co., Ltd., Business Conditions in Argentina, Buenos Aires.

in January, 1932, by levies of taxation upon incomes, property, and business. The general decline in revenue, which necessitated this decided increase in the burden of taxation, may be attributed largely to the falling-off in customs receipts. For the first 11 months of 1931 customs and port dues declined 24 million paper pesos, \$7 million, as compared with 1930. The total decline in general revenue, however, was only 17 million paper pesos, \$5 million, as the other items of income provided 20 million paper pesos, \$6 million, in excess of the returns in the same period of the preceding year. Revenue receipts for the first 11 months of 1931 were 549 million paper pesos, \$161 million.

The provisional President, General Uriburu, stated in a speech, marking the end of one year under his rule, that the extensive financial reforms had brought about a saving of 14% in the cost of government. The amount paid out in the form of subsidies was reduced by about 14%, and expenditures for armament by approximately 78%. Other measures of economy are being planned, and it is estimated that the financial year 1932 will close with a surplus. The present total floating debt, without allowing for the probable deficit of 98 million paper pesos, \$29 million, amounts to about 1,204 million paper pesos, \$354 million. External indebtedness was reduced by about 250 million paper pesos, \$73 million, in 1931. No new foreign loans were contracted during the year, but the internal debt increased by approximately 200 million paper pesos, \$59 million.

All interest and amortization payments arising out of the foreign obligations of the Federal Government, states, and municipalities were promptly met in 1931. In July, 1931, a loan of £2.5 million, \$12 million, from the Baring Brothers, London, was repaid, and the \$50 million short-term loan floated in New York and due in October, 1931, was retired by repaying \$25 million of the amount in gold and by issuing short-term notes for the balance. In order to relieve the strain, due to the contraction in the note circulation following shipments of gold, an issue of currency to the amount of 340 million paper pesos, \$100 million, was authorized in April, 1931, by a decree of the provisional government. This supplementary issue of paper currency was secured by bills



endorsed by the Bank of the Argentine Nation, maturing in 6 months or less, and at no time was the metallic reserve of the currency in circulation to be permitted to drop below 40%. On December 31, 1931, the note circulation was 1,245 million paper pesos, \$366 million, as compared with 1,261 million paper pesos, \$463 million, a year ago. During the same period holdings of gold of the Conversion Office declined from 468 million gold pesos, \$172 million, to 261 million gold pesos, \$77 million.

The yield of crops for the 1931-1932 season promises to be fairly satisfactory, the damage by frost to the crops in November proving to have been less serious than originally estimated. Up to the time of harvesting the weather remained favorable, and the Minister of Agriculture reported in January, 1932, that great progress was being made in bringing in the crops. The following table gives the estimates published by the Ministry of Agriculture for the probable area sown and yield in 1931, as compared with the results of the preceding year:

Crop	In Hectares		In Metric Tons	
	Area Sown in 1930	Probable Sowing in 1931	Yield 1930-31	Probable Yield 1931-32
Wheat.....	8,613,000	6,975,000	6,421,837	5,950,000
Linseed.....	3,039,700	3,377,000	1,784,807	2,100,000
Oats.....	1,593,200	1,418,000	765,106	950,000
Barley.....	575,500	590,000	304,807	410,000
Rye.....	534,900	540,000	..	..
Canary-seed.....	33,970	47,000	..	..

It is estimated that the production of wheat this season will make a good showing, with an average of about 850 kilos per hectare. Reports indicate that the linseed crop has been damaged somewhat by the "isoca" insect and that reaping has been hastened to prevent further losses. The yield of sugar in 1931 totaled 245,000 tons, which is 30,000 tons in excess of that produced in 1930. The largest maize crop on record, amounting to 372,610,000 bushels, was produced in 1931, and prices were well maintained. The prospects for the maize crop in 1932 are very good, and it is estimated unofficially that the area planted is between 20% and 30% above that of the preceding season. The Government and

the Bank of the Nation are co-operating with the farmers in every manner possible in order to facilitate the movement of the crops. During the maize season railway rates for over 150 kilometers on produce designated for shipping were lowered, and the Bank of the Nation granted loans of 2.5 pesos, \$0.73, per kilo in order to enable picking and shelling.

The recent prices of cereals in local markets, as compared with those of the past years, are as follows:

Commodity	January 3, 1929		January 2, 1930		January 1, 1931		December 30, 1931		January 21, 1932	
	Pesos	Dol- lars	Pesos	Dol- lars	Pesos	Dol- lars	Pesos	Dol- lars	Pesos	Dol- lars
	Wheat, per 100 kilos . . .	9.35	3.97	11.25	4.78	5.62	2.39	6.10	1.58	5.85
Maize, per 100 kilos . . .	9.10	3.86	6.65	2.82	3.84	1.63	4.25	1.10	4.23	1.10
Linseed, per 100 kilos . .	14.80	6.28	19.50	8.28	10.19	4.33	9.90	2.57	9.33	2.42
Oats, per 100 kilos . . . .	7.30	3.10	5.80	2.46	3.40	1.44	4.55	1.18	4.55	1.18

The condition of the wool market was favorable in 1931. Exports in 1931 were larger than in the preceding year and amounted to 334 million pounds. The prices were well maintained throughout the year and were slightly higher at the end of 1931 than a year ago. Spring lambs were in abundance in 1931, and exports of the same for the first 10 months of the year were twice as large in 1931 as in 1930. The prices of livestock and hides declined substantially during the year. Delegates to the Tripartite economic conference, at which Brazil, Argentina, and Paraguay were represented, have made proposals to their respective governments recommending governmental control of the meat packing industry and united action on the part of the three countries to protect the European trade of the meat interests.

### *Foreign Trade*

The value of commodity exports in 1931 was maintained at a level slightly lower than in the preceding year. Commodity imports, on the other hand, show a substantial decline, which may be attributed largely to the successive increases in the rate of duty on various imported commodities and to the decided decrease in the purchasing power of the country, estimated to have amounted to 30% in 1931.

The value of exports during the first 11 months of 1931

was 591 million gold pesos, \$394 million, as compared with 567 million gold pesos, \$473 million, during the corresponding period a year ago. The corresponding figures for imports are 486 million gold pesos, \$324 million, and 684 million gold pesos, \$571 million. During the first 11 months of 1931 Argentina had a surplus of commodity exports amounting to 104 million gold pesos, \$69 million, as compared with an import surplus of 117 million gold pesos, \$98 million, in the corresponding period of 1930. This accomplishment is all the more remarkable if the great decline in the prices of Argentine exports is taken into account. The volume of exports increased from 9,916,706 tons in the first 11 months of 1930 to 17,102,464 tons in the corresponding period of 1931.

#### BRAZIL<sup>1</sup>

A growing coffee surplus and a depreciated currency added greatly to the economic difficulties of Brazil in 1931. By the end of December, 1931, the world coffee stocks had reached a total of 32,936,000 bags of 60 kilos each. Of this total about 26 million bags were held by the Brazilian Defense Committee; 5,532,000 bags were other Brazilian coffee; and 1,404,000 bags represented coffee other than Brazilian.

As a means to cope with the increasing stock of surplus coffee, the National Coffee Council was formed in April, 1931, and placed in charge of operations involved in a plan to purchase and destroy large quantities of low-grade coffee. This autonomous institution, composed of a representative from each of the states and the Federal Government, is charged with the task of studying tariff questions, advocating rail and steamer reductions, and publishing weekly statistics of taxes collected, balances at bank, and the amount of coffee purchased, destroyed or to be destroyed. To furnish the National Coffee Council with the necessary funds with which to purchase coffee for destruction, a tax of 10

<sup>1</sup> Sources of information: Wileman's Brazilian; United States Commerce Reports; United States Department of Commerce, Foreign Financial News; Bulletin of Business Conditions in Latin America and the West Indies, The Royal Bank of Canada, Montreal; Samuel Montague & Co., Ltd., London; The Economist, London; Monthly Bulletin of Statistics, League of Nations, Geneva; Barron's, National Financial Weekly; New York Times dispatches.

English shillings, \$2.43, in addition to any existing tax, was placed on each bag of coffee for export. In September, 1931, the basis for this tax was changed to the dollar and fixed at \$2.43. Additional resources were placed at the disposal of the National Coffee Council by a decree signed by the Provisional President on December 21, 1931. This decree raised the discount limit of the Bank of Brazil to 400,000 contos, \$28.1 million. Bills of exchange of the National Coffee Council, not exceeding 4 months in maturity, were made eligible for discount. The minimum rate of discount for such bills was set at 6%, and the export tax of \$2.43 per bag of coffee is to serve as security for the obligations of the National Coffee Council.

Up to December 12, 1931, 2,513,000 bags of coffee were destroyed, and another 4,134,000 bags had been purchased for destruction by the National Coffee Council. Further purchases of coffee for burning, amounting to 2,778,000 bags, as planned, will bring the total amount of coffee destroyed by the end of March, 1932, to 9,425,000 bags and correspondingly decrease the stock of coffee. Toward the close of 1931 the desire was prevalent to raise the amount of coffee to be destroyed in the course of one year to 12 million bags. Reports in circulation indicate that a plan prepared by national and foreign bankers will make available an additional 600,000 contos, \$42.2 million, to be utilized for coffee destruction.

In February, 1931, it was announced that the Provisional Government had decided to purchase all marketable stocks of coffee in existence on June 1, 1931.<sup>1</sup> The object of this purchase scheme is to maintain the price of coffee at a fixed gold level and permit no increase in price above this level. By establishing the price at a point below the cost of production abroad, price stabilization is to be accomplished. Any increase in the price of coffee on foreign markets may be automatically offset by releasing a sufficient quantity of surplus coffee to lower the price to the gold level determined upon. The maximum purchase price by the government was fixed

<sup>1</sup> Excluded from purchasable coffee are the 16.5 million bags in the possession of the State of São Paulo and serving as security for the £20 million realization loan of 1930.

at 60 milreis, \$4.22, per bag, on the basis of Santos 5s., with no purchases below grade 8. A loan of £1,350,000, \$6.6 million, was negotiated in August, 1931, to serve the Government in the purchase of such marketable coffee. Delivery of coffee to the ports by the Government was restricted in quantity to one twenty-fourth of the combined estimate for the current crop and that for the following season. To the middle of December, 1931, the Government had purchased 7,109,000 bags, involving an expenditure of 429,000 contos, \$30.2 million.

At the second Interstate Coffee Conference, held in December, 1931, it was announced that the National Coffee Council would officially take over coffee control measures and assume full responsibility for the coffee realization loan<sup>1</sup> of 1930. This loan amounts to £20 million, \$97 million, and is a direct obligation to the State of São Paulo. It is secured by 16.5 million bags of coffee. At the International Coffee Conference held in São Paulo in the early summer of 1931, plans were made for the creation of an International Coffee Bureau, to be financed by the imposition of a tax of 5 English shillings, \$1.22, on each bag of coffee exported from the countries belonging to the bureau. This organization will be established at Lausanne, Switzerland, and commence operations in July, 1932. Its duties will be to study the problems of the coffee industry, such as marketing, financing, production, and costs.

The report of the commission headed by Sir Otto Niemeyer, who was invited by the Brazilian Government to investigate the financial position of the country, was published in July, 1931. The basic proposals for the reconstruction of public finances, contained in the report, deal with the maintenance of budget equilibrium by all public authorities and the stabilization of the currency. For the accomplishment of the first proposal, the most important recommendations include the avoidance of bond issues to cover government debts; reorganization of the post and telegraph systems with the aim of making them independent of financial assistance from the Government; autonomous control, free of

<sup>1</sup> See "Picture of World Economic Conditions in the Early Fall of 1930," Volume V, p. 95.

political influence, for the railroads; abolition of internal export and other taxes and no further imposition of export duties; increase in direct taxation and reduction in customs duties when conditions permit; centralization of governmental receipts and expenditures in the Central Bank; and regular publication of comparative statements showing the budgetary positions.

In order to stabilize the national currency, the report recommended, first of all, the creation of a Central Bank as an autonomous institution entirely free from state control or participation and along the lines adopted in the various leading countries of Europe and in the United States. Convertibility of notes and the restabilization of the milreis were suggested after the flotation of a foreign loan to make available the necessary foreign exchange and the reserve for the currency in circulation. The Government is now occupied in placing in effect the numerous reforms proposed. Among those already carried out is abolition of internal trade taxes, effective on January 1, 1932. Government methods of accounting have been revised, and the Bank of Brazil has been appointed temporarily to handle governmental receipts and disbursements. Attempts made in August, 1931, to peg the rate of exchange of the milreis at 6.25 cents were not successful. The milreis, which was stabilized at approximately 11.9 cents in December, 1926, was quoted in New York on February 11, 1932, at 5.95 cents. This marks a currency depreciation of 6.55 cents per milreis, or approximately 50% up to February, 1932. The service charge on foreign obligations of the federal, state, and municipal governments, which amounts roughly to \$107 million annually, has been doubled in the course of the past 5 years when calculated in Brazilian currency.

The yield of all crops in 1931 was abundant. The total coffee crop for the season 1931-32 is estimated at about 23 million bags, of which total the State of São Paulo is expected to produce approximately two thirds. A substantial drop in the production of coffee is anticipated in 1932-33. The prices on the local markets of the principal export commodities, such as coffee, cotton, rice, lard, and rubber, remained relatively stable in 1931 when quoted in Brazilian

currency. They declined about 40%, however, in terms of United States dollars.

TABLE 24: VALUE AND VOLUME OF FOREIGN TRADE,  
BRAZIL, FIRST 10 MONTHS, 1930 AND 1931

In thousands

Item	1930		1931		Per Cent Change	Metric Tons		Per Cent Change
	Milreis	Dollars	Milreis	Dollars		1930	1931	
Imports . . . . .	2,053,283	219,981	1,554,789	109,286	-24.3	4,237	2,895	-31.7
Exports . . . . .	2,492,187	267,003	2,766,916	194,487	+11.0	1,937	1,852	-4.4

Table 24 shows the foreign trade figures for the first 10 months of 1931, as compared with the results for the same period of the preceding year. Foreign trade for the first 10 months of 1931 closed with an export surplus of 1,212 million milreis, \$85 million, as compared with a surplus of 439 million milreis, \$47 million, in the same period in the preceding year. This increase in the surplus of exports was accomplished by contracting imports and by increasing the value of exports, the former having declined 24.3% and the latter having increased 11.0%. The export trade in 1931 was stimulated as a result of the depreciated currency. This same factor has accounted for a slight increase in industrial production, the reduced volume of imports having increased the demand for domestic manufactured articles. The export of coffee during the first 10 months of 1931 amounted to 14,780,000 bags, as compared with 12,558,000 bags in the corresponding period of 1930. The value of coffee exports, however, declined approximately 20%. An agreement was concluded with the United States Farm Board in August, 1931, whereby 25 million bushels of United States wheat were exchanged for 1,050,000 bags of Brazilian coffee.

On October 15, 1931, the outstanding external debt of the Brazilian Federation amounted to \$663 million and required an annual service charge of about \$52 million. This latter sum is equal to about 33% of total estimated budget receipts for 1931. The total remittances abroad, not including payments for commodity imports, are estimated at \$175 million a year. On October 17, 1931, it was announced that interest payment on foreign debts during the next two years would

be paid in special interest-bearing scrip. The only exceptions are the 5% Funding Loans of 1898 and 1914 and the 7½% Coffee Loan of 1922. On these three loans interest payments in cash are to be continued, contingent, however, upon the availability of sufficient quantities of foreign exchange. In case exchange conditions prevent immediate transfer of interest payments, the cash deposits will be temporarily employed by investing them in internal bonds.

The experience of Brazil may serve as an excellent example of the impossibility of artificially maintaining the price of a commodity without controlling its production. The destruction of wealth to bring about business recovery is a policy of despair. It may result, however, in a better appreciation of certain fundamental rules of sound economics and may prevent the recurrence of similarly futile and costly experiments in price stabilization. The present government is putting through a series of constructive reforms in the field of banking, credit, and public finance. These reforms, if accompanied by strict economy in public expenditures, may lay the basis for a sounder economic development of the country.

#### CHILE<sup>1</sup>

In August, 1931, the Chilean Government announced suspension of payments on its foreign debt. Necessity for such drastic action arose out of the impossibility of obtaining sufficient amounts of foreign exchange for the transfer of funds due on foreign account. The external debt of the national government and the various public agencies is estimated at approximately \$457 million, of which \$342 million is government debt, \$94 million government guaranteed debt, and the balance on miscellaneous account. The service charges on this external debt amount annually to about \$41 million. With the practically complete cessation of loans from abroad, the only remaining means to provide the required foreign exchange to liquidate these obligations is found in the surplus of exports. Consequently, commodity

<sup>1</sup> Sources of Information: Banco Central de Chile, "Boletín Mensual," Santiago de Chile; The Economist, London; Barron's, New York; United States Commerce Reports; Samuel Montagu & Co., Weekly Review of Foreign Exchanges, London



imports were restricted to the minimum, and efforts were made to expand the volume of exports. The exchange proceeds from this surplus alone, however, were inadequate to meet interest and amortization charges on foreign debts. The value of the export surplus in 1931 amounted to only 217 million pesos, \$26.4 million. In 1929 the export surplus on account of merchandise trade was 682 million pesos, \$83.0 million. During 1930 this substantial export surplus was transformed into a trade deficit totaling 9 million pesos, \$1.1 million. Foreign shipments of sodium nitrate were \$44 million, and of copper ingots and bars were \$58 million, lower in 1930 than in the preceding year.

TABLE 25: VALUE OF FOREIGN TRADE, CHILE, 1922-1931

In millions

Year	Exports		Imports		Balance of Trade	
	Pesos	Dollars	Pesos	Dollars	Pesos	Dollars
1922	1,130.4	137.6	711.6	86.6	+418.8	+51.0
1923	1,626.0	197.9	987.6	120.2	+638.4	+77.7
1924	1,815.6	191.4	1,089.6	114.8	+726.0	+76.6
1925	1,875.6	217.6	1,208.4	140.2	+667.2	+77.4
1926	1,462.8	178.0	1,288.8	156.8	+174.0	+21.2
1927	1,654.8	201.4	1,072.8	130.6	+582.0	+70.8
1928	1,939.2	236.0	1,196.4	145.6	+742.8	+90.4
1929	2,282.4	277.8	1,600.8	194.8	+681.6	+83.0
1930	1,326.0	161.4	1,396.8	170.0	-70.8	-8.6
1931	925.5	112.6	708.6	86.2	+216.9	+26.4

The total amount of foreign capital invested in Chile is estimated at about \$1,215 million. Of this sum, about \$618 million was placed in the country by the American investing public. The investment of Great Britain in Chile is estimated at about £100 million, \$486 million, 30% of which was used for the purchase of government bonds.<sup>1</sup>

Since the beginning of 1932, a system of foreign exchange control, which amounts virtually to a moratorium on foreign commercial debts, has been in effect. As early as July, 1931, it was apparent that the supervision of foreign exchange transactions was essential to the maintenance of the peso at its parity. At this time an exchange control commission was appointed, with the power to control or prohibit exports of gold and foreign exchange. As the situation became more

<sup>1</sup> The Economist, August 29, 1931, p. 398.

critical, however, a more stringent policy of restriction was adopted. This new policy, which was placed in operation beginning with January 1, 1932, provides for the disposition of available exchange on an installment basis. The original installment, provided the exchange commission has given its approval of the purpose for which the exchange is demanded, will amount to from 2% to 4% of the amount of the remittance to be made to a foreign country. Further installments of 4% of the original amount every second month will permit the settlement of any obligation due abroad within a maximum period of four years. By these means of artificially limiting the demand for foreign exchange to the current supply, exchange rate of the peso has been kept at a point only slightly below its parity. The value of the peso was fixed at about 0.1217 United States cents by the monetary law of 1925. The average rate for the year 1931 was 0.1207 cents.

The situation in the nitrate industry in 1931 was such as to threaten the existence of the recently formed *Compania Salitrera de Chile*.<sup>1</sup> This institution, in which the Chilean Government on the one hand and the merged private concerns on the other hand participate on an equal basis, was obliged to defer dividend payments on its 7%, £5 cumulative shares of stock due in July, 1931. In a period of falling consumption the Chilean producers have been faced with intensified competition on the part of European producers of synthetic nitrogen. The sales of Chilean nitrate declined from 2 million tons in 1929 to 1.6 million tons in 1930 and to only 1.2 million tons in 1931. General dissatisfaction by both participating parties in the *Compania Salitrera de Chile* led to the appointment of a government commission to investigate the organization and operation of this \$375 million institution.

The opinion of this government-appointed commission, as contained in the report issued in December, 1931, was that, in view of the existing unsatisfactory economic position of the country, it was not advisable to attempt dissolution or reorganization of the present structure of the company. It was feared that the repercussions of such a move would be

<sup>1</sup> See "Picture of World Economic Conditions," Vol. V, op. cit., pp. 99-100.

too severe upon the financial and unemployment situation. The report urged an increase in the influence of the Government within the company.

The Government aims to stabilize the budget in 1932. The stabilization, however, is to be achieved largely at the expense of foreign bondholders through suspension of interest and amortization payments. During the first eleven months of 1931 ordinary revenues amounted to 689.5 million pesos, \$83.9 million, as compared with 937.7 million pesos, \$114.1 million, in the corresponding period of 1930. Ordinary expenditures declined from 989.1 million pesos, \$120.4 million, in the first eleven months of 1930 to 758.8 million pesos, \$92.3 million, in the corresponding period of 1931. Extraordinary expenditures, mainly on public works to provide relief for the unemployed, are very large and are financed by borrowing. In December, 1931, a law was passed allowing the President of the Republic, during a period of twelve months, to issue treasury notes to the amount of 200 million pesos, \$24.3 million, for the purpose of meeting the obligations of the internal floating debt of the state, financing the construction of public works, and giving assistance to agriculture, mining, and industry in general with a view to providing work for the unemployed. By the middle of January, 1932, 50 million pesos, \$6.1 million, of these notes were issued by the Central Bank of Chile. The notes are issued in denominations of 100, 500, 1,000, and 10,000 pesos and bear an interest equal to the discount rate of the Central Bank for its member banks. The discount rate in January, 1932, was 6.0%.

On January 15, 1932, the gold reserve of the Central Bank of Chile amounted to 177.3 million pesos, \$21.6 million, as compared with 340.8 million pesos, \$41.5 million, at the end of 1930, and 503.6 million pesos, \$61.3 million, at the end of 1928. The circulation of notes was 326.7 million pesos, \$39.8 million, on January 15, 1932, as compared with 305.8 million pesos, \$37.2 million, at the end of 1930, and 351.7 million pesos, \$42.8 million, at the end of 1928. Total notes and deposits amounted to 453.1 million pesos, \$55.1 million, in the middle of January, 1932. The Central Bank was per-

mitted by law to reduce its gold reserve from 50% to 35% of notes and deposits.

The outlook for 1932 is not encouraging. If there are no political disturbances and the Government actually carries out its program of economy in public expenditures, the situation will be improved to the extent of placing Chile in a more favorable position to take advantage of any improvement in the world demand for Chilean products. Without such improvement Chile cannot enjoy any marked degree of prosperity.

#### COLOMBIA<sup>1</sup>

The difficulties experienced in Colombia as a result of the world depression, accompanied by the drastic fall in the prices of the basic commodities, have been comparatively well borne by the country. This fact is due predominantly to the existence of a stable and efficient government. Numerous constructive measures have been legislated since August, 1930, when Mr. Enrique Olaya Herrera was elected to the presidency. President Herrera, a member of the Liberal Party, which had not been returned to power for more than forty years, drew upon the practical experience of his party opponents in filling a number of important administrative posts of the new government. In effect, Colombia is ruled by a coalition government, and, consequently, party strife has been eliminated, at least for the time being. The absence of the evils of party politics during such a distressing period of economic development is a most significant advantage.

As the financial and trade depression became more difficult following the suspension of gold payments by Great Britain, the Colombian Congress, on September 24, 1931, granted to President Herrera extraordinary powers to enforce such economic and financial measures as may avert the crisis. The President, however, was not given the power to establish new state monopolies. Numerous measures to protect the gold reserves of the country and avoid an unfavor-

<sup>1</sup> Sources of information: Banco de la Republica, *Revista del Banco de la Republica*, Bogotá; United States Commerce Reports; United States Department of Commerce, *Foreign Financial News*; *Monthly Summary of Foreign Commerce*; *Bulletin of Business Conditions in Latin America and the West Indies*, The Royal Bank of Canada; *New York Times* dispatches.

able reaction upon the exchange position of the currency were undertaken, and two commissions, one for export control and the other for foreign exchange control, were appointed. The decree of November 28, 1931, transferred the activities of exchange control to the Bank of the Republic and prohibited purchases of foreign exchange except for payment of unprohibitive imports, foreign debts of the central government, states, and municipalities, and debts of private individuals or companies due before September 24, 1931. The issuance of this decree was followed in December, 1931, by the announcement that the national government would meet the interest payments on its consolidated debt and banking loans as long as sufficient exchange was available. As for the service charge on the obligations of the departments and municipalities, it will be paid during the next two years in script bearing 6% interest amortizable in 10 years.

Colombia, like all South American countries, has been dependent to no small degree upon working capital obtained from abroad to develop the vast natural resources of the country. By far the major portion of such funds have been derived from the United States. At the beginning of 1932, the total long-term debt of the central government, states, municipalities, and banks to the United States amounted to 199 million pesos, \$192 million. Of these total obligations, the central government was responsible for about 66 million pesos, \$64 million, and the states and municipalities for approximately 83 million pesos, \$81 million. The obligations of the banks, totaling about 49 million pesos, \$47 million, were contracted in the course of the past 6 years, principally in 1926 and 1927.

The budget for the fiscal year 1931, originally balanced at \$50 million, was reduced shortly after the beginning of the year to \$47 million. A second reduction which was ordered in September, 1931, cut the expenditures for the balance of the year by an additional 10%. Included in the economies was a general decrease in the federal payroll. The revenue of the Government was decidedly lower in 1931 owing to the general business depression, which was reflected particularly in the returns from the royalties on petroleum. Revenue

receipts during 1931 amounted to \$42 million, as compared with \$49 million in the preceding year.

The cabinet has approved the budget for 1932, which estimates ordinary expenditures at \$38 million and receipts at about \$40 million. Approximately 50% of the revenue is to be raised through customs duties, which underwent several upward revisions in 1931. Increase in the tax rates on insurance policies and automobile tires and in the sales tax for lubricants, cigarettes, and soft drinks, along with an increase in the export tax on bananas to 3 cents per bunch, is counted on to provide the budget for 1932 with an additional revenue of \$3 million. The schedule of income tax rates has been revised according to suggestions made in the report of Professor Kemmerer on the financial position of the country. Furthermore, a canalization tax was introduced in order to raise additional funds to meet the expenses involved in the canalization of the Magdalena River. This new tax, to be levied on all articles of foreign origin entering the Atlantic ports, replaces the old fluvial tax of 4 pesos per metric ton. The rates of the new canalization tax vary according to the nature of the imports and range from 1.50 pesos per metric ton on foodstuffs and prime necessities to 12 pesos per metric ton in the case of all articles considered to be luxuries. It also includes a tax of 1 peso per metric ton on all exports that pass through the Atlantic ports, with the exception of bananas, petroleum, or derivatives of the latter.

Imports in 1931 were sharply curtailed owing to successive tariff increases throughout the year. Such emergency measures, along with others designed to enable supervision and restriction of foreign exchange transactions, were necessary in order to assure sufficient quantities of foreign exchange to meet payments due on obligations abroad. The importation of luxuries was entirely prohibited, and the tariff rates on other articles were advanced in numerous instances to an almost prohibitive level. The import duty on medicinal preparations and foodstuffs, for example, was raised to 100%. The immediate increase in the cost of living, which followed the erection of this tariff barrier for foodstuffs, was combatted through the establishment of municipal com-

missions with authority to set the prices for foods and prevent profiteering.

Shipments of coffee during the first 10 months of 1931 totaled 2,497,545 bags, as compared with 2,767,660 bags during the same months of the preceding year. This decline in the quantity of exports may be attributed to a smaller crop in 1931. The prices for coffee in 1931 were generally weak. The decline recorded for the various types of coffee, as quoted on the New York Coffee Exchange, are shown in the following figures giving the average monthly price per pound for January and December, 1931: Medellín, from 18.58 cents in January to 14.26 cents in December; Armenia, from 17.96 cents to 13.00 cents; and Girardot, Bogotá, and Tolmia, from 17.36 cents to 11.98 cents. The yield of coffee for the 1931-1932 season promises to be lower than the preceding crop but of a very high quality. The exportation of bananas during the first 10 months of 1931 amounted to only 4,218,543 stems and totaled approximately 6.5 million stems less than in the same period in 1930. In the Santa Maria district severe wind storms that took place during the early months of the year destroyed about 11 million banana plants. The average monthly shipment of petroleum for the first 9 months of 1931 was 1,510,000 barrels, or about 1,000 barrels per month above the figures for the same period of 1930.

The value of total exports for the first 10 months of 1931 was 82.5 million pesos, \$79.4 million. Slightly more than 97% of this sum was accounted for by the exportation of mineral and vegetable products, the former totaling 30.2 million pesos, \$29.1 million, and the latter 50.2 million pesos, \$48.3 million. Trade with the United States fell off sharply in 1931. Exports declined from \$81.7 million in 1930 to \$62.9 million in 1931, or 23%. Imports were reduced even more sharply, amounting to only \$14.4 million in 1931, or 32% less than in the preceding year.

The ratio of gold reserve to notes in circulation declined from 63.9% on December 31, 1930, to 44.2% on the corresponding date of 1931. During this period the stock of gold of the Bank of the Republic declined 48%, from 17.5 million pesos, \$16.8 million, to 9.1 million pesos, \$8.8 million, while

the number of notes in circulation registered a decline of 25%, from 27.4 million pesos, \$26.4 million, to 20.6 million pesos, \$19.8 million. The Bank of the Republic was given permission by the National Government to reduce the legal gold reserve ratio for the notes in circulation from 50% to 30%. The increase in circulation of about 15 million pesos, \$14 million, of bank notes, made possible by this emergency measure, is to be secured by the salt monopoly, which is administered by the Bank.

In 1931 a loan of \$20 million was advanced to the national government by a syndicate of American bankers. Of this sum, \$8 million was devoted to the liquidation of outstanding debt. The granting of this loan was made contingent upon balancing the budget, reorganization of the national railroads, and limitation of the national indebtedness. All of these stipulations were carried out. The national railroads are now organized in the form of an autonomous institution under control of a managing board of five directors and headed by the minister of public works. The national indebtedness has been limited to a figure upon which the annual service charge shall at no time exceed an amount equal to 30% of the ordinary revenue of the Government.



## AUSTRALIA

THE general economic and political situation in Australia at the beginning of 1932 shows considerable improvement, as compared with a year ago. The general election of December 19, 1931, resulted in a decisive defeat of the Scullin Labor Government, which had been in power in Australia since October, 1929. The significance of the election is ascribed primarily to the fact that it shows a determination of the people of Australia to adhere to sound methods of finance in recognition of the principle that economic values and national prosperity cannot be created by an act of government but only by the efforts and sacrifices of the people as a whole. The new government is faced with an unusually difficult task of economic reconstruction and financial retrenchment in order to balance the budget and to restore the confidence of foreign investors in the financial integrity of Australia. This confidence was severely shaken by the existence of large budgetary deficits, by proposals for the introduction of fiduciary currency, and by the refusal of the State of New South Wales to meet interest payments due to British holders of New South Wales bonds.

The most striking development in the economic field during the past year has been the change in the Australian balance of merchandise trade. For many years Australia has lived on money borrowed abroad. The influx of foreign funds enabled Australia to balance its international payments and created an artificial prosperity within the country that was bound to collapse as soon as the flow of foreign funds ceased. Interest and amortization charges, amounting to about £3.0 million, English, \$14.6 million, per month had to be met either through shipments of gold or by means of a surplus of commodity exports. The reserves of gold were entirely inadequate to meet foreign obligations. Net exports of bullion during the three years ended September 30, 1931, amounted to £44 million, \$214 million. During the

same period the balance of merchandise trade developed as follows:<sup>1</sup>

Year Ended September 30	Excess of Imports		Excess of Exports	
	Pounds	Dollars	Pounds	Dollars
1929	10,200,000	49,638,300	..	..
1930	19,200,000	87,951,360	..	..
1931	..	..	37,800,000	141,175,440

This transition was accomplished by means of a drastic reduction in the value of imports, while exports were maintained at a relatively high level, as shown in the following table:

In millions

Year Ended September 30	Value of Imports		Value of Exports	
	Pounds	Dollars	Pounds	Dollars
1929	148.6	723.2	138.3	673.0
1930	113.3	519.0	94.1	431.1
1931	50.0	186.7	87.8	327.9

The creation of an export surplus was facilitated by the increase in prices of principal exports and by the depreciation in the exchange value of the Australian pound. If the excess of exports is maintained at the same level during 1932, Australia will have sufficient funds to meet interest payments on its foreign obligations, but the improvement must be much greater to enable Australia to restore its depleted balances in London and to create adequate reserves that might be needed in sudden emergencies.

Business activity is still at a low level, and unemployment is very high. In the State of New South Wales, 125,000 trade union members, or 30.7% of the total, were unemployed in the second quarter of 1931. In the corresponding quarter of 1930 the percentage of unemployed was 21.0%. The area sown to wheat in 1930-31 was 18,213,426 acres, and the yield is estimated at 212,629,000 bushels, showing an increase of 85.7 million bushels over 1929-30. The production of wheat during the current season, 1931-32, is estimated at 177 million bushels. The wool clip promises to be large and

<sup>1</sup> National Bank of Australasia, Ltd., "Monthly Summary of Australian Conditions," Melbourne, November, 1931, p. 16.

of fine quality. With firmer prices abroad, the wool season is expected to yield better results than in any recent year.

The Australian Governments are making determined attempts to balance their budgets.<sup>1</sup> The internal debt has been converted, and there are no maturing obligations until 1938. During the fiscal year ended June 30, 1931, the Commonwealth Government raised six internal loans, amounting to £30.8 million, \$115.0 million. The interest on the internal debts was reduced by 22.5% through the Commonwealth Debt Conversion Bill, effective from July 31, 1931. In 1930-31 the service charge of the combined Commonwealth and state debt amounted to £5.5 million, \$20.5 million in Australia and £2.4 million, \$11.7 million, abroad.<sup>2</sup>

<sup>1</sup> See pp. 237-241.

<sup>2</sup> The Economist, London, February 13, 1932, p. 28.

## THE UNITED STATES

THE current business depression is generally described as the worst depression in the history of the United States. Similar broad statements have been made in previous periods of depression. As a matter of fact, the present depression, while undoubtedly worse than the last two preceding depressions of 1920-21 and 1907, cannot be regarded as the worst in the history of the country. Where the comparison is carried back into the nineteenth century, the statement in question breaks down. The depression of 1893 was unquestionably more severe than the current depression.

The collapse of prices and the decline in business activity in the depression of 1920-21 reached approximately the same proportions. But at that time the country's economic system was not so heavily burdened by debts, accumulated at inflated prices; the record of bank failures was not so unfavorable; the federal finances were not so seriously affected; and the problem of international indebtedness was not so acute as at the present time. In 1907 the domestic situation was exceedingly unsatisfactory, but the world as a whole was in a stronger economic position than at present. Great Britain, France, and Germany, in particular, were not so strongly affected by economic and political difficulties as at the present time. If, however, the comparison is extended to the depression that followed the panic of 1893, the present condition of the United States appears in a more favorable light. From 1893 to 1896, the effects of the depression were so violent that the Government of the United States was barely saved from bankruptcy; internal and foreign trade was almost completely paralyzed; one fourth of the country's railroad mileage went into receivership; the banking system practically ceased to function; and troops had to be called out to quell the unrest among industrial workers. Nothing so calamitous has happened during the period of current business depression.

Although the Government of the United States is threat-

ened with a budgetary deficit of about \$2,500 million in the fiscal year ending June 30, 1932, the credit standing of the Government, based on the immense resources of the country and further strengthened by the determination of the administration to face the facts, is still unchallenged. The industrial structure of the country has been severely affected by the great decline in commodity prices, but the leading business enterprises of the country not only have been able to maintain their solvency but in many cases have been paying dividends even though at a rate considerably below the prosperity level. The banking system has been severely shaken by the extraordinary number of bank failures, but it requires vivid imagination to describe the present situation as one of panic and chaos. Unemployment has reached distressing proportions, but severe labor disturbances have been absent, and the willingness of management and workers to co-operate in the solution of common difficulties has been most encouraging. The leaders of industry have never before shown a keener interest in the welfare of their workers, and this interest has given rise to the large number of proposals for stabilizing business conditions and protecting the worker from the hazards of unemployment.

The volume of general business in 1931, according to the index prepared by the National Industrial Conference Board, was about the same as in 1922. The index number of general business activity, base, 1923=100, in 1931 was 81.3, as compared with 122.6 in 1929, and 97.5 in 1930. The total volume of trade in 1931 was 15.2% lower than in 1930 and 27.1% lower than in 1929. Industrial production, according to the Federal Reserve Board, declined 15.6%, as compared with 1930 and was 31.9% lower than in 1929. Particularly drastic declines occurred in the production of raw materials, iron and steel, locomotives, automobiles, and building materials. On the other hand, the production of leather and shoes, paper and printing, tobacco manufactures, coal, and petroleum was well maintained. There was an actual increase, as compared with 1930, in the consumption of wool and cotton.

The yield of principal crops was higher than in 1930 or 1929, but crop values declined sharply. The corn crop, for

example, was about 24% larger than in 1930 and approximately the same as in 1929, but the value of the crop was about 32% lower than in 1930 and 53% lower than in 1929. The cotton crop in 1931 was 21% larger than in 1930 and 14% larger than in 1929; the value of the crop in 1931, on the other hand, was 26% lower than in 1930 and 60% lower than in 1929. Agriculture has been more severely affected by declining prices than any other field of business activity, with the exception perhaps of certain raw material industries. The latter, however, are in a position to apply corrective measures for the reduction of stocks and control of production. Owing to a large number of individual producers and the marked influence of climatic conditions on the size and quality of output, agriculture in general can do little to improve its position by concerted action.

The volume of distribution in 1931, as measured by total carloadings, was about 19% lower than in 1930 and about 29% below 1929. The value of retail trade, as measured by department store sales, was 11% lower than in 1930, and 18% lower than in 1929. The sales of 5 and 10 cent stores, however, were remarkably well maintained, their value in 1931 being only 1.9% lower than in 1930 and only 4.3% below 1929. Wholesale trade was 19% lower than in 1930. On the whole, the effects of the business depression are less marked in the field of distribution than in the field of production.

The decline in carloadings has been very severe and has made the position of some of the country's leading railroads very difficult. The gross earnings of the railways in 1931 were lower than in 1929 by \$2,123 million, or 33%. Total railway earnings in 1931 amounted to \$4,237 million, as compared with \$5,344 million in 1930, and \$6,360 million in 1929. Railway purchases of equipment, materials, and supplies from manufacturers declined from \$1,350 million in 1929 to \$639 million in 1931, a reduction of 53%. During the same period the purchases of fuel declined 39%, amounting to only \$224 million in 1931. The net operating income of the railroads, that is that part of total earnings after operating expenses and taxes have been paid, declined from \$1,275 million in 1929 to \$531 million in 1931, a decrease of

58%. The net operating income in 1931 was the smallest in 30 years. The average number of railway employees in 1931 was about 409,000, or 24%, less than in 1929. The aggregate compensation of railroad employees in 1931 was about \$2,127 million, as compared with \$2,590 million in 1930 and \$2,941 million in 1929. The payroll in 1931 was 28% lower than in 1929, showing relatively the smallest reduction that has been made by the railroads during the period of current business depression. The total net operating income in 1931 exceeded fixed charges, that is interest on funded and unfunded debt, rent of leased roads, and minor items, by only \$89 million. A large number of individual railroads in 1931, however, did not earn enough to meet their fixed charges.<sup>1</sup> The railroads are in many respects the backbone of the country's economic life, and it is imperative that all measures consistent with general welfare be undertaken to rehabilitate the earning power and financial stability of the carriers.

#### INDIVIDUAL INDUSTRIES

The iron and steel industry has felt the full force of the depression, particularly as a result of the great decline in building and construction activities, reduced purchases of railway equipment, and lower production of automobiles. The production of steel ingots and castings in 1931 was 25,600,000 gross tons. The amount produced was only 38% of capacity and only 46% of the 1929 output. The per capita consumption of steel in 1931 was 462 pounds or approximately the same as in 1908.<sup>2</sup> The output of pig iron in 1931 was 18,383,000 gross tons, as compared with 31,441,000 gross tons in 1930 and 42,270,000 gross tons in 1929. After being well maintained in 1929, prices of iron and steel products declined rapidly in 1930, but remained on the whole fairly stable in 1931. The average price of 14 iron and steel products on December 19, 1931, was \$30.28, as compared

<sup>1</sup> Memorandum of the Railroad Presidents' Committee of Nine, filed with the railroad union leaders, justifying the demand for a 10% cut in wages.

<sup>2</sup> "Steel," Cleveland, Ohio, January 4, 1932, pp. 125, 149.

with \$31.66 on January 7, 1931, and \$35.88 on January 1, 1930.<sup>1</sup> The decline in 1931 was less than 5%.

An unsatisfactory aspect of the situation is the further expansion of iron and steel production capacity. From 1929 to 1930 the production capacity increased from 55,254,000 gross tons to 59,502,000 gross tons. In 1929, 87% of capacity was utilized, as compared with 59% in 1930. Last year the additions to steel-making facilities were greater than in any other year since 1918. This, however, represents largely the projects initiated in former years. No new projects for the expansion of raw steel and iron-making capacity were undertaken in 1931, although finishing capacity was considerably increased through new construction.<sup>2</sup>

The financial position of the principal iron and steel producing enterprises is more favorable than the foregoing figures would indicate. The cash surpluses of the 10 large producers of iron and steel, controlling 84% of total capacity of the industry, were actually larger on September 30, 1931, than on December 31, 1929. Not a single large enterprise has been forced into bankruptcy, nor have there been any mergers under distress conditions.<sup>3</sup> In the steel-finishing industry, only one important company became insolvent. In view of the extraordinary severity of the depression, this may be considered as an accomplishment both remarkable and encouraging. The industry has been making sweeping adjustments to the new level of values; its mechanical equipment is at the highest point of efficiency; its workers and management have lost none of their skill; and, if it avoids disorderly methods of marketing, it will be able to take good advantage of any increase in the demand for its products.

The construction activity, measured by the value of building contracts awarded, was about 32% lower in 1931 than in the preceding year and about 46% lower than in 1929. At the end of 1931, the volume of construction, in terms of the dollar value of contracts awarded, reached the lowest level since December, 1921. If, however, account is taken of the increase in the purchasing power of the dollar or of the decrease in construction costs, the decline in the volume of

<sup>1</sup> *Ibid.*, p. 190.

<sup>2</sup> *Ibid.*, pp. 123-124, 171-173.

<sup>3</sup> *Ibid.*, p. 126.



building is shown to be much smaller. The low point was appreciably higher in 1931 than in 1921. One of the unfavorable influences in 1931 was the decline in public works construction. In 1930 this type of construction reached its highest point, but had to be drastically curtailed in 1931, owing to financial difficulties of public bodies of all types. It is a moot question, whether an actual shortage of certain building facilities has already developed. So far as the supply of industrial and commercial structures is concerned, the amount of floor space available appears to be more than abundant. Only an increase in business activity could give rise to an increased demand for this type of construction.

In the field of residential construction the available statistical information does not lead to a definite conclusion. The supply of high-class apartment houses in the cities appears to be more than ample, but it is felt in well-informed quarters that there already exists or is rapidly developing an actual shortage for certain types of residential construction, particularly for the small single-family and two-family houses in many parts of the United States. It is also generally admitted that in most American cities there is an imperative need for the construction of new apartment houses to replace tenements. The unsatisfactory banking situation, which makes it necessary for the banks to maintain themselves in an unusually liquid situation, has decreased the volume of credit available for real estate mortgages. As soon as the banking situation improves—and there are definite signs that the danger point has been passed and that confidence is returning—a considerable improvement in residential construction would not be a surprising development. In the meantime, the process of deflation is going on. Taking advantage of lower construction costs, many builders are putting up new office and apartment structures, which are attracting tenants by means of considerably lower rents. In the absence of a business revival, the owners of the older buildings, who, on account of higher fixed charges cannot meet this rent competition, may be forced to take their losses, and there may be an elimination of the highest-cost owners and speculative enterprises.

The automobile industry has passed through a year of

extraordinary difficulties, intensified by the program of expansion planned at the end of 1930, when it was generally expected that 1931 would mark the turning point in the business depression. The production of cars and trucks in the United States and Canada, according to preliminary figures of the National Automobile Chamber of Commerce, in 1931 was 2,465,000. Of this total, passenger cars accounted for 2,045,000, and motor trucks, 420,000. The output in 1931 was about 30% lower than in the preceding year, and about 56% below 1929. Foreign sales in 1931 were 44% lower than in 1930. The total of passenger cars registered in the United States at the end of 1931 was 22,450,000, as compared with 23,043,000 at the end of 1930, and 23,122,000 at the end of 1929. The number of motor truck registrations, on the other hand, showed an increase over 1930, the corresponding figures being 3,490,000 and 3,481,000. The 1931 figure represents a new high record for motor truck registrations. One of the stabilizing influences in the automobile industry has been the remarkably steady movement in Chevrolet registrations, as compared with the extremely sharp fluctuations in Ford registrations. The stocks of automobiles in the hands of dealers are unusually low, while prices have not been lower in the history of the industry.

The development of automobile production in 1932 will depend on the general condition of business. In view of the small supply of unsold cars in the hands of dealers, any increase in demand would be reflected in higher production figures. Similarly, any improvement in the world economic and political situation will undoubtedly result in increased automobile exports. The loss of foreign markets in 1931 has been a severe blow to the automobile industry and the export trade of the United States. In the absence of a lasting settlement of the European financial and political difficulties, the American automobile industry will lose one of its important markets.

An encouraging development in the petroleum industry in 1931 was the reduction in the output of crude oil by almost 56 million barrels, as compared with 1930. The total production of 845,803,000 barrels was lower than in any other

year since 1926.<sup>1</sup> The curtailment in production, however, was not accompanied by any improvement in prices. The consumption of gasoline in 1931 was only about 2.5% lower than in the preceding year, but the average retail price of motor fuel declined from 14.5 cents per gallon in 1930 to 12.9 cents in 1931.<sup>2</sup> The principal problem of the industry is to prevent by self-direction of the industry the abuses of uncontrolled production. The price situation and, therefore, the possibility of profit-making will remain unsatisfactory, if the producers find it impossible to maintain a balance between supply and demand.

The decline in the production of bituminous coal, which started in 1927, continued practically without interruption to the end of 1931. The difficulties of the coal industry cannot be ascribed solely or even mainly to the generally low level of activity in all lines of industry. Such factors as the displacement of coal as a source of energy by water power, oil, and natural gas, increased efficiency in the use of coal, and the slower rate of population increase have exerted a dominant influence on the demand for coal.<sup>3</sup> The coal industry has not succeeded in adjusting itself to these conditions, although it has greatly reduced its production costs by the use of mechanical devices and has reduced the number of mines in operation by means of financial concentration. In the latter field, however, there seems to be much room for further improvement. The National Coal Association is planning a comprehensive program for the consolidation of the physical properties in producing districts along natural and economic lines, which would be preceded by the establishment of regional sales agencies whose task would be to improve the methods of distribution and exert some influence on the volume of production. The output of bituminous coal in 1931 was about 378 million tons, as compared with 467 million tons in 1930. The decline is relatively small, as compared with the decreases in the production of steel, copper, and other basic materials, but the coal

<sup>1</sup> "The Oil and Gas Journal," Tulsa, Oklahoma, January 28, 1932, p. 13.

<sup>2</sup> *Idem.*

<sup>3</sup> National Industrial Conference Board, "The Competitive Position of Coal in the United States," New York, 1931.

industry has been in a state of depression for seven years, and the contraction in activity could not be so large as in the industries that have passed through a period of marked expansion in recent years.

The copper industry is one of the most strongly organized and centrally controlled industries in the United States. It has been severely affected by the decline in the world consumption of copper and the precipitous decline in prices. Since March, 1929, the price of electrolytic copper has declined more than 68%. In November, 1931, electrolytic copper sold for 6.6 cents per pound, as compared with 21.1 cents in March, 1929, and an average price of 15.7 cents in 1913. In December, 1931, after prolonged negotiations, the representatives of the principal world copper-producing enterprises, meeting in New York, announced that they had reached a "gentlemen's agreement" for restriction of output which was to continue until the price is increased to 12 cents a pound or until stocks of copper are reduced to less than four months' deliveries. Since September, 1931, the copper industry has ceased issuing its regular monthly statistics of production, stocks, and shipments.

In contrast with the general business situation in 1931, the textile industries showed a marked increase in activity and served to that extent to ease the shock of depression. The significant development in the textile industry has been the relative success with which excess output has been curbed, night operations decreased, and cut-throat competition virtually abolished. Production is held down close to market demand. According to the Association of Cotton Textile Merchants of New York, sales of cotton goods in 1931 were 4% greater than production, and 4% higher than in 1930. At the end of 1931 stocks were 20% lower than at the beginning of the year. On December 31, 1931, unfilled orders were 11.5% higher than stocks, while on January 1, 1931, stocks were 26% in excess of unfilled orders.<sup>1</sup> In spite of this improvement, however, the industry did not make profits, mainly as a result of destructive competition and unfavorable prices. The wool and rayon industries have also been active, but the price situation was not satisfactory.

<sup>1</sup> "Textile World," New York, January 16, 1932, p. 19.

## THE CONDITION OF AGRICULTURE

The total value of farm crops in 1931 is estimated by the United States Department of Agriculture at \$4,123 million, as compared with \$5,819 million in 1930, \$8,088 million in 1929, and the post-war record figure of \$14,081 million in 1919. The accompanying table shows the quantity and value of production of principal farm commodities. Particularly drastic is the decline in the value of the cotton crop.

TABLE 26: QUANTITY AND VALUE OF FARM PRODUCTION, UNITED STATES, 1928 TO 1931

In millions

Year	Corn		Wheat		Oats		Rye		Cotton	
	Bushels	Dollars	Bushels	Dollars	Bushels	Dollars	Bushels	Dollars	Bales	Dollars
1928	2,819	2,119	915	887	1,439	589	43	37	14.4	1,302
1929	2,535	1,963	813	841	1,118	476	35	30	14.8	1,218
1930	2,060	1,349	858	515	1,278	403	45	17	13.9	659
1931	2,557	920	892	396	1,112	256	33	13	16.9	486

The size of the cotton crop in 1931 was 16.9% greater than in 1928, but its value was 62.7% lower. As compared with 1930, the size of the crop was 21.4% greater, and the value, 26.4% lower. The wheat crop in 1931 was 2.5% smaller in size and 55.4% lower in value than in 1928. From 1930 to 1931 the quantity of wheat produced increased 4.0%, but its value declined 23.2%. The quantity of corn produced in 1931 was 9.3% lower than in 1928; during the same period the value of production declined 56.6%.

The decline in total crop values during the last two years was almost \$4,000 million, or 49%. Of this total decrease, corn accounted for \$1,043 million; cotton and cottonseed, for \$854 million; wheat, for \$446 million; hay, for \$386 million; potatoes, for \$263 million; oats, for \$220 million; and tobacco, for \$130 million. The declines in value were due primarily to lower prices. As compared with 1930, prices were about 39% lower, while the output of principal crops was 10% greater.<sup>1</sup>

The operations of the Federal Farm Board have neither

<sup>1</sup> United States Department of Agriculture, "Crops and Markets," Washington, D. C., December, 1931, p. 501.

stabilized prices nor prevented their decline, although it is impossible to say what the price situation would have been in the absence of this artificially created factor. On October 31, 1931, the Grain Stabilization Corporation held 189,656,187 bushels of unsold wheat, representing an investment of about \$222 million. On the same date the value of unsold wheat, calculated at the market prices of that day, was about \$120 million, according to the figures of the Federal Farm Board. The holdings of cotton were 1,310,789 bales, representing an investment of \$120 million. The market value of unsold cotton was about \$45 million. In other words, the wheat and cotton operations of the Farm Board on October 31, 1931, showed a loss of \$177 million.<sup>1</sup> At the annual meeting of the National Cooperative Council on January 26, 1932, Mr. James C. Stone, Chairman of the Federal Farm Board, stated that the Board had made loans to agriculture amounting to nearly \$900 million, of which sum more than 50% has been repaid. Furthermore, he pointed out that, if all outstanding loans were liquidated that day, the losses of the Board on the basis of actual market prices would not exceed \$250 million, or an average annual loss of \$83,334,000 for the past three years. This loss to the Federal Treasury compares with a direct loss of \$96,674,618 incurred by the Treasury in 1930-31 in carrying second class mail. The deficit from handling second class mail, Mr. Stone pointed out, was \$533 million during the past six years, or more than the total revolving fund of the Federal Farm Board. The operations of the Farm Board, however, are criticized not on account of the size of its deficit, but on account of the principles on which they are based. The critics of the Board point out that it was known from the beginning that the expenditure of \$500 million would be wasted, so far as it aimed to stabilize farm prices. The experience of coffee, sugar, and rubber producers had shown very clearly that price control is an impossibility without a strict control and reduction of production. Recent announcement of the Federal Farm Board indicates that the Board is "studying plans for the development of some type of production control" and that the "experience of the past two years has

<sup>1</sup> Federal Farm Board press release, November 25, 1931.

convinced the Board that the restoration of agriculture to a basis of equality with industry is not a task to be accomplished by temporary expedients or by the application of any magic formula."<sup>1</sup> The expenditure of \$500 million may prove to be a helpful investment if it convinces the agricultural industry that co-operation and planning are essential requirements for success.

### FOREIGN TRADE

The total value of foreign trade in 1931 was \$4,514 million, as compared with \$6,904 million in 1930 and \$9,640 million in 1929. The value of commodity exports alone in 1929 was \$727 million greater than the total value of exports and imports in 1931. The decline of \$5,126 million in the value of foreign trade from 1929 to 1931 was no doubt an important factor in the business depression. The value of commodity exports and imports for 1929, 1930, and 1931 is shown in the following table:

In thousands

Year	Exports	Imports	Export Surplus
1929	\$5,240,995	\$4,399,361	\$841,634
1930	3,843,181	3,060,908	782,273
1931	2,424,183	2,090,107	334,076

As compared with 1930, the value of exports in 1931 was 36.9%, and that of imports, 31.7%, lower. The value of exports in 1931 was 53.7% lower than in 1929. During the same period, the value of imports declined 52.5%. The surplus of commodity exports in 1931 was lower than in any year since 1914. To a large extent the decline in foreign trade was due to lower prices. The quantity of raw cotton exports, for example, was slightly larger in 1931 than in 1930, but their value was 34% lower. Exports of copper declined 26% in quantity and 48% in value. The volume of exports of many other commodities, particularly raw materials and foods, has also been well maintained, but sharp declines in prices have greatly reduced the value of foreign sales.

<sup>1</sup> Address of Mr. James C. Stone before the National Association of Marketing Officials, Washington, D. C., December 28, 1931.

The geographic distribution of foreign trade is shown in the accompanying table. The value of exports to Europe in 1931 was 35.5% lower than in the preceding year. The value of imports from Europe declined 29.6%. The surplus of commodity exports to Europe was reduced from \$929.5 million in 1930 to \$545.9 million in 1931. The value of exports to South American countries declined 53.0%, as compared with a decline of only 29.1% in the value of imports from South America. In 1930 the United States had an import surplus of \$96 million in its trade with South America. In 1931 the import surplus rose to \$148.6 million.

TABLE 27: GEOGRAPHIC DISTRIBUTION OF FOREIGN TRADE,  
UNITED STATES, 1930 AND 1931

In million dollars

Imports

Geographic Division	1930	1931	Per Cent Change
Europe.....	908.8	640.1	-29.6
Northern North America.....	414.4	277.1	-33.1
Southern North America.....	347.4	239.9	-30.9
South America.....	433.5	307.3	-29.1
Asia.....	856.5	573.4	-33.1
Oceania.....	32.8	19.1	-41.8
Africa.....	67.5	32.9	-51.3
Total.....	3,060.9	2,089.8	-31.7

Exports

Europe.....	1,838.4	1,186.0	-35.5
Northern North America.....	670.7	403.0	-39.9
Southern North America.....	348.6	188.3	-46.0
South America.....	337.5	158.7	-53.0
Asia.....	448.0	386.3	-13.8
Oceania.....	107.7	41.6	-61.4
Africa.....	92.4	60.0	-35.1
Total.....	3,843.2	2,423.8	-36.9

The largest purchaser of American goods in 1931 was Great Britain. The value of exports to Great Britain declined from \$678.1 million in 1930 to \$455.6 million in 1931, or 32.8%. The value of sales to Great Britain was practically three times as large as to all South American countries combined. Canada was the next largest purchaser. The value of Canadian imports from the United States in



1931 was \$395.6 million, or 40% less than in the preceding year. The third place was occupied by Germany, whose imports from the United States amounted to \$166.0 million in 1931, showing a decrease of 40.3% as compared with 1930. The value of exports to France declined 45.6%, to \$121.8 million. Argentina reduced the value of its purchases in the United States 59.5%, from \$129.9 million in 1930 to \$52.6 million in 1931; Brazil, 46.9%, from \$53.8 million to \$28.6 million; and Chile, 53.7%, from \$46.4 million to \$21.5 million.

Although the United States exported \$398.6 million of gold in October, 1931, its net import of gold for the entire year was \$145.3 million. Gold exports in 1931 were \$466.8 million, and gold imports, \$612.1 million. The withdrawals of gold that took place on a large scale in January, 1932, did not affect the total gold holdings of the United States, as they represented gold ear-marked for foreign account.

#### CAPITAL ISSUES

The volume of financing in 1931 was 47.7% lower than in 1930, and 65.4% lower than in 1929. The situation in the security markets reflects the generally unsatisfactory condition in practically all lines of business activity. Throughout the year the market values of all classes of securities, including the bonds of the United States Government, showed a declining tendency and reached the lowest point at the end of the year. In December, 1931, the average prices of all stocks traded in at the New York Stock Exchange were approximately 80% below the high point in 1929. In many instances the depreciation in bond values was even greater than the decline in stock prices. The weakness in United States government securities was due partly to the general collapse in security values, but partly also to the appearance of a large budgetary deficit. With a Federal deficit of about \$2,500 million in the fiscal year ending June 30, 1932, it became certain that the Government would have to borrow extensively in the open market. The inevitable result was a marked depreciation in the value of United States securities. On December 29, 1931, for example, 3% Treasury bonds,

issued in September to the amount of \$800 million, maturing on September 15, 1955, and redeemable at the option of the Federal Government on and after September 15, 1951, were quoted at 18% below par. At the end of 1931 all issues of the Federal Government, with one exception,<sup>1</sup> were quoted at less than par.

The issue of corporate common stocks in 1931 amounted to \$195.1 million, as compared with \$1,105.0 million in the preceding year, and \$5,061.8 million in 1929. The corresponding figures for long-term bond issues are \$1,628.0 million, \$2,810.3 million, and \$2,369.4 million. With the exception of \$50.4 million loaned to Canadian governments, no foreign government issue was floated in the United States in 1931, largely on account of the exceedingly unsatisfactory political and economic conditions prevailing throughout the world. Foreign corporate issues in 1931 amounted to \$217.8 million. Of this amount Canadian securities represented \$140.0 million. The only important financing by foreign corporations was a \$50.0 million, 5% convertible bond issue of the International Match Corporation, and a \$22.8 million, 5½% bond issue of the Taiwan Electric Power Company, Ltd., of Japan.

The unusual weakness in security prices may be ascribed to a number of interrelated factors, such as declining profits and reduced or omitted dividends, continued decline in business activity, unsatisfactory position of the banks and a record number of bank failures, distress selling of bonds largely by the smaller banks, unprecedented number of defaults on foreign government issues, decreased purchasing power owing to large unemployment and reduced wages and salaries, unsatisfactory political conditions abroad, and, finally, the extraordinary and unreasonable lack of confidence on the part of the masses of the people in the stability of the country's financial institutions, expressed in a large volume of currency hoarding.

There were indications at the beginning of 1932 that the so-called confidence crisis was being replaced by a more reasonable consideration of the facts underlying the position of the security market, and a fairly sustained recovery in

<sup>1</sup> Treasury bonds, 4¼%, 1947-52.

security prices occurred in January, raising the general level considerably above the low point reached at the end of December. To what extent this improvement was due to the belief that a recovery in business was bound to occur in 1932 and to what degree it was influenced by the anti-deflationary measures proposed by the Federal Government cannot be determined. During 1931 the stocks listed on the New York Stock Exchange declined in value from \$49,119.9 million to \$26,693.8 million. Deflation in security prices seems to have proceeded beyond the point justified by the actual economic condition of the country.

TABLE 28: CAPITAL ISSUES IN THE UNITED STATES,  
1928-1931

Source: Commercial and Financial Chronicle  
In million dollars

Type of Issue	1928	1929	1930	1931
Corporate				
Domestic				
Long-term bonds and notes	3,174.1	2,369.4	2,810.3	1,628.0
Short-term	264.9	250.6	620.3	400.1
Preferred stocks	1,397.1	1,694.7	421.5	148.0
Common stocks	2,094.1	5,061.8	1,105.0	195.1
Canadian				
Long-term bonds and notes	221.2	285.6	259.7	140.0
Short-term	0.3	..	5.7	..
Preferred stocks	52.1	10.4	13.0	..
Common stocks	8.6	18.2	18.7	..
Other foreign				
Long-term bonds and notes	521.3	187.4	178.0	72.8
Short-term	10.0	12.1	31.0	5.0
Preferred stocks	14.0	103.8	..	..
Common stocks	60.2	32.4	10.1	..
Total corporate	7,817.9	10,026.4	5,473.3	2,589.0
Canadian governments	38.1	61.8	137.7	50.4
Other foreign governments	651.1	68.3	481.9	..
Farm loan issues	63.9	..	86.5	125.6
United States municipal, states, cities, etc.	1,414.8	1,430.7	1,487.3	1,250.0
United States possessions	6.2	5.1	10.3	0.9
Grand total	9,991.8	11,592.2	7,677.0	4,015.8

### WAGES, EARNINGS, EMPLOYMENT, AND COST OF LIVING

The accompanying table shows the Conference Board's figures of average money and real earnings, employment, and hours of work in manufacturing industries, and cost of living

in the United States for the year 1931. Average hourly earnings declined from \$0.58 in January to \$0.54 in December, 1931, or 6.9%. During the same period average weekly earnings decreased from \$23.07 to \$20.74, or 10.1%. The greater decline in weekly earnings indicates the effect of shorter hours of work. In January, 1931, a wage-earner worked on the average 40.2 hours per week, as compared with 38.7 hours per week in December, 1931. The index number of average hourly earnings, base, 1923=100, declined from 106.5 in January to 99.6 in December, 1931. The corresponding figures for weekly earnings are 86.7 and 77.9. The index number of employment was 67.6 in December, as compared with 75.9 in January. The decline in the cost of living is reflected in higher real hourly earnings. The index number of real hourly earnings was 116.9 in January and 119.9 in December, 1931. As a result of shorter hours of work, however, the index of real weekly earnings shows a decline during the year from 95.2 to 93.7.

TABLE 29: AVERAGE MONEY AND REAL EARNINGS, EMPLOYMENT, AND HOURS OF WORK IN MANUFACTURING INDUSTRY, AND COST OF LIVING, UNITED STATES, 1931

Source: National Industrial Conference Board

Month	Average Earnings		Indexes of Average Earnings Base, 1923=100		Index of Employment Base, 1923=100	Average Hours of Work per Wage-Earner	Index of Cost of Living Base, 1923=100	Indexes of Real Earnings Base, 1923=100	
	Hourly	Weekly	Hourly	Weekly				Hourly	Weekly
January...	\$0.576	\$23.07	106.5	86.7	75.9	40.2	91.1	116.9	95.2
February...	0.577	24.29	106.7	91.3	76.3	42.3	89.6	119.1	101.9
March....	0.576	23.91	106.5	89.9	76.6	41.7	89.1	119.5	100.9
April.....	0.573	23.82	105.9	89.5	76.8	41.7	88.2	120.1	101.5
May.....	0.570	24.25	105.4	91.1	76.6	42.7	86.9	121.3	104.8
June.....	0.567	23.07	104.8	86.7	74.5	40.9	85.9	122.0	100.9
July.....	0.564	22.34	104.3	84.0	73.6	39.9	85.9	121.4	97.8
August....	0.568	22.49	105.0	84.5	72.7	39.9	85.9	122.2	98.4
September	0.562	21.75	103.9	81.7	71.1	39.2	85.6	121.4	95.4
October...	0.560	21.21	103.5	79.7	68.5	38.2	84.9	121.9	93.9
November.	0.542	20.29	100.2	76.2	66.7	37.7	83.9	119.4	90.8
December.	0.538	20.74	99.4	77.9	67.6	38.8	83.1	119.6	93.7

It is interesting to observe that the decrease in money and real weekly earnings, employment, and hours of work was stopped in December, while hourly earnings continued to

decline, indicating that wage decreases were still going on. The decline in hourly earnings in 1931 was considerably greater than in the preceding year, but weekly earnings were better maintained, as may be seen from the following table:

Month	Average Hourly Earnings		Average Weekly Earnings	
	1930	1931	1930	1931
January.....	\$0.59	\$0.58	\$27.10	\$23.07
July.....	0.60	0.56	25.49	22.34
December.....	0.58	0.54	24.03	20.74

One of the constructive developments in the labor situation was the agreement between the railroad presidents and the representatives of railroad labor unions for a 10% reduction of wages. Regardless of any financial importance of this reduction to the railroads, it is a significant and encouraging example of co-operation between management and labor in the settlement of their common difficulties.

#### PUBLIC FINANCES

At the end of the fiscal year ended June 30, 1931, the deficit of the Federal Government amounted to \$902.7 million. The deficit was due to a marked decline in revenues as well as to an increase in expenditures; the burden of expenditures was increased by special appropriations for war veterans and for the Federal Farm Board. The receipts from income taxes in 1930-31 were 22.8% lower than in the preceding year. The yield of the income tax was \$1,860.4 million, which is more than 50% of the total ordinary revenues. The great dependence of the Government on the taxation of personal and corporate incomes makes its revenues particularly susceptible to changes in general business conditions, lower profits, and lower wages and salaries. Furthermore, the next largest source of federal revenues are customs duties, which also respond quickly to business changes. Customs revenues declined from \$587.0 million in 1929-30 to \$378.3 million in 1930-31, or 35.6%. The total loss of revenue on account of income taxes and customs duties in 1930-31, as compared with the preceding year, was \$759.3

million. On the other hand, the yield from miscellaneous internal revenues, consisting largely of consumption taxes, declined only 9.4%, from \$628.3 million in 1929-30 to \$569.4 million in 1930-31. Of the total miscellaneous revenue, tobacco taxes accounted for 78.0% in 1930-31. The decline in the tax on small cigarettes was only 0.3%, from \$359.8 million to \$358.9 million.

Total expenditures of the Federal Government in 1930-31 were \$4,220.0 million, showing an increase of 5.7% as compared with the preceding fiscal year. During the same period, the cost of the public debt service declined 13.3%, from \$1,213.2 million to \$1,051.7 million. Through refinancing, interest charges were reduced from \$659.3 million to \$611.6 million, or 7.3%. Debt retirement decreased 20.6% to \$440.1 million in 1930-31. General expenditures of the government, that is, the expenditures on the various governmental departments, increased from \$2,162.7 million in 1929-30 to \$2,390.5 million in 1930-31, or 10.5%. The major part of this increase was due to larger expenditures of the War Department and the Department of Agriculture on public roads and river and harbor improvements, reflecting the efforts of the government to furnish some measure of productive unemployment relief. Miscellaneous or non-recurring expenditures of the Federal Government increased from \$618.3 million to \$778.8 million, or 25.8%. Of this total increase, the postal deficiency accounted for \$53.9 million; the agricultural marketing fund, \$40.5 million; and the adjusted service certificate fund, \$111.9 million.

According to estimates of the United States Treasury the total deficit during the three fiscal years 1930-31 to 1932-33 will amount to \$3,250 million, excluding the provision for the sinking fund. The interest on the public debt has been reduced from \$1,055.9 million in 1922-23 to \$611.6 million in 1930-31, or 42.1%. The gross public debt was reduced during that period from \$22,300 million to \$16,200 million, or 27.6%, the greater reduction in interest charges being due to refinancing operations. What policy the Government and Congress will finally adopt is not possible to foresee at the present time. The people of the United States, however, must be prepared to accept an increase in the tax

burden in the immediate future, since it is scarcely conceivable that the deficit can be eliminated by reducing expenditures and by borrowing.<sup>1</sup>

#### THE CREDIT SITUATION

One of the distinctly encouraging developments in the United States in the first quarter of 1932 was the improvement in the credit situation, reflected in a gradual return of hoarded money, a decline in bank failures, cessation of gold exports, and a return of confidence in the stability of the dollar. To a marked extent this improvement was due to constructive legislation passed by the Congress of the United States. The Reconstruction Finance Corporation was created by an Act of Congress on January 22, 1932, for the purpose of assisting a revival of business by extending loans to banks, insurance companies, loan associations, credit corporations, and railroads. With the approval of the Interstate Commerce Commission, the Corporation may make loans to aid in the temporary financing of the railroads engaged in interstate commerce, to railroads in process of construction, and to receivers of such railroads, when in the opinion of the Board of Directors of the Reconstruction Finance Corporation such railroads are unable to obtain funds on reasonable terms through banking channels or from the general public.

The initial funds of the Corporation consist of \$500 million of capital, subscribed by the Government of the United States. The Corporation may raise additional funds through the sale of its own obligations, but not in excess of \$1,500 million. These obligations will be fully guaranteed by the Federal Government. They are not eligible for discount or purchase by the Federal Reserve banks. The Federal Treasury, however, is authorized to buy and sell the obligations of the Reconstruction Finance Corporation. Through the Treasury the requirements of the Corporation may result in increasing the volume of Federal Reserve credit.

Since the demands of the Reconstruction Finance Corpor-

<sup>1</sup> For a detailed discussion of the finances of the Federal Government, see National Industrial Conference Board, "The Federal Fiscal Emergency," New York, 1932.

ation and the financial requirements of the Treasury were likely to call forth a large volume of Federal Reserve credit, the next logical step in the reconstruction program was to broaden the basis on which that credit rests. This was accomplished by the Glass-Steagall Act, passed in March, 1932, which broadens the eligibility requirements of the Federal Reserve banks and makes United States Government securities eligible as collateral for Federal Reserve notes. The latter provision is of special importance in connection with the question of "free gold." Under the Federal Reserve Act, Federal Reserve notes must be covered 100% by collateral security. At least 40% of this collateral security must be in gold, and the remaining 60%, in eligible paper. If the volume of eligible paper declines below 60%, the deficiency must be made up in gold. Before the Glass-Steagall Act was passed, on February 17, 1932, the amount of Federal Reserve notes in circulation was \$2,656.9 million, and the total volume of eligible paper amounted to \$680.0 million. Eligible paper represented only 26% of the total amount of notes in circulation, and 74%, or \$1,976.9 million, of Federal Reserve notes had to be covered in gold. The total gold reserves of the Federal Reserve banks amounted to \$2,943.6 million. If the reserve against notes and the reserve of \$503 million against Federal Reserve member bank deposits are deducted from the total, the figure of free gold is obtained. Before the passage of the Glass-Steagall Act, the free gold amounted to only \$464 million, and it marked the extent to which the Federal Reserve banks could meet the withdrawals of gold and currency in the absence of an increase in member bank borrowings. Since member banks were reluctant or unable to increase their indebtedness, the capacity of the Federal Reserve banks to meet emergency conditions was restricted by the free gold situation. By making government securities eligible as collateral for Federal Reserve notes, the Glass-Steagall Act increased the amount of free gold by about \$750 million. At the beginning of March, 1932, the Federal Reserve banks were in a position to increase their note issue or credit by about \$3,500 million, without reducing the gold reserve below the legal limit of 40%. Since a reserve of about 10% is required against



member bank deposits, an expansion of \$3,500 million in Federal Reserve credit would make possible an increase of \$35,000 million in the loanable funds of member banks.

In view of this remarkable strength of the Federal Reserve System, there is no ground for any fear concerning the stability of the dollar or the maintenance of the gold standard in the United States. The force of foreign gold withdrawals has largely spent itself, and the danger from that quarter has been substantially reduced. The improvement in the general credit situation, which has been brought about by these constructive measures, must be regarded as a development of utmost significance, since without a sound credit basis there can be no revival of business.

**PART II**  
**SPECIAL REPORTS RECEIVED BY**  
**NATIONAL INDUSTRIAL CONFERENCE**  
**BOARD, INC., FROM ITS FOREIGN COR-**  
**RESPONDENTS BY APRIL, 1932**

## RECENT TENDENCIES IN BRITISH FOREIGN TRADE

Report of Sir Arthur Balfour, Chairman, Capital Steel Works, Sheffield

**F**ROM 1913 to 1927 British exports declined 21%, but during the same period the world's export trade rose 18%, and in the case of the Dominions and the United States the increases were 31% and 51%, respectively.

The British share of world exports was 13.9% in 1913, whereas in 1928—a comparatively prosperous year for world trade—the percentage had fallen to 11.2%.

In 1930 when, owing to the prevailing depression, world export trade decreased 19.9% from the 1929 figure, the percentage decrease of British export trade was actually 21.8%.

It will be seen from these figures that, quite apart from the general falling-off in the world's trade, Great Britain has failed to maintain her normal share of that trade and has, in fact, lost a percentage of it to other countries.

There are several reasons for this decline. Fundamentally, British costs of production are too high, and the main reason for this is the fact that Great Britain, trading as she does with all parts of the world and supplying the varied wants and tastes of so many markets, has found it more difficult to adapt herself to mass production methods and at the same time give satisfaction to her various customers abroad, than newer countries, particularly the United States, where there is a large domestic market in which mass production articles can be standardized.

A second reason is undoubtedly the strength of the Trade Union movement in Great Britain, the leaders of which for a long time have preached the uneconomic fallacy that the utmost production per individual did not pay and that, by restriction of production, a greater number of people can be employed and high wages maintained.

It is true that the fallacy of this idea is now recognized by many Trades Unionists, including some of the principal

leaders, but such doctrines die hard, and it will be a long time before their ill effects are worn out.

In addition to this, the strength of the Trade Union movement has enabled the transport workers, dockers, and coal miners to demand hours and wages that conditions arising from the competitive capacity of other nations do not warrant. It is also obvious that the sheltered trades of the country, chiefly municipalities and other public bodies, have taken a larger share from the wage pool than has been warranted. This has retarded the normal adjustment which must ultimately take place, and has had very far-reaching effects on costs of production all round.

Another burden on costs of production has been the amounts spent on social services, which have risen at an alarming rate since 1900. Taking the index figure for Great Britain as 100, a comparison with other European countries will show corresponding figures of 48 in the case of Germany, 17 in the case of France, 7 in the case of Belgium, and only 4 in the case of Italy.

The theory was that these social services would bring their own reward and profit, but even the most enthusiastic advocate would not now be disposed to claim that this has resulted. The burden, however, is a direct one on industrial production.

In 1900 our national expenditure amounted to £193 million. In 1913 it was £198 million, while in 1930 it had grown to £787 million, and we must also bear in mind the tremendous growth in local expenditure during the same period. In 1900 the total local expenditure in England and Wales was £110 million. In 1913 it was £169 million, while in 1928 it had risen to a total of £523 million, and the increase still continues. The burden of local taxation is particularly onerous, as rates are payable whether profits are made or not, whereas direct taxation is dependent on profits.

It is held—and not without some justification—that Great Britain went back to the gold standard too quickly. If wage rates in gold had adjusted themselves rapidly, all would have been well, but, from reasons which I have shown above, these adjustments have been delayed and in some cases have not taken place at all. It is, therefore, rather

remarkable that in spite of these handicaps, Great Britain has been able to sell during 1929 and 1930 manufactured goods to the value of £574 million and £440 million respectively, and has been able to overcome so many difficulties in spite of high taxation both nationally and locally.

Now that Great Britain has taken the pound off gold, a temporary advantage as regards exports should take place, though this advantage is heavily offset by the increased cost of food and raw materials, which will ultimately lead to an increase in the cost of production at a time when what is needed more than anything else to enable Great Britain to compete successfully with other nations is an all-round reduction in costs. The temporary advantages arising from going off gold are likely, therefore, in the case of Great Britain, to be of very short duration, and, in addition, it would appear that other countries are going to be forced off gold and, therefore, the very transient advantage, which Great Britain now enjoys, will disappear entirely.

And now we come to the extremely important question of Great Britain's balance of trade.

Owing to the widely extended economic depression throughout the world, Great Britain has suffered not merely from the fact that she has been unable to export manufactured goods in normal quantities at remunerative prices, but also from the fact that her auxiliary services, such as banking, insurance, and shipping, have suffered. In addition, the revenue which she has been accustomed to receive from her vast investments overseas—for example, in South America—have fallen off very considerably, owing to the fact that dividends have not been earned and difficulty has been experienced in transferring such dividends as have been earned to this country, in view of unfavorable exchanges.

The net result is that she has been forced at last to make use of tariffs in one form or another as a means of retarding imports for which her exports no longer enable her to pay.

My own view is that this would have been better accomplished by the method of control of all imports by means of permits, as in this way any import which it would be to the national benefit to let in could have been brought in without difficulty. This system would have worked quickly and

would have been more elastic. I admit that this would have been only a temporary method of dealing with the question, but the knowledge gained by such a system would have formed the foundation for the framing of a scientific tariff and would give valuable information as to where tariffs should or should not be placed, without any need for experimenting, as it would be based on facts.

The plain truth of the whole matter is that Great Britain has continued to act as a safety valve for surplus goods, manufactured in high protectionist countries, in the hope that other nations would realize the economic danger which was confronting the world in an all-round system of high tariffs and would take steps to adjust their own tariffs in a downward direction. This hope has not been realized. On the contrary, there has been a tendency for them to rise since the World Economic Conference made its recommendations several years ago, and Great Britain has been reluctantly compelled to close the safety valve, which was enabling protectionist countries to use her market, as a great consumer of their surplus goods produced under protected conditions. It is becoming clear that, if Great Britain, who up to now has never retaliated in the face of the tariffs that have been continuously erected against her, is to be subject to retaliation by other countries, the safety valve is likely to remain closed, and the extension of the articles on which tariffs now operate will have to be undertaken.

The method of choosing certain industries and allowing the Board of Trade to impose tariffs up to one hundred per cent would appear to be only a temporary measure and a prelude to a general tariff all round, doubtless with such preferential rates for the Dominions and Colonies as may be arranged.

It is no use disguising the fact that Great Britain's action, which she has been compelled to take as a matter of self-protection, is going to cause a prodigious shake-up in Europe and America and will doubtless lead to long and complicated international tariff negotiations. If the net result should be a reduction in tariffs all round, one step will have been taken on the road toward international good health.

The effect of reparations and governmental debts on the

tariff situation has been profound. It was seen by some of us that if Germany was compelled to pay reparations on a large scale, it would certainly result in a great reduction in the standard of living of her people and low costs of production—in fact, so low that no other country could compete with her for certain exports.

If Germany is to pay vast sums of money, she can do so only by means of goods, services, or gold, and, if she is to produce goods and services cheaply and in sufficient volume to meet her reparation engagements, a very low standard of living is the only method by which it can be done.

It will be seen from the recent figures of the German trade balance that she is paying in goods to a certain extent. German exports in October totaled £43.3 million against imports to the value of £24.1 million. The total value of exports in November had slightly decreased to a total of £36.95 million, while imports remained the same at the figure of £24.15 million, this decrease being due partly to seasonal influences and partly to economic factors such as money depreciation and higher tariffs. Even this favorable balance, however, is not sufficient to enable her to meet her indebtedness, but, on the other hand, it is causing vast unemployment in other countries.

The reaction of German exports on world conditions begins to be felt, and other countries raise their tariff walls in order to protect the standard of living of their workers and their home market. And so the vicious circle continues until finally tariffs are raised so high that those countries which have to receive large sums of money—France and the United States—can receive them only in gold, and we come to the point where more than half the world's gold supply is hoarded in France and the United States.

This does not prevent these two countries from sharing in the world's misery; in fact, in the long run, it must be the cause of increasing their costs of production and, in this way, preventing them from securing their normal share of the world's trade. The inevitable accompaniments will be unbalanced trade, currency depreciation—leading again directly to unbalanced budgets—more taxation, and more misery.

One cannot look back upon the past few years and feel that the situation internationally has been handled for the greatest good of every one. There has been a great deal of national selfishness and misunderstanding, and this still exists. Until a much saner view is taken and it is realized generally what reactions must inevitably accompany the unnatural attempt to transfer vast sums of money from one country to another without any value received, we are not likely to approach the question internationally from a point which can possibly lead to a settlement of a permanent nature.

Unfortunately, a sane examination of the world's economic position so often conflicts with national politics of one kind or another and prevents the politician from doing what must be the right thing in the long run. He finds himself doing the wrong thing in order to please in the short run. What is wanted at the moment is men with real political courage and vision in all countries.

A fall in commodity prices is the natural result of the hoarding of gold and the restriction of trade by artificial means, and nothing produces lack of confidence to such an extent as falling commodity prices. Until they begin to rise, owing to real consumption, and until the United States takes her normal share of basic products, such as rubber, tin, copper, lead, zinc, and so forth, which will result in an all-round rise in prices, it is difficult to see how general confidence is to be restored.

We are undoubtedly in the vortex of economic mistakes. To a large extent, our difficulties are accentuated by panic and consequent hoarding, by a sense of insecurity, and by an entire want of confidence in the future. Once this atmosphere of mistrust and suspicion can be blown away, we shall have made the most important step towards recovery.

What is really wanted is not less production, but more production at prices at which a wider field of consumers can purchase freely.

It has been impossible in this short article to touch on many other influences which have affected the situation, such as the Russian situation, the disturbed condition of China,



and so on, but for the first time in the world's history, complete economic depression has taken place all over the world.

Looking back on forty-five years' experience in trade, one has passed through good years and bad years, but always in some part of the world trade was good, when it was bad in other parts, and in this way one was assisted in tiding over the bad period.

In the long run, tariffs and all other artificial methods of protection level themselves out, and what we come back to is real ability to produce goods at prices which will permit a large number of customers to purchase freely. This is the problem we have to face in Great Britain. It is going to require courage and good will on the part of both employers and employed, and the least possible interference by politicians.

Sheffield  
December, 1931

## THE PROBLEM OF LABOR SUPPLY AND THE INDUSTRIAL DEVELOPMENT OF FRANCE<sup>1</sup>

Report of Henri de Peyerimhoff, President, Comité Central des Houillères de France, Paris

**W**ITHOUT wishing to undertake a detailed analysis of the economic balance of France, which would extend beyond the limits necessarily placed upon the discussion that follows, we must nevertheless be permitted to outline a fact essential to the problem which we study here: the rapidity with which the development of French industry has taken place during a period of fifty years.

After the great scientific discoveries of the nineteenth century, it was possible to foresee that the industry of a country, rich in sources of energy if not in all raw materials, the people of which are peculiarly suited for industrial activity, was going to be accelerated each year.

The great manufacturing industries have come into their own; combinations of businesses have been formed; meanwhile, the working population affected by industrial and commercial employment has gone on increasing.

We witness, in short, the birth of the phenomenon of industrialization, of which all the great countries of the Old and the New World have already recorded the first manifestations.

The War came on. Under the pressure of events, France was obliged to arrange for the production of certain indispensable products, for which she had formerly been more or less dependent upon the countries of Central Europe. It was thus that an autonomous chemical industry was created.

Under the pressure of the same needs, and especially to make up, at least in part, for the loss of the coal mines occupied by the enemy, a strong impetus was given to her hydro-electric industry: the Savoy, the Maurienne, and the Tarentaise, which had known no other occupation than cattle-raising, were looked upon to produce iron-alloys, aluminum, carbide.

<sup>1</sup>Translated by National Industrial Conference Board.

The exploitation of our wealth of "white coal" was pushed forward very vigorously.

The invasion of our industrial provinces forced us to create and develop manufactures in other sections, sheltered from bombardment, especially in the center of the country.

The War ended, it was necessary to restore the devastated regions, which extended over ten of the most populous, most industrialized, and richest departments, to go on to a complete reconstruction of our industries, to renew the equipment, to build up the stocks, to reconstruct, in a word, a whole economic organization.

The accumulated ruins<sup>1</sup> in the North and the East of France and the paralysis of transportation in these regions, combined with the scarcity of labor, did not allow an immediate resumption of industrial activity.

Underproduction was the phenomenon that marked the first months of peace. France, nevertheless, was not slow to reassert herself.

With the provinces recovered, she disposed of an additional annual supply of from 4 to 5 million tons of coal; of 18 to 20 million tons of iron ore; of the addition of the Alsatian beds of potash and petroleum.

The technical and economic disorders provoked by the War, the inflation, and the decline of the franc, which permitted the sale at good prices of the products that foreign countries furnished at lower cost before the War, were bound soon to give a new impetus to the productive activity of the country.

In fact, in the ten years that followed, France increased her production of pig-iron by one fourth; her manufacture of steel by more than a third; within her present frontiers her tonnage of extracted iron ore increased by one fourth, as shown in the following table:

<sup>1</sup> 4,255,000 hectares of area invaded or bombarded.  
293,043 estates destroyed.  
50,097 estates damaged.  
6,575 public buildings destroyed.  
11,041 public buildings damaged.  
22,900 factories damaged.  
4,800 kilometers of railways destroyed.  
58,700 kilometers of roads destroyed.  
6,150 works of art destroyed, and so forth.

## In metric tons

Years	Iron Ore	Crude Steel	Pig Iron
1913 <sup>1</sup>	43,054,000	6,973,220	9,070,831
1920	13,871,187	3,050,396	3,433,781
1925	35,741,195	7,446,463	8,494,111
1926	39,228,400	8,430,002	9,431,607
1927	45,482,000	8,306,256	9,273,115
1928	49,134,000	9,499,528	9,990,888
1929	50,644,000	9,698,846	10,363,750
1930	52,557,000	9,402,000	10,105,000

<sup>1</sup> Within the present frontiers.

Without entering into an account of the Saar, incorporated into her custom network since 1925, and in spite of the systematic destruction of which the mines of the North and of the Pas-de-Calais have been the object on the part of the invader, France recovered as early as 1924 her tonnage of coal mined before the War. This tonnage has not ceased to increase since that time, as the following figures show:

Years	Tonnage Mined in Metric Tons
1913 <sup>1</sup> .....	44,640,150
1920.....	25,261,058
1924.....	44,955,320
1925.....	48,090,649
1927.....	52,874,862
1929.....	54,922,150
1930.....	55,026,768

<sup>1</sup> Within the present frontiers.

The factories building railroad equipment, of which 4 out of 8 for the construction of locomotives and 5 out of 21 for the construction of cars were destroyed in the course of hostilities, which had the effect of reducing their production by 40%, doubled their figures after 1923.

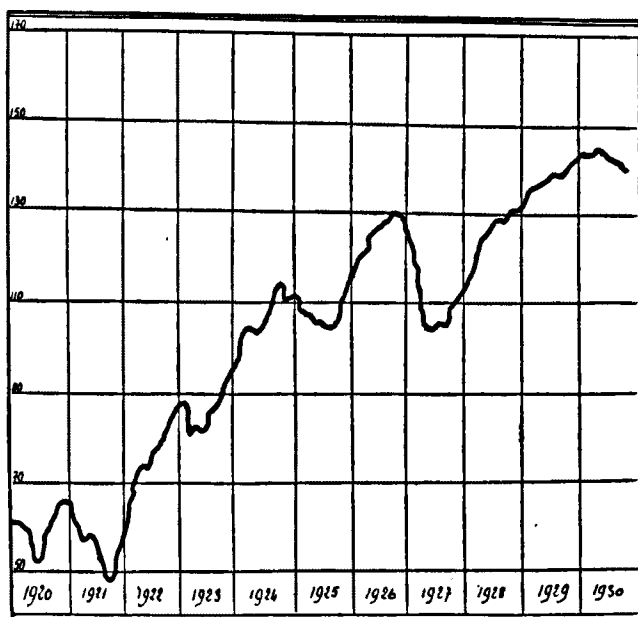
The airplane industry, which had to decline during the first years of peace, experienced soon a revival of activity owing to needs born of the necessities for national defense and for the establishment, and then for the extension, of aviation lines.

The automobile industry, of which the index of production had passed from 250 in 1921 to 422 in 1924, 543 in 1926, to attain 700 in 1929, expanded in a characteristic manner.

France, finally (space is lacking for us to study the branches of her economic activity enlarged after the War,

extending to artificial silk, moving pictures, radiotelegraphy, radiotelephony, and so forth), by the acquisition of the rayon manufacturing of Alsace, saw the capacity of her cotton spinning mills increased by one fourth and took third place in the world in the number of her spindles.

The chart below, giving the general index of industrial production in France, shows in graphic form the curve of this production since the War.



All these developments, all these establishments, opened up a new problem: that of supply of labor.

Can one find on the spot the hundreds of thousands of men that so formidable a task requires imperiously and without delay?

The deficiency resulting from the losses undergone by the French population during the War, combined with the deficiency of the birth rate, did not permit it.

The War cost France nearly 1.4 million men killed or missing on the field of battle and about 120,000 disabled in-

capable of all work, that is to say, more than a tenth of the actual male population, which amounted in 1913 to about 13.5 million. If one adds to these figures 1.5 million injured, having lost on the average 30% of their working capacity, it is a total of 3 million men in full vigor of whom France has been deprived.

There is hardly any need to remark that this brutal blood-letting has been and remains a cause of aggravation of the low birth rate which will deprive our country not only of children who are not born but also of all those whom the latter would have been able to put in the world. It follows from this that the French population of working age will go on diminishing for a number of years.

During this time the other European countries, less injured by the War and more prolific, have made up for their losses more quickly. Although the post-war period assures us of an annual increase of 11 inhabitants per 10,000, the German increase remains 8 times, the English increase, 10 times, and the Polish increase, 13 times as large.

The problem of labor supply has been aggravated for our country by the premature and too strict adoption of a system of labor regulation which the majority of great producer countries have applied only in a fragmentary manner, often incomplete, in any case progressive.

The legal reduction of the working day to 8 hours has not been preceded nor even immediately followed by an improvement in the equipment and an organization of work sufficient to maintain the individual output of each worker. A new personnel then becomes necessary in complete absence of effective forces.

An investigation made by the Union of Metallurgical and Mining Industries shows that for equal production the eight-hour law has increased the labor costs by 45% to 50% for continuous-fire work and by 20% to 25% for the other classes of work.

In the coal mines it is estimated that the application of the law of June 24, 1919, has entailed a loss of 17% to 18% of the output of 1913, compelling the mine owners considerably to increase their labor forces.

Finally, on the railroads, to cite only a few examples, the personnel of the systems has shown an increase of 9 to 12 agents per kilometer on account of the putting in effect of the same law.

France, which does not have a reserve of workers for filling up the gaps, must make up the difference with foreign workers. The pressure of circumstances, rather than a reasoned decision, has made her a great country of immigration.

Everything assigns to her this rôle: her deficient birth rate and her losses in the War, on the one hand; her industrial development, the overpopulation of the majority of other European countries, the abatement of transoceanic emigration, the political events for which Russia, Italy, and Spain were the theaters, on the other hand.

This problem was not, after all, entirely new for our country. Since before 1914, being hardly able to meet the requirements of her economic development, it was necessary to call upon the foreign labor supply.<sup>1</sup>

Several experiments in organized immigration have been made by the farm owners and the metallurgists of the East as much in Italy as in Spain and in Belgium.

At the declaration of war the most important and most active part of the male population was called to the front; meanwhile, many of the foreign workers returned hurriedly to their countries or were interned as enemies.

It was necessary to find at any price the labor supply needed to increase the activity of our industries of war and to maintain comparatively agricultural production.

An office of colonial laborers, established by the Ministry of War at the beginning of 1915, was charged to call upon

<sup>1</sup> Even before the War the number of foreigners in France was considerable. It was calculated in 1896 as 1.05 million for a population of 38.5 million souls, or about 2.7%. In 1913 the figure for foreigners increased to 1,132,000, or 2.8% of the total population. In 1921 they numbered 1,417,000 in the old departments and 1,550,000 in the whole of France; the percentage at this time increased to very nearly 4%. The census of 1926, which counted 40,743,851 inhabitants in France, divided them into 38,236,216 French and 2,507,635 foreigners, the percentage of which was established at about 6.2%. Finally, it was estimated that on January 1, 1931, there were 3.3 million foreigners in France or 9% of the total population. This number includes 1.8 million workers, of whom about one fourth are farm laborers, the rest being directed toward industry.

available workers in our Colonies and in certain foreign countries, Italy, Greece, Portugal, and Spain. Through the efforts of this office, 180,000 Algerians, Tunisians, Indo-Chinese, "Malgaches" Moroccans, and so forth; 20,000 Portuguese; 25,000 Greeks; 4,000 Italians; 20,000 Spaniards; 17,000 workers of diverse nationalities, were directed to our war factories.

Meantime an "Office for Farm Labor" and an "Office for Foreign Labor" under the Ministry of Labor and the Ministry of Agriculture were established, thanks to which 150,000 workers were recruited from 1915 to 1918.

An active organization of control at the frontiers for reception, and even for professional and sanitary selection, was created, which laid the bases of the present system of immigration.

After the cessation of hostilities, the bureau of foreign labor of the Ministry of Labor and the bureau of farm labor of the Ministry of Agriculture were retained. Bureaus of immigration, with a depot or center of lodging had been established at Toul, Modane, Marseille, Perpignan, Hendaye; and complementary frontier posts at Cerbère, Menton, Frasné, Feignies, Tourcoing, and Le Havre.

Some countries have at hand a labor supply too abundant for their needs. France signed with these countries various treaties and conventions, especially with Poland, Italy, Czechoslovakia, Belgium, Luxemburg, Jugoslavia, and Rumania. All these conventions rest on identical principles: equality of conditions of foreign and national workers, equality of salaries, equal protection due to the benefits of the application of the laws on industrial and social subjects, regulated freedom of emigration and immigration.

While the governments elaborated these first conventions of emigration, the great national organizations were led to establish special offices for labor.

Under the impetus of the Comité des Houillères, which soon had to take the lead in the organization of collective immigration, the technical problem of this immigration was solved.

The Comité des Houillères, which includes all French



coal-mining, tried in 1919 in two principal directions, Italy, on the one hand, and Poland, on the other, a system of professional recruiting.

Its effort was sanctioned during the year 1920; a special office of foreign labor was established, which, in connection with the different competent public administrations and with the missions of recruiting sent by the French State to the foreign countries, insured the entrance into France during the year 1920 of 8,255 mine-workers.

The constant and rapid extension of the activity of this office, the example thus having been given by the coal industry, and its surprising success and the increasing acuteness of the problem of labor supply, with which all industries and agriculture seemed to be confronted, brought the great economic forces of the country to co-operate and to establish in 1924 the Société Générale d'Immigration. Its essential aim was to unify the labor immigration bureaus of the chief national groups of industry.

At the present time the Société Générale d'Immigration centralizes and satisfies by its own means, under the control of the Administration which accredits its delegates to foreign countries to our diplomatic agents and through them to the authorities of the countries of emigration, almost all the demands of French industry and agriculture for foreign labor in Poland, Jugoslavia, Austria, Czechoslovakia, Rumania, and so forth.

Its activity, therefore, in the search for workers is extended to all the formalities of hiring under contract, of professional and medical selection, of assembling and sending the emigrants on their way, of their transportation, and their distribution on arrival in France. The originality of the formula is twofold. There is, on the one hand, the huge character of the recruiting operations; on the other hand, the selection of laborers by technically specialized agents.

The figures that follow interpret, better than a very long explanation could do, the success achieved by the Société Générale d'Immigration as auxiliary of the national economy since its establishment in taking account of the results achieved from 1919 to 1923 by the Comité Central des Houillères.

Years	Total Foreigners Brought in	Foreign Workers
1919-1920 .....	17,040	12,922
1921 .....	8,654	6,320
1922 .....	48,197	22,007
1923 .....	86,567	52,855
1924 .....	75,857	45,489
1925 .....	49,778	32,802
1926 .....	70,585	57,162
1927 .....	13,746	9,088
1928 .....	29,082	23,473
1929 .....	82,639	63,371
1930 .....	85,235	63,748
Total .....	567,380	389,237

If one wishes to compare these figures for each year with the general index of production in France, one will notice that immigration follows in a very characteristic way the pace of production and that the two years of business depression, 1921 and 1927, were marked by a very much smaller number entering than the other years. It can be said that the industrial swing regulates closely the number, the distribution, and, it would be easy to show, even the origin of the foreign elements to which appeal is made.

In this manner the problem of labor supply has been solved in France.

The introduction, employment, assimilation of these varied elements have surely not been without difficulties. The extension of housing provisions, the relief works, the co-operatives, in a word, the social organization of immigrant workers, have necessitated heavy monetary sacrifices.

The appeal to the foreign labor supply alone has allowed France to fill up, in greater or lesser degree, the deficiency of her birth rate, to which have come to be added her losses in the War, and to satisfy the needs of her industrial development. It has given to her labor market indispensable flexibility and has permitted her to adapt herself without shocks and without delays to economic circumstances so unstable, made of depressions and activity. It is the shuttlecock of the conduct of industry.

By the number of foreigners brought in, France has become suddenly the greatest country for immigration in Europe; the large increase of immigrants during the years 1929 and 1930 has made it the first country for immigration

in the world, and it can be asserted that, if the volume of arrivals has decreased a little owing to the prolongation of the present depression, the point of saturation of the economic needs for labor supply is far from being attained; the years are approaching in which the diminution of births during the War will reduce in considerable measure the number of young people beginning to work.

France has had and will have, from this fact, more and more to settle a whole series of problems, social, political, international, moral, and even religious.

Faced by such problems, she has exercised until now entirely a policy of liberalism and prudence. France by tradition is hospitable; foreigners who come to sit at her hearthstone find there the hospitality for which they long. Nothing is done that is of a nature to gainsay their customs or to detain them, but she cannot forget that the arrival of elements different in language, morals, and customs can have serious repercussions on the true character of her people, on the maintenance of her national unity, and her security in juxtaposition to her neighbors. That is why her policy of immigration must be guided by prudence, prudence which must manifest itself in a selection, flexible without doubt but effective, of the elements that she incorporates.

Also, France is not alone interested in the problems of migration: the immigration to which she must have recourse finds its counterpart in a great number of European countries for which emigration becomes more and more a necessity: for Italy, first, which, alone of all European nations, has maintained its pre-war birth rate, for Czechoslovakia, Jugoslavia, Germany, Portugal, and Spain, for Poland, finally, whose birth rate is the highest in Europe.

But, as a result of the disorders due to the economic evolution of the world and to the disturbances resulting from the War, the migratory movements are found to be thwarted, diverted, and unbalanced.

A veritable crisis of migrations has fixed the day, which will not fail to attract rightly the attention of the statesmen and economists.

From individual, free, and uncontrolled in effect, emigration tends more and more to become collective, organized,

controlled. From a local and national plane the problem presents itself now on an international plane; the necessity for a rationalization of migratory movements makes itself felt.

Already in the course of the Washington Conference of October 29, 1919, there had arisen the nomination of an International Commission of Emigration charged with submitting a report at a next conference. This Commission, meeting again at Geneva from August 2 to 11, 1921, formulated a number of suggestions which were submitted to the Geneva Conference of 1921. A section on emigration was established in 1925 at the International Labour Office. A conference was held in Rome in 1926; another, in Cuba in 1928.

No international convention indeed has yet been signed at the present time; but the various theoretical studies which have been made indicate, in undoubted fashion, the need of methodical and international regulation of migratory movements for a better distribution of labor supply in the world.

We do not conceal from ourselves that the elaboration of a common right of emigration is a very delicate subject. It stirs up differences of points of view in different states. But we think that the putting in effect of equitable legislation, elaborated with care, would allow the individual rights of emigrants, the rights of states, and their legitimate susceptibilities to be happily reconciled.

Thus the migratory movements could become normal and contribute to re-establish balance and stability in the world.

Paris  
April, 1931

## ITALIAN EXPORTS AND ITALIAN COMMERCIAL POLICY

Report of Mr. Antonio S. Benni, President, Confederazione Generale Fascista dell' Industria Italiana, Rome

**W**HEN the curtain rose on the first act of the economic depression in October, 1929, the economic situation in Italy was rapidly approaching normal. Industry was recovering from the shock of monetary and credit deflation; costs and prices had nearly adjusted themselves to the new parity of the lira; agriculture was still suffering from the fall in land values and the revaluation of the currency, but bumper crops had secured a good return to the farmers; the monthly average of industrial unemployment barely exceeded 200,000; and the general economic activity of the nation was reflected in the growth of railway, 58.7 million tons, and sea traffic, 38.3 million tons, the highest figures yet recorded for Italy, and in the expansion of foreign trade, valued for the year at 36,901 million lire, equivalent to 10,016.5 million in pre-war gold lire, as against 6,157.2 million in 1913.

Economic prosperity was reflected in a budget surplus of 555 million lire at the close of the financial year, and, although taxation was still high, reductions had been made and others were being studied. Capital was flowing plentifully into production with a net investment for the year in joint stock companies of 4,644.5 million lire.

Political stability and social peace at home and increased prestige abroad completed the picture. It looked as if the ship of state were entering calm waters.

The collapse in the New York stock market, heralding the approaching storm, brought these hopes to an end and inaugurated a period demanding of the Italian people a further proof of its powers of endurance and resourcefulness.

All the Italian economic index numbers for 1930 reflect the growing depression. The wholesale price index fell from an average of 445.3, base, 1913 = 100, in 1929 to 383.0 in

1930, thus nearly touching the pre-war level when expressed in gold lire; the output of steel shrank from 2,142,765 metric tons to 1,774,094, the wheat crop, from 7 million to 5.7 million metric tons, accompanied by a marked decline for wine, oil, and citrus fruit; the number of unemployed rose from some 400,000 on December 31, 1929, to nearly 650,000 on the corresponding date of 1930; foreign trade fell from 36.9 million lire in 1929 to 29.4 million in 1930; railway traffic tonnage, from 60.3 million to 53.5 million tons; the number of business failures rose from 11,478 to 12,196; the capital investment in stock companies fell from 4,644.5 million lire to 2,684.6 million; the index number for 127 industrial securities, base, 1922=100, from 129.8 to 97.4; and the financial year closed with a greatly reduced surplus of 170.3 million lire, as against 555.1 million for 1928-29. In 1931, and more especially since the German crisis in July and the suspension of gold payments in Great Britain with the consequent further dislocation of world trade in September, the business depression has deepened. But if Italy is no exception to the general rule, her economic activities have shown a remarkable degree of elasticity and resistance to the adverse circumstances under which they are operating.

Thanks to the Fascist régime, which has replaced the class struggle by class co-operation, the workers have clearly realized the difficulties facing industry and have accepted their share of the sacrifices required of all alike to overcome the crisis, and manufacturers, working on a very small margin of profit or even at a loss, have spared no efforts to maintain the positions laboriously secured in preceding years. Costs have been revised, improved machinery has replaced old-fashioned, the organization of production and distribution has been keyed-up in all its phases, new markets have been sought, the demand for new products has been encouraged. By eliminating the unfit or the less fit, Italian industry has aimed at and attained higher standards.

The proof of this is afforded by a detailed analysis of the country's export trade during the first 10 months of the current year. During this period imports shrank from 14.4 to 9.9 billion lire, a 31% reduction; but for exports the reduc-

tion has not exceeded 18.6%, and, as during the 10 months there had been a 19.7% decline in the price level of Italian exports, the figures show that the total volume had not only been maintained at the 1929 level but had even slightly exceeded it.

This showing is all the more notable when compared with data for export trade of other countries. During the same 10 months official statistics show a decline of 38% in the value of exports for the United States; 33% for Great Britain; 28% for France; and 20% for Germany.

Overcoming immense difficulties by reducing costs, by careful attention to detail, and by improving their trade organization, Italian exporters have actually succeeded during the period under consideration in increasing the volume of many important lines. For fresh vegetables there has been an 11% increase as compared with 1930, and a 69% increase as compared with 1929; for fresh fruit the increase was, respectively, 1% and 21%; cheese exports increased 10%; and those of canned tomatoes and tomato paste 5%, as compared with 1930. In the first 10 months of 1931 Italy exported 189,092 metric tons of textile fibres and products, as against 183,295 tons in the corresponding months of 1930. While the volume of her exports of cotton yarns increased 17%, there was a decline of 6.5% for Great Britain, 25% for France, 22% for Germany, 25% for Czechoslovakia, and 59% for Japan. Again in the case of woolen yarns, the volume of Italian exports increased 13%, as against a decline of 7% for Great Britain, 13% for Czechoslovakia, and 13% for France. The volume of cotton cloth exports declined only 8% in Italy, as against 33% in Great Britain, 21% in France, and 27% in Czechoslovakia.

The volume of Italian woolen and worsted exports rose 17%, as compared with a decline of 26% for British, 21% for French, and 27% for Czechoslovakian exports of like goods. Rayon exports tell the same tale; the volume increased 23% for Italy, but fell 33% in Great Britain and 16% in Germany. There was a 15% increase in the volume of silk and rayon fabric exports, and a 39% increase in the case of kid gloves. The major volume has to a large extent offset the decline in value of the exports referred to, which figure in

the trade statistics for 1,906.7 million lire in the first 10 months of 1931, as against 2,035 million in the corresponding period of 1930.

In the case of aluminum, Italian exports have risen from 719 metric tons in the first 10 months of 1930 to nearly 4,000 metric tons in the corresponding period of 1931, the value rising from 6.6 million to 22 million lire. This is a new industry, using Italian raw materials, which now meets in full the demand of the home market, leaving a growing margin for export.

Unfortunately the utmost efforts of the industrialists have been unable to avert a heavy decline, not only in the value, but also in the volume of some leading exports, among which are mercury, -28%, marble, -26%, felt and straw hats, -27%, and automobiles, -45%, a shrinkage that, however, does not compare unfavorably with that registered for similar products in other countries.

The situation, however, is now aggravated by the strict control of all foreign exchange transactions, carried on many European markets to an extent paralyzing all trade activities. The case is one calling for the most careful consideration by the Government and by all categories of producers and traders. Fortunately the guild organization of economic activities, characteristic of the Fascist régime and culminating in the National Guild Council, often referred to as Italy's economic parliament, affords the means of securing collective organized effort to meet the difficulties as they arise.

One of the great advantages of this system is that it brings agriculture, industry, and commerce together on the same footing. Thus the policies ultimately adopted, with the sanction of the head of the Government, who presides in the national interest over the Guild Council, are determined with due regard to the needs and desires of all categories concerned.

The November session of the National Guild Council was devoted to the study of the problems facing the export trade and afforded an opportunity for surveying the whole field from the agricultural and industrial standpoints. The Council noted that tariff barriers, import quotas, monetary



and exchange difficulties, trade barriers of all kinds, are leading to so-called "closed economies" and to the revival of the mercantilist theories and practices of the eighteenth century based on "balanced exchanges" between countries under agreements for clearing purchases by sales so as to reduce to a minimum the need for transferring cash balances, agreements amounting to barter rather than sale, and complicated by preferential tariffs or special understandings, which nullify to a great extent the value of the commercial treaties based on the m.f.n. clause.<sup>1</sup>

Situated in the heart of Central Europe, surrounded by countries in a state of economic siege, Italy cannot but be deeply concerned as to the policy best likely to serve her interests. The almost overwhelming difficulties of the hour have driven some people to stake their hopes on ever higher protection and to see in the m.f.n. clause an impediment to those "balanced exchanges" which they hope would facilitate the export of their surplus production.

Nevertheless Italian business is of the opinion that the main concern of Italian exporters, whether of agricultural or of manufactured products, should be to secure equality of treatment with their competitors on foreign markets, and that this can only be assured by the m.f.n. clause.

Italy's production in all fields—agricultural and industrial alike—is highly diversified. She has not had to cope with the problems arising from mass production, but to find an outlet for the varied output of a large majority of small-scale or medium concerns.

In 1929 her share of world trade amounted to only 2.39% of the grand total, or \$783 million, against the \$5.1 billion for the United States, and \$33 billion for the world as a whole. The task now facing Italian exporters is, therefore, that of raising this 2.39% to 3%, and it is not an impossible one. It cannot, however, be achieved by restricting sales to any special world sector; Italy's market must be the world, and her task, that of securing a footing in as many countries as possible.

The position taken by Italian industrialists was summed up before the National Guild Council by Prof. Guarneri, Director of the Association of Italian Corporations. Bal-

<sup>1</sup> Most favored nation clause.—Editor.

anced exchanges, he said, can only be assured by recourse either to import prohibitions tempered by varying quotas assigned to the several countries, or by a foreign trade monopoly. The system of prohibitions and quotas was tried out in the war and post-war years and found wanting. It entails elaborate controls for ascertaining the origin of all imports and inevitably leads to speculation in import licenses and a rush to secure them, followed by ill-directed, chaotic imports, accompanied by overstocking, with all its bad effects on the balance of payments. As to a foreign trade monopoly, the experience acquired during the War shows the evils of such a practice, and it should be noted that the only great country where such a monopoly exists—Russia—has been unable to secure “balanced exchanges.”

Italian manufacturers recognize that import duties are helpful on condition that they be not excessive. Farmers and manufacturers must be encouraged not to rely too exclusively on protection, but rather to multiply their efforts to establish a footing on the several markets by improving and increasing their output, and all alike—producers, traders, bankers, and carriers—must co-ordinate their efforts to foster the export trade. The open door and equal opportunity on all markets, secured by the m.f.n. clause, should be the rule, tempered by such exceptions as may be required to meet special circumstances and in reply to the commercial policies of other countries. And within the country the guild spirit of co-operation, now guiding the relations between Italian employers and workers, must extend to the relations between the several concomittant branches of national economic activity.

The position was ably summed up at the close of the session by Mussolini. Agriculture, he said, more especially in these critical times, needs protection, but it would be grotesque to speak of the opposing interests of agriculture and industry, which are the interdependent and fundamental forces of national economic life. Nor must protection be allowed to encourage inertia and sloth; all factors of production must aim at raising the quality of their output by perfecting equipment, minimizing friction, eliminating waste, carefully selecting and training their man-force.

The following resolution passed by the National Guild

Council and jointly introduced by the agricultural and industrial guilds, embodies the trade policies now favored by Italian producers:

“The National Guild Council, recognizing that the present exceptional and changing world economic situation and the complex systems adopted by countries to regulate their trade relations demand that Italian customs’ policy be determined in conformity with the special requirements of the day; recognizing the need of co-ordinating the interests of agriculture and industry within the sphere of national economic life by further development of the guild system; considers the formation of closed economic areas as injurious to the interests of consumers and unsuited to Italian needs, and therefore deems it necessary that in negotiating commercial treaties, the conditions secured for Italian exports be no less favorable than those secured by the competing export trade of other countries;

“Considers, that in view of the circumstances above referred to, recourse should be had for purposes of negotiation, bargaining, and eventual reprisals to any system, including that of the so-called balanced exchanges, likely to secure an entrance on foreign markets to Italian exporters;

“Considers, that when certain commercial treaties are renewed in the near future, steps should be taken for affording more adequate protection to important sectors of agricultural production—more especially animal husbandry and forestry—and asks that there be set up within the National Guild Council a permanent Commission on Customs’ Policy and Commercial Treaties.”

This last wish was at once acted upon by the Government, and the important trade negotiations now in view with France, Germany, and other countries, will be carried on with the assistance of this new commission.

The Fascist Guild State has thus brought together all the factors of production and exchange in a co-ordinated national effort to meet the exceptional difficulties of the hour which threaten to make international trade the victim of a deadly creeping paralysis.

Rome  
December, 1931

## TENDENCIES IN BELGIAN FOREIGN TRADE<sup>1</sup>

Report of Hon. Georges Theunis, Minister of State, Brussels

**T**HE foreign trade of Belgium feels the effects of the world-wide business depression.

The most recent statistics available covering the first eleven months of 1931, indicate that in comparison with the corresponding period of 1930 the volume of imports was 9% and the value 22.4% lower. During the same period exports showed an increase of 4.5% in volume and a decrease of 10.8% in value.

From the point of view of the balance of trade, the situation has a more encouraging aspect. During the first eleven months of 1931, the value of exports was actually equivalent to 97.07% of the value of imports, whereas in 1930 the percentage was only 84.86%.

The analysis of the different elements in the published statistics makes it possible to measure the effects of the depression on Belgian industries. At a first glance it is seen that the decrease in our exports is due almost entirely to the decline in foreign sales of our finished manufactures, while the decline in our imports shows itself largely in raw materials or half-finished products and in finished manufactures. Out of a decrease of 6,440 million francs, imports of raw materials to be used by our industries are reduced by almost 3,000 million francs.

The decline in world prices is felt clearly, since Belgian exports, as shown above, have increased in quantity, but their value has declined considerably.

If we examine the changes that have occurred in the channels of trade, we will see that the percentage of Belgian trade with its principal European customers was maintained at practically the same level as far as the value of our imports is concerned and that our exports have increased 2%. The trade with our principal European customers represents 75% of the value of our exports and 83% of their volume.

On the other hand, our trade with our principal overseas

<sup>1</sup> Translated by National Industrial Conference Board.

customers, among them the United States of America, is decreasing constantly, in regard to both imports and exports.

The value of our exports to North America in particular has been declining steadily for a number of years.

The following table shows the percentage that the value of our exports to the United States is of the total value of Belgian exports in the last five years:

1926.....	11.38%
1927.....	9.06
1928.....	8.05
1929.....	6.78
1930.....	5.1
1931, first 11 months.....	4.9

A number of internal indexes likewise show that the depression has affected Belgium as it has the rest of the world.

The index number of retail prices, which touched 891 in 1930, declined to 764 on December 15, 1931, and to 752 on January 15, 1932. Wholesale prices declined from 808 in 1930 to 573 in November, 1931.

The Brussels stock exchange has gone through a profound depression, affecting all variable income-bearing securities, the average quotation of these securities being no more than 28% of the quotation on January 1, 1928. More recently there has been a slight improvement.

Average monthly operations of Clearing Houses in 1929 amounted to more than 40,000 million francs. This figure declined to a monthly average of 37,800 million francs in 1930 and to 22,500 million francs in November, 1931.

Stocks of coal at the pit heads increased steadily, reaching the record figure of 3,471,000 tons at the end of November last, and do not appear to be decreasing. In 1929 the stocks averaged 425,000 tons and in 1930, 1,611,000 tons.

The production of pig iron and raw steel, which averaged 341,000 and 334,000 per month, respectively, in 1930, declined to 262,000 tons and 247,000 tons in November, 1931.

The number of unemployed was trebled as compared with the corresponding period of last year. About 13% of all workers are totally unemployed.

Is it necessary to add that the great decline in prices of

agricultural and colonial products is similarly reflected to a marked extent in the colony, the Belgian Congo?

It is shown by these few statistics that Belgium did not escape the difficulties which are felt in all countries. It was to be expected that the depression would affect this little country, which through work and initiative has become an important industrial and commercial center, occupying in 1930, with a population of only 8 million, the seventh place in the list of nations classified according to the importance of their general trade. It was preceded only by Great Britain, the United States, Germany, France, Canada, and the Netherlands.

And yet Belgium does not possess any natural resources with the exception of coal, and the conditions of work are much less favorable than in the neighboring countries.

In order to meet the competition of the countries richer in raw materials, Belgium has had to make up this inequality by work, by the incessant improvement of its equipment and of the value of its technicians and its workers.

Having only an extremely limited and entirely insufficient domestic market, the economic activity of Belgium has been directed towards exportation. This policy is necessarily based in the long run on the greatest possible freedom of transactions and on the reductions in the cost of production of manufactured products, the raw materials for which have to be bought abroad.

In reality, being a country of industries of transformation, Belgium, in order to exist and to develop, must utilize in all its forms its intellectual and manual work. A country of transit and exportation, it must increase to the highest possible point the value of its activity and its equipment in order to ensure the existence of its inhabitants.

Under these conditions, Belgium has based its tariff policy on very liberal principles, and the tariffs against commodities entering the country are not only among the most moderate, but in most cases they are accounted for by considerations of a fiscal character. Not only has it thus been able to maintain the cost of living at a moderate level but its industries and its agriculture, which are constantly kept on

the alert by international competition, have adapted and modernized themselves in a very interesting manner.

The flexibility of its economic life has made it possible for Belgium to survive not only the terrible trials of the War but also all the difficulties arising out of the reconstruction of the devastated parts of its territory and the troubled periods which followed 1919.

Furthermore, it was able to maintain its rank in the economic life of the world, by ensuring to its inhabitants a standard of living that can be advantageously compared with those of the other countries of Europe.

Belgium has always tried to promote as much as possible an international economic policy based on co-operation of nations and liberty of commercial transactions.

It was among the first to ratify the recommendations of the International Economic Conference, held in Geneva in 1927 under the auspices of the League of Nations. And since that time, it has not neglected any opportunity to promote, not absolute free trade, because that is without any doubt a utopia, but the freest possible commercial dealings, which would tend to increase the international trade as much as possible and to restore more order and system into the unbalanced situation in which the world finds itself, while at the same time taking into account the existing situations and the necessities of the different peoples.

Can it be said that that policy has met abroad the support which one had the right to expect? On the contrary.

As it developed the depression led in the different countries to a movement of self-reliance. Above all, tariff barriers were raised and multiplied. The erroneous belief that it is possible for everybody to lock himself in, to protect himself to the utmost and yet wish to sell abroad without buying anything, and thus to combat the difficulties of the depression, became more and more manifest.

In the short run this policy may appear to give certain results and yield some immediate relief. In reality it only prolongs the depression; it aggravates it and makes more painful the economic readjustments that necessarily must be made some day.

It seems necessary, besides, to take it into account, in a more or less clear manner, that the narrow policy of extreme protectionism is doomed to failure.

Already there are suggestions from many sides with a view to enlarging the national markets by means of regional economic ententes, by unions harmonizing complementary or similar economic entities.

Although the policy of the Belgian Government remains faithful, in spite of all, to the liberal principles in general, although no effort is spared in seeking to bring the world back to a more rational and more stable trend, to a more systematic conduct in the economic sphere, one observes, nevertheless, from various groups expressions of hostility that are constantly met in regard to this policy. Despairing of being able to make the world see reason, they seek combinations which, by increasing the restricted markets, will give them a size that will permit them to a greater or smaller extent to await the better times by utilizing the economic material which is at their disposal.

These projects, more or less precise, more or less studied, are not inspired by a desire to fight against other economically stronger nations. They are based on the absolute necessity of regulating and stabilizing economic conditions.

Since it does not seem possible on a general plan to make at the present time the world economic exchanges more free and to reorganize them, some desire to commence this work in a more restricted sphere. The formation of larger economic groups, better co-ordinated, may serve as the basis for a better collaboration to be finally realized by those groups themselves.

It is not possible to say at the present time whether or not this policy of partial agreements will rally around it the mass of public opinion and whether or not it will receive official support. In spite of all difficulties Belgium still remains faithful to liberal principles which permit the different countries to unify their efforts and harmonize the resources and the wealth that are at their disposal.

In the last few months, repeated increases in tariff duties by various European countries have turned toward Belgium, which is little protected by such tariffs, the export surpluses



of certain competing industrial countries. Faced with this veritable dumping, tariff increases were demanded by numerous sections of national economy. The idea was primarily to furnish the Government with a means of negotiations rather than to change the distinctly free trade policy that has remained dominant in Belgium for seventy-five years.

It should be noted that these ideas correspond to those of many English free traders who accept protectionism temporarily in order to make the extreme protectionist countries understand that free trade supposes a minimum of reciprocity.

Brussels  
January, 1932

## THE ECONOMIC SITUATION IN THE NETHERLANDS AT THE BEGINNING OF 1932

Report of Mr. E. Heldring, President, the Royal Netherlands Steamship  
Company, Amsterdam

THE financial and economic conditions of Holland, situated between Germany and Great Britain, with which countries she has habitually her most important commercial dealings, cannot be viewed independently of the position of Europe and of the world at large. Financially sound and on the gold standard, Holland is exposed, like the rest of the world, to a possible calamity ensuing from the threatening failure of the governments concerned to reach, within the next few months; a definite solution of the problem of reparations and war debts, the scrapping of which is regarded here as the first necessary step, but by no means the only one, towards the re-establishment of international confidence.

Protected by the large holdings of gold of the Netherlands Bank and by the country's creditor position, there is no cause for anxiety with respect to the stability of the currency, provided there is co-operation in all quarters, viz., government, municipalities, employers, and labor-unions, in maintaining the equilibrium in the national household.

The stock of gold at the central bank has increased during the year from 426 million to 887 million guilders. The inflow started at the outbreak of the financial crisis in Germany in July last and continued until quite recently some 11 million were shipped to France. The circulation of notes amounts to 1,023 million, the free balance being 432.5 million. Besides, the private banks have accumulated some 100 million gold in their cellars.<sup>1</sup> Official discount has been at 3% since September 21, 1931. When confidence will have been restored here and abroad, we shall be glad to see this gold flow out again, serving now as a safety-valve, but representing unutilized capital. It has come here as a sign of the weak

<sup>1</sup> All these figures apply to the position on January 1, 1932.

situation of other countries, of universal distrust, and of the trust of the Dutch people in the stability of Holland. Foreign balances held here are small compared to what they are supposed to be in Switzerland. Ours is, therefore, a relatively healthy position in unhealthy surroundings.

It is, however, necessary to reorganize our somewhat sumptuous household. Our costs of production, viz., wages and fixed charges, have not been reduced sufficiently. They weaken our competitive capacity, export being also hit by the diminishing purchasing power and artificial trade barriers in other countries. Revenue from investments abroad and in the Dutch East Indies has fallen off considerably. Shipping, industry, and agriculture are in a bad way. Capitalists have suffered enormous losses, which may be put—for shares and bonds quoted on the Amsterdam stock exchange alone—at 3,000 million guilders in the last two years. High wages, which are not economically justified, revenge themselves by increased unemployment. The total figure of unemployed has risen in 1931 from about 100,000 to about 250,000 in a population of 8 million. Unemployment allowances and poor relief weigh heavily on the state and municipal budgets. Fortunately retail prices have been declining steadily, so that the adaptation of wages to economic possibilities is rendered easier, but nevertheless the labor unions resist any demands in that direction, their concessions amounting to 5% or 10% in isolated cases, as against 30% to 50% unfavorable difference with the wage level in Germany, England since the depreciation of the pound, and Belgium. The dole, although not quite so high as in England, is exercising an energy-killing effect on the workmen in many cases.

As already said, agriculture is in a bad way owing to the disastrous fall in prices. Wheat and sugar beet growing, as well as potato flour, have been supported by the Treasury since 1930. Horticulture, usually very profitable, is suffering almost to the same extent and will be further hit by the import duties recently imposed in Great Britain. The same applies to vegetable growing and the dairy trade. Not only does the fall of the pound mean serious extra losses to our large export of butter, cheese, condensed milk, etc., but the

competition of Denmark, whose currency has declined with sterling, is felt more keenly than ever. The export of meat, pork, and bacon is becoming ever more difficult, and the import of Danish meat is making itself felt. High duties and quotas elsewhere increase the difficulties of these industries of the soil.

The conditions and prospects of industry proper are gloomy, owing to world conditions and the enhanced difficulty of competing with the countries whose currencies have declined or whose wages are on a much lower level than in Holland. The only exception to the universally dismal observations was the temporarily increased export of goods like woolen textures, earthenware, tiles, glassware, etc., to England in order to forestall the imposition of duties which were feared and since proved to be prohibitive. Among the principal suffering branches is the cotton industry, threatened in foreign markets both by Lancashire and still more by Japan, which has been for the last 10 years a successful competitor in the East Indies and now receives a fresh export premium in the abandonment of gold. An effort to lower wages has produced a strike in which the textile industry is at present involved. The shipbuilding yards are well-nigh empty; construction works, without orders; brickworks and boot factories, closing down; the staff of the radio and electric bulb factories, reduced to one half of what it was two years ago. The export of artificial silk has increased somewhat but at lower prices. It is symptomatic of the times that industries producing articles for consumption do not suffer to the same extent as those of commodities needed for production. The production of Holland being to a large extent of the former description, the position is perhaps not so bad as it would otherwise be, although the cause, continued high expenditure by the masses in the face of a losing community, is unhealthy.

The production of the state and private coal mines increased from 12.2 million tons in 1930 to 12.9 million tons in 1931, whereas the consumption of coal is estimated at about the same amount. Considerable quantities of low-grade coal are exported to Belgium and France, but they have

been reduced in the latter part of the year by the quotas established in those countries. On the other hand, coal is imported from Germany and England for bunker and other purposes.

The Dutch shipping companies which, for the last de-cennium, have had to make the greatest effort to maintain themselves in an overflowed market against the heavily subsidized foreign lines, received a further dangerous blow through the fall of the pound, the currency in which the revenue of the majority of Dutch owners is collected. The problem of the ultimate development of the situation is dominated to a large extent by the level of wages, which are about  $1\frac{1}{2}$  times as high as on board British, Scandinavian, German, and Italian, 70% higher than on French, twice as high as on Japanese, and three times as high as on Spanish vessels. Only American shipowners pay higher wages. The Dutch merchant fleet counts 1,004 ships and 2,909,715 gross registered tons, as against 982 ships and 2,930,791 tons a year ago.

Inland navigation, very important in a country intersected by rivers and canals, does not make an exception to the rule of economic distress. Fishing on the North Sea would have been fairly profitable if sufficient credit had been available to finance the catch of herrings till next spring. As the dyke severing the Zuider Zee from the North Sea will be completed early in 1932, salt water fishing on that inland sea belongs to history. The outlook for the fishing villages on its shores is as yet uncertain, also owing to the agricultural crisis which, together with the strained financial situation, has induced the Government to suspend the reclaiming of land.

The building trade is slack and would be in a worse position but for the loans on easy terms furnished by the state and municipalities for workmen's and lower middle class housing; 42,773 dwellings were completed in the first eleven months of 1931, as against 45,281 in the same months of 1930. It will be necessary to curtail official expenditure on this head, the more so as wages in the building trade remain on an artificially high level owing to its sheltered character.

The credit position is satisfactory. The big banks in Amsterdam and Rotterdam are very liquid, but their income is reduced by the stagnation of trade, whereas their advances to Germany are locked up. Losses on sterling have not been very important owing to timely withdrawals, but some of the banks, having large interests in the East Indies, are being called upon to finance sugar estates and other enterprises momentarily in need of cash. Apart from the banks, the export trade had, as usual, large claims on German customers for large amounts, which money is likewise tied up in consequence of the partial insolvency of that country. In the agricultural districts, which have been suffering for some years, the situation of some of the minor provincial banks is doubtful. This became evident when a short and baseless panic seized the public in September last and deposits were withdrawn. Confidence has been restored nationally and capital is available on short terms and for issues of bonds by the Government and carefully managed municipalities and provinces. The financial position of the retail trade is good on the whole, partly owing to the smallness of stocks.

Deposits at the Postal Savings Bank, the maximum individual amount of which has been increased to 2,500 guilders, rose during the first eleven months from 375 million to 423 million guilders. The aggregate amount of deposits with the private savings banks is likewise about 400 million guilders. It increased year by year up to September last, but in October and November more money was withdrawn than deposited as a result of the panicky feeling caused by the fall of sterling. Notwithstanding this the total amount of deposits in those months was larger than in the same months of 1930.

The index figure of wholesale prices of the Central Statistical Bureau at The Hague declined from 107 in December, 1930, to 85 in December, 1931, base, 1913 = 100. Retail prices have also declined during the year, although naturally not in the same proportion and more irregularly. The price of bread declined only from 81 to 76, base, 1921-1925 = 100. It would be lower if the Government did not protect wheat growers by compelling millers to use 15% to 25% of their raw

material in inland wheat at an artificial price. Milk, butter, cheese, lard, meat, and pork, as well as clothing, boots, cost of heating, furniture, etc., also showed very important decreases, but on the other hand some articles, like coffee, cocoa, and tea, are more or less petrified notwithstanding the lower wholesale quotations. The cost of living for a workman's family declined from 162.1 in September, 1930, to 151.2 in the corresponding month of 1931, base, 1911-1913 = 100. On the whole, it is evident that the break in retail prices has come and that a sufficient margin exists for the lowering of wages which, when lowered, will, in their turn, facilitate a further decline of retail prices. Both these adaptations are absolutely required in order to reduce the cost of production in this country.

Labor conflicts were not more numerous than in 1930, but the number of workmen involved was larger, though not very considerable, 16,300 against 9,200. It is certain that these figures will show an increase in 1932, as the year began with a serious strike in the textile industry involving some 14,000 workmen.

In the last month of the year Parliament accepted a government proposal to reorganize the official service for economic research, whereas the interests of agriculture, which were so far in the hands of the Home Department, will be welded with commerce and industry into a Department for Economic Affairs and Labor. A further proposal to create a relatively small economic council of experts will soon be laid before Parliament. The Government has been slow in bringing about these improvements, which had been insisted upon by the Chambers of Commerce in the country.

The abnormal world economic situation and the serious prejudice which the measures of other countries are inflicting on Holland have once more given rise to discussions as to the desirability of abandoning free trade, and, as there are protectionist elements in the Cabinet, the outlook in this respect is uncertain. The following table shows how comparatively satisfactory the trade balance still is, notwithstanding all the difficulties mentioned:<sup>1</sup>

<sup>1</sup> Figures in million guilders.

Year	Imports	Exports	Excess of Imports	Proportion Exports to Imports Per Cent
1922	2,028	1,221	807	60.2
1923	2,009	1,303	706	64.2
1924	2,364	1,661	703	70.3
1925	2,455	1,808	647	73.6
1926	2,442	1,749	693	71.6
1927	2,549	1,909	649	74.5
1928	2,684	1,986	698	74.0
1929	2,752	1,989	763	72.3
1930	2,418	1,719	699	71.1
1931	1,893	1,312	581	69.3

The excess of imports declined steadily in these years, but it seems that a decided turn for the worse was reached in December, when the proportion of exports to imports declined suddenly to 57.4%, evidently the effect of French rationing of imports, of the Runciman-duties in Great Britain, which came into force on November 25, 1931, and of purchasing power diminishing more rapidly abroad than here.

The total volume of imports during 1931 fell to 29.9 million tons, from 31.4 million tons in 1930; the small rise in the volume of exports from 16.6 million to 16.8 million tons is due to the increase in the export of some heavy commodities of low value.

It is, therefore, the future that causes uneasiness: high industrial cost of production, the very disquieting situation in Germany, prohibitive duties in England, competition of Danish butter on various markets and of Danish meat on the home market, introduction of the quotas by France restricting our exports to that country, difficulty in obtaining payments in consequence of regulations in several countries checking or even prohibiting the reimbursement in gold exchanges, the aforesaid competition of Japan on Eastern markets. The Government was moved to do something and submitted to Parliament a proposal enabling the Minister of Economic Affairs during three years to restrict the imports of any commodity to their normal volume whenever the home market is being spoilt by excessive imports. The proposal was passed, but not without Parliament having stipulated that each resolution affecting a commodity, though it may take effect immediately, shall require its confirmation. Furthermore, the fiscal duty of 8% existing for many



commodities was increased to 10% for three years, and, although this increase has a slightly protective character for articles which are also produced in the country, the only object was to swell the revenue in view of the huge deficit on the budget.

Although the strong retrogression of revenue during the year must have engaged the attention of the Minister of Finance at an early date, the Government apparently needed the sensational fall of the pound on September 21, 1931, to become aware of the danger ahead. Since then it aspires to economy and a balanced budget. It does not wish to follow the English example, which may lead to unknown depths.

The influence of the changed circumstances appears from the following figures of the state budget:

Year	Ordinary Budget	Extraordinary Budget
1928	surplus 57.0 million guilders	deficit 40 million
1929	" 58.0 " "	" 58 "
1930	" 22.0 " "	" 48 "
1931	deficit 2.5 " "	" 101 "
1932	" 49.0 " "	" 137 "

The estimated totals for ordinary revenue and expenditure for 1932 were originally 544 million and 593 million guilders, respectively.

It was resolved to bridge the deficit by reducing the expenditure on defense, the Zuider Zee works, and the salaries of state officials, and, on the other hand, by the aforementioned increase of the import duties from 8% to 10% and by a tax on petrol, which article had been tax free so far. In view of the taxpayer's capacity, it will also be necessary to restrict the expenditure on public works provided for in the extraordinary budget.

The entire state indebtedness amounts to 2,823 million guilders, of which 2,338 million is consolidated and 484 million floating debt. It is announced that the 6% loan of 1922 will be refunded next April. At the same time the Government will no doubt proceed to consolidate part of the floating debt, which would otherwise increase too rapidly, also in view of the fact that Holland will have to finance the East Indian Government, whose budgets show large def-

icits as well. It has already applied for parliamentary sanction for a loan of 150 million guilders to be guaranteed by the mother country.

The Government has appointed a Committee to examine the possibilities of further economies in the expenditure of the state, provinces, and municipalities, and there is no doubt of the fertility of the field on which it has started to work.

The present survey would hardly be complete without a few remarks on the situation in the Dutch East Indies, which have such a strong bearing on the economic situation of Holland. Few territories have been harder hit by the crisis than the East Indies. Imports declined in the first 10 months, compared with 1930, from 2,443,624 tons, worth 712 million guilders, to 1,847,175 tons, worth 459 million guilders; the export declined from 8,240,129 tons, worth 1,013 million guilders, to 6,751,194 tons, worth 697 million guilders. The excess of exports, therefore, decreased from 301 million to 238 million guilders.

The estates worked by European or American capital produce chiefly sugar, rubber, tobacco, tea, coffee, sisal, palmoil, and cinchona bark. With the possible exception of the last named commodity, all plantations are working at a loss, but the financial position of the sugar, tobacco, and tea companies is fortunately on the whole strong. The Chadbourne Plan has so far failed to bring about a sufficient restriction of the output of sugar to cause prices to rise. As regards rubber, it is doubtful that any of the various schemes to restrict its production will materialize, as the difficulty of controlling the production of native rubber will probably prove to be insuperable. Unemployment among dismissed European employees has assumed startling proportions, and the native population, especially in Java, has been affected by lower prices for their staple products and the very much reduced earnings of wages on the European estates, which have also dismissed thousands of native laborers. Fortunately the wants of the natives being easily fulfilled and the soil fertile, the sufferings caused thereby are limited.

The economic distress is reflected in the condition of the state finances. Whereas the ordinary budget for 1929

showed a surplus of 11 million guilders, the deficit for 1930 is estimated at 85 million, and that for 1931 at 135 million guilders, not counting the deficits on the extraordinary budgets which are estimated at 53 million guilders for 1930 and 37 million guilders for 1931. It must be acknowledged that the East Indian Government, which betrayed little economic insight in framing its previous budgets, is now endeavoring to cope with the situation, but the difficulties of reducing the expenditure to a sufficient extent are very great. So far the total figure for expenditure for 1932 is estimated at 845 million guilders, which is lower than the total for previous years, but still leaves an estimated deficit of 120 million guilders, which figure, according to the most recent advices, has to be increased to 200 million, revenue estimates having been further lowered. A good many taxes have been increased, but the taxable capacity of a tropical country with little accumulated wealth is very restricted. The consolidated debt of the colony is 1,126 million guilders, the floating debt being 185 million guilders. As mentioned heretofore, it is proposed to issue a further loan of 150 million guilders for consolidation purposes.

Although there is no light on the economic horizon at present, one should not lose sight of the rapid reactions in primitive communities. The fall has been sudden and deep, but once the turning point has been reached, the rise may be just as swift, although in the meantime the country will have been saddled with a much heavier debt, against which there will be no proportional increase of capital goods.

Amsterdam  
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## THE HYDRO-ELECTRIC INDUSTRY IN SWITZERLAND

Report of Mr. Louis Dapples, President, Board of Directors, Nestle and  
Anglo-Swiss Condensed Milk Company, Vevey<sup>1</sup>

### THE DEVELOPMENT OF THE USE OF HYDRO-ELECTRIC POWER

**I**T IS estimated that in Switzerland there exists a total of about 2.5 million horsepower of constant hydraulic force. Of this total, use was made of 326,000 horsepower, or 13%, on January 1, 1914, and of 681,000 horsepower, or 27.2%, on January 1, 1930. If works still under construction were taken into consideration, 68% of available hydraulic forces was still unemployed on January 1, 1930. At the beginning of 1930, production of electrical energy was distributed among 6,015 works. The capacity of the works engaged in production for distribution to third parties, exclusive of those belonging to the federal railroads or to industrial enterprises manufacturing electrical energy for own consumption, is about 4.5 billion kilowatt hours, about 1 billion kilowatt hours of which is exported. Internal consumption amounts annually to approximately 600 kilowatt hours per person; this figure is raised to 1,100 kilowatt hours if the amount of power consumed by the railroads and the electro-chemical industries is included. According to these figures of consumption and in so far as may be ascertained otherwise, Switzerland, a country in which there exists no heavy industry in the true sense of the word, ranks ahead of all other nations. This fact illustrates the extraordinary diffusion of electrical energy. The following figures for the period October 1, 1929, to September 30, 1930, give an idea as to the uses for which the energy produced<sup>2</sup> is employed:

Use	Million Kilowatt Hours
General use.....	1,957
Used by the railroads.....	225
Special chemical and thermic uses.....	463
Operation of reservoir pumps.....	78
Export.....	959
Total.....	3,682

<sup>1</sup> Prepared for Mr. Dapples by Dr. O. Hultegger. Translated by National Industrial Conference Board.

<sup>2</sup> Exclusive of energy produced by the national railroads and by industries for own consumption.

In 1929 the railroads produced in their own plants approximately 450 million kilowatt hours.

The fact that 98% of the inhabitants have electricity installed in their homes indicates clearly its popularity throughout the country. The connection capacity of appliances joined to the conduits in 1925 was 80 times greater than in 1895.

The economic importance of the development of Swiss hydro-electric power is clearly revealed by the fact that the federal railroads need no longer resort to the use of foreign coal to produce the necessary operating force. Regarding this point, the following figures show the extent to which the national railroads have gained their independence:

Year	Expenditure for Fuel in Million Swiss Francs	Average Cost per Ton in Swiss Francs
1921.....	72.9	174.25
1925.....	19.1	44.82
1926.....	14.7	38.80
1927.....	12.7	37.17
1928.....	9.3	34.41
1929.....	9.0	32.58

This table illustrates clearly how great would have been the saving to the Swiss economy during and immediately following the War if electrification of the national railroads had been realized before 1914. The relief that the Swiss balance of payments would have received during these years, which from an economic point of view were most difficult, would have been extremely valuable. About 4.5 billion kilowatt hours of energy produced in Switzerland corresponds to the importation of approximately 1.5 million tons of coal; in other words, the direct saving to Swiss economy amounts to about 100 million francs. In making an abstract of the importance of the electrification of the railroads of Switzerland, mention must be made of the fact that with the adoption of electric traction, the railroads possess within the boundaries of their country the source of their operating power. If the difficulties experienced during the War in providing coal to Switzerland are recalled, the increase in the security of the capacity of the railroad system is immediately apparent.

## THE EXPORTATION OF ELECTRICAL ENERGY

To know just what is the best policy of exportation, is perhaps the most discussed questions in the realm of Swiss electrical economy. Above all, care should be taken to avoid placing power at the disposal of foreign countries that might well be utilized internally under the same circumstances and that would make it possible for foreign competitors of Swiss manufacturers to lower production costs as a result of cheaper energy delivered from Switzerland.

The development of the exportation of energy by Switzerland is revealed in the following figures:

Year	Exportation in Million Kilowatt Hours	Value of Exportation in Million Francs	Cost per Kilowatt Hour in Centimes
1920	377	6.3	1.67
1921	328	6.7	2.04
1922	463	10.0	2.16
1923	522	12.7	2.44
1924	567	13.0	2.30
1925	654	13.6	2.08
1926	854	17.7	2.07
1927	961	20.3	2.11
1928	1,034	21.1	2.04
1929	990	20.6	2.08
1930	955	20.3	2.12

It may be seen that a slightly increasing decline in the volume of export has taken place during 1929 and 1930 and that the average price for these two years is somewhat higher. About 45% of the power exported in 1930 was winter energy, that is to say, power of constant cost.

The principal political objective regarding the exportation of energy should be to deliver to foreign countries only that force which cannot be utilized within the country under more or less similar conditions. Furthermore, the sale of energy to foreign countries on long-term contract should be avoided so that in the event of an increase in internal consumption it will not become necessary to resort to less rational hydro-electric power, the existing power, as a result of long-term foreign contracts, being monopolized. The Federal Commission supervises along these lines the duration of the authorizations of energy exportation, which, as a general rule, should not exceed a period of 20 years. If one undertakes to examine

the economic changes involved in the exportation of energy, consideration, on the other hand, should also be given to its advantage. In numerous cases it has been the exportation of energy which has facilitated and assisted the exploitation of hydro-electric power, the power works being placed in a position to dispose of their excess energy with a profit and thus maintain the average price of the total energy at a lower level. It is for this reason that, in principle, an attitude opposed to, or in favor of, the exportation of energy should not be adopted; each case must be judged by itself.

#### SWISS INDUSTRY AS PURCHASER OF ELECTRICAL ENERGY

The 1922 federal factory statistics provide valuable information concerning the conditions prevailing at that time regarding the power supply of Swiss industry. The factories subject to federal legislation had 660,000 horsepower installed, of which approximately 580,000 horsepower was in the form of electrical energy. The very important rôle that electricity actually plays as a source of power for the Swiss industries may thus be ascertained. Only a very small part of the energy consumed, however, is produced by the industries themselves. Three fourths of the driving power employed in the factories is supplied by an outside party, and that force derived from outside sources is, so to speak, entirely electrical energy. With the ever-increasing electrification of the country, the proportion of enterprises furnishing their own power has been constantly decreasing. Driving power thus produced, hydraulic turbine and steam, amounted still to 87% in 1901, to 57% in 1911, and to only 23% in 1929. In this respect, conditions are very different in the various industries. The cotton industry for example, one of the oldest industries of the country and one that has need of a substantial amount of power, utilizes outside current to the extent of only 45%; in fact, since the establishment of these enterprises, account had been made for the existence of the hydro-electric industry.

The same remark may be made for the paper industry which shows 57% of outside current. In comparison, the proportion of outside current used in the chemical industry,

is very high, 84%, in the watch-making industry, 92%, and in the graphite industry, 98%.

Of a total of 1,594,000 horsepower delivered by the Swiss power plants to third parties, 483,000 horsepower, or about one third of the total, is received by industry alone. This third, as we have already noted, comprises about three fourths of the total driving power installed in industry. The considerable extent to which industry depends upon the power works for the supply of driving power is above all apparent from this proportion. It is thus understood that the price policy of the power plants has become more and more a determining factor in industry. The growing extent to which industry contributes to the formation of prices of electrical energy is explained by the constantly increasing dependence of industry upon outside power. The evolution according to which industry tends more and more to resort to power derived from outside sources is shown in the following comparative table:

Enterprise	Energy from a Third Party in Per Cent of Total Power at the Disposition of the Enterprises			
	1901	1911	1923	1929
Silk industry.....	8	33	68	72
Linen industry.....	1	52	87	90
Food industry.....	19	39	69	78
Chemical industry.....	9	58	75	84
Metallurgical industry.....	16	45	68	76
Machine industry.....	25	54	78	86
Watch-making industry.....	41	65	86	92

### THE PRODUCERS OF ELECTRICAL ENERGY

The historical evolution of the Swiss economy of electricity has been such that electrical energy was produced primarily in small factories of a local and most often private character. With the augmenting technical demands on the one hand, and the growth in the possibilities of using power on the other, these works have passed more and more into the possession of communes, and today there are not more than 200 of these small local plants, which combined account for only 2% of the capacity of all the Swiss plants. By far the largest part of energy produced in Switzerland is by a relatively limited



number of large plants; if only 50 of the largest were united, these alone would account for 96% of the total production.

In addition to the small local works of which mention has been made, there are about 1,000 enterprises which themselves do not produce power but occupy themselves solely with the distribution of it. These purely intermediary concerns, which actually appear as superfluous members in supplying the electricity of the country, can also be explained historically. They play, however, an unimportant part and as intermediaries deliver only about 10% of all power used in Switzerland for general purposes.

The federal railroads as producers of power are of great importance to the electric industry of the country. Unlike the railroads of foreign countries, the national railroads have adopted the system of supplying themselves with the essential power in such a manner as to assure the operation of the lines in any case and independently of private plants. The federal railroads actually possess two large groups of works, one at Amsteg-Ritom, the Gothard line, and the other at Vernayaz-Barberine, Valais. The plants at Amsteg and Vernayaz are "usines au fil de l'eau," therefore destined to produce "summer energy," and those at Ritom and Barberine are "basins d'accumulation" plants producing "winter energy." The federal railroads have invested a capital of about 150 million francs in these groups of works, which at full output are able to produce approximately 450 million kilowatt hours. The national railroads propose the construction of a new large plant at Etzel, Lake of Zurich, in order to procure the additional power necessitated by the increasing electrification of the enterprise.

As has already been indicated, industry does not play an important part as a producer of electricity. Of all the power employed by the industrial enterprises, which amounts to about 580,000 horsepower, only 63,000 horsepower are produced by these enterprises themselves; the remainder is delivered entirely by the electric power plants.

As for what concerns the power supply of the country, so far the organizations of the federal railroads and industry do not enter in, it is largely a question of the larger power plants belonging to private persons or to public bodies. In this re-

spect, the distribution of the power delivered between the state and private enterprises is particularly interesting. Fairly detailed statements have been made on this subject, using as a base the conditions in 1927, which to date have not been greatly modified. The 3,300 million kilowatt hours produced in 1927 by the leading power works, again excluding the railroads and industry as producers of energy for own consumption, was provided to the extent of about 41% by plants completely or partly in possession of the cantons, about 20% by municipal plants, and about 39% by completely or largely private plants. Using figures to show only that power which is consumed within the country, the percentages are as follows:

- 49% from works completely or partly in possession of the cantons
- 28% from works completely or partly in possession of the communes
- 23% from works completely or partly private.

It thus turns out that about half the electricity produced in Switzerland for delivery to third parties and consumed within the country comes from plants completely or predominantly owned by the cantons and therefore by the state. Furthermore, 28% of internal consumption is met by the municipal plants, and therefore it may be said that three fourths of the demand of the country for power is covered by public enterprises. To this may be added that not only production but also distribution of electricity is in the hands of enterprises that are primarily state-owned in character.

In 1929 the total production of power by all Swiss electric plants was 3,747 million kilowatt hours and was distributed among the various works in the following manner:

In million kilowatt hours

Plant	Power Produced by the Plants	Additional Power Purchased	Total Power Sold
Nordostschweizerische Kraftwerke (N. O. K) . . . .	454	169	623
Bernische Kraftwerke (B. K. W.) . . . . .	377	146	523
Zentralschweizerische Kraftwerke (C. K. W.) . . . .	100	16	116
Bündner Kraftwerke (B. K.) . . . . .	130	..	130
Wäggitäl A. G. (A. K. W.) . . . . .	138	..	138
S. A. del' Energie l'Ouest-Suisse (E. O. S.) . . . . .	82	70	152
Entreprises Electrique Fribourgeoises (E. E. F.) . . . .	141	9	150

Thus these 7 stations alone delivered about 40% of the total power produced in Switzerland in 1929. As a matter of com-

parison, mention may be made of the fact that in 1929 the federal railroads themselves produced 560 million kilowatt hours of electric power. From this comparison it is apparent that, referring to the quantity of electricity produced by enterprises themselves, the railroads are the largest producers in the country. Among the industrial enterprises that furnish their own supply of power, not included in the above table, the Association of the Aluminum Industry at Neuhausen produces almost the same amount of power as the federal railroads.

The producers of electric power mentioned in the preceding table are the most important ones in the country. It is hardly necessary to mention that their formation is of a very different nature. The N. O. K., B. K. W., and B. K. may be considered as examples of federal enterprises. They all have the legal form of joint stock company and in this respect do not differ from any private enterprise. Regarding their legal structure, they do not possess the seal of a public body, and their constitution is governed by the federal commercial law which applies to all joint stock companies. This form of private title of the large producers of electric power, which is only external, may be responsible for misleading the public regarding the fact that the major portion of Swiss electric power is produced by public enterprises.

The N. O. K., founded in 1914, at the present time represents an enterprise that has at its command a capital stock of 80 million francs. The stockholders are the cantons of Zurich, Argovie, Thurgovie, Schaffhouse, Glaris, and Zoug, the Canton of Zurich alone participating to the extent of 37%. Representatives of the interested cantonal governments are the directors of the organization. The B. K. W., founded in 1909, has a capital stock of 56 million francs, which is almost entirely in possession of the Canton of Berne. In this instance it is strictly a question of a state enterprise constituted in the form of a private body. It is the same in the case of the plants of Oberhasli, founded in 1925 by the B. K. W., which at the present time is constructing the great Grimsel dam. This concern has a capital stock of 36 million francs, of which 30 million francs is owned by the B. K. W. and 6 million francs by the Canton of Bâle-Ville.

It is important likewise to mention the fact that the two powerful state institutions, N. O. K. and B. K. W., which now may be presented as prototypes of the intercantonal state form of enterprise, owe their creation to private initiative. The Forces Motrices Grisonnes, at Covie, to utilize the hydraulic force of the Canton of Grisons, was founded in 1918 by the Canton and a number of municipalities. All the capital stock, so to speak, was in possession of public bodies, when in 1924 it became necessary to proceed to profound financial reorganization and to amortize the capital to 20% of the amount. The Canton and the participating municipalities suffered a severe loss in this attempt at industrial exploitation. Reorganization consisted in the transformation of 300 million francs of bonds into preferred shares of stock, of which the N. O. K., la Société Motor-Columbus at Baden, and the Rhetique works at Thusis were obliged to take one third each.

With this opportunity these organizations assured themselves a determining influence in the direction of the enterprise and at the same time overcame the threat of sale that had proved so disastrous to B. K., the N. O. K. especially being bound to purchase current from the B. K. Still another factor which favored the reorganization was the fact that in recent years the federal railroads themselves were unable to cover their need for power and were compelled to buy an increasing quantity of current from outside sources, particularly from the B. K. However, with the placing in operation of the new works at Etzel which, it is estimated, will take place in 1935, this outlet will be closed. The Wäggital S. A. works are also constituted as a joint stock company, the only stockholders being the N. O. K. and the City of Zürich.

The Forces Motrices de la Suisse Centrale, with a capital stock of 15 million francs, may be cited as a prototype of the concerns that are purely private. It is quite probable that a portion of the capital shares is in the possession of public corporations, but it is not a question, as in the case of the concerns already mentioned, of participation that confers the slightest influence in the administration of the enterprise.

The Electric works d'Olten-Aarburg at Olten, l'Énergie de l'Ouest-Swiss S. A. at Lausanne, and les Forces Motrices

Tessinoises at Bodio are other large concerns of an economic structure that is entirely private. Among other works organized in the same form, mention must be made first of all of four large export enterprises, les Forces Motrices de Laufembourg, Rheinfelden, Brusio, and Chancy-Pougny.

The Cantons of Fribourg and Bâle-Ville are the only ones that have plants with own production predominating. The cantonal electric enterprises of Zurich, Thurgovie, Schaffhouse, and Argovie are solely organizations for distribution, which receive their current from the N. O. K. Unlike the B. K. W. and the concerns of western Switzerland, the N. O. K. does not deliver directly to the consumer but to the cantonal institutions, which distribute it throughout the district. The City of Zurich, in the Canton of Zurich, which lies outside the cantonal distributing network, is the only exception and possesses its own plants at Albula and Lenzerheide, to which recently has been added a 50% participation in the driving power at Wäggital. Of the municipal enterprises, the works belonging to the City of Zurich, with a production of 226,228,000 kilowatt hours in 1929, is the most important.

In 1927 the capital invested in the production of power in Switzerland, exclusive of the enterprises supplying their own power, has been estimated at 1.5 billion francs. In comparison, it may be noted that the capital invested in the federal railroads amounted to 2.5 billion francs. At the end of 1926 and based on the figures for that period, 14 municipal works, 5 cantonal works, and 5 great power-producing enterprises belonging to corporations of a public nature represented installations to the sum of approximately 760 million francs. The considerable importance that must be attributed to this branch of Swiss economy, from the point of view of private economy, and to the concerns themselves, is already shown in the figures concerning the capital invested. Of 41 power establishments which are organized as joint stock companies and which are included in the official dividend statistics, only 3 did not pay a dividend in 1928. The total capital stock carrying dividend rights of the 41 enterprises amounted to 437 million francs, on only 15 million of which there was no dividend return. The average rate of dividend paid in 1928 was about  $6\frac{1}{2}\%$ . For years the large power-producing

enterprises constituted in the form of joint stock companies have distributed dividends, which may not at all be considered as exaggerated, of between 6% and 8%. Dividends distributed in 1928 by all electric power concerns remained below the average for the country for all joint stock companies, even when the companies that paid no dividend are included. For the cantons and especially for the communes, the receipts coming from the provision of electricity constitute a valuable lightening of taxation. A comparison of the results of the different enterprises according to the various uses of energy is hardly possible. In 1927 the receipts from electric plants were estimated at about 170 million francs, which were distributed in the following manner:

Foreign export of power . . . . .	20 million francs
Delivery for domestic use . . . . .	about 62 million francs
Delivery for use of industry and trade . . . . .	88 million francs

The average yield for the different kinds of use was:

Current exported, about 208 centimes per kilowatt hour
Current for industry and trade, about 5.8 centimes per kilowatt hour
Current for domestic use, about 20.0 centimes per kilowatt hour

The current used for illuminating purposes, which constitutes the largest portion of energy consumed for domestic use, is the most expensive, as a result of the short duration of its use and the high momentary charges resulting. Even the current, which without that would be unused, as, for example, the current used to produce heat, may be delivered cheaper. By a specialization of tariff which takes into consideration as much as can be the kind of use, it has been possible, on the one side, to take into account the interests of the consumers and, on the other side, to favor the utilization of electric power for lighting and heating. In making a comparison of the prices of current, it must not be forgotten that only the prices of power destined for identical use are comparable. In making a comparison the fact must also be kept in mind that for Swiss economy winter power is extremely dear because, in order to be obtained, it requires expensive "basins d'accumulation" plants. The cost of establishing such work is very high and requires amortization equally high. The price of current for lighting purpose in Switzerland may be

considered moderate when compared with the prices in foreign countries.

#### FINAL REMARKS

In viewing the Swiss electrical industry today, it is the large joint stock companies of the state, the N. O. K., B. K. W., B. K., Wäggital, and Forces Motrices St. Gallen-Appenzelloises, as well as the large power plants of the federal railroads, which principally occupy the foreground. The proportion of purely private enterprises has declined. To this statement, it is necessary to add the fact that nearly all the important power establishments, particularly the N. O. K. and the B. K. W., have their origin in private initiative, as it is to this, in addition, that the Swiss electrical industry in its present state of perfection owes its foundation and achievement. In this respect, la Société Anonyme Motor Columbus at Baden and la Banque pour Entreprises Electriques at Zurich, patron associations of the S. A. Brown-Boveri & Cie, in particular have rendered great services, and in the field of technical equipment it is above all the Fabriques des Machines Oerlikon along with the Brown-Boveri & Cie to which goes the credit for having led the electrical industry in Switzerland to its present state. Everything that has been accomplished in Switzerland in the sphere of utilization of hydraulic power to produce electric power has been without the assistance of the state, and the capacity of Swiss industry in this respect has been proved best by the realization of the electrification of the federal railroads. Out of the total capital invested in the electrification of the federal railroads up until the end of 1928, which amounts to about 700 million francs, only one fifth has gone to the foreigner. The Swiss industry has been able to fulfill all other needs.

Vevey  
April, 1931

## ECONOMIC CONDITIONS IN SWITZERLAND DURING THE FIRST HALF OF 1931<sup>1</sup>

Report of Mr. Louis Dapples, President, Board of Directors, Nestle and  
Anglo-Swiss Condensed Milk Company, Vevey

**T**HE effects of the general crisis which is shaking the entire world are felt more and more in Switzerland and are reflected in its foreign trade, which has developed as follows during the first half of 1930 and 1931:

Period	Value of Imports
First half of 1930.....	1,286,103,026 francs
First half of 1931.....	1,108,779,539 francs
Decline.....	<u>177,323,487 francs or 13.8%</u>
	Value of Exports
First half of 1930.....	923,864,965 francs
First half of 1931.....	709,823,978 francs
Decline.....	<u>214,040,987 francs or 23.2%</u>

The surplus of commodity imports in the first six months of 1931 was 398,955,561 francs, as compared with 362,238,061 francs in the corresponding period of 1930, showing a deterioration of 36,717,500 francs, which was not compensated by receipts from tourist expeditions, which also declined. At the end of June, 1931, the proportion of beds occupied in Swiss hotels was 30.7%, as compared with 39.5% at the end of June, 1930.

Analysis of the figures show that with the exception of products made of straw and rayon, which barely maintained their positions, all Swiss industries have seen a decline in their exports during the first half of 1931, whereas in the first half of 1930 some of them showed a slight improvement as compared with the preceding year. In particular, exports of machines, which increased from 113 million francs in the first half of 1929 to 118 million francs in the first half of 1930, declined to 83 million in the corresponding period of 1931. Exports of the watch-making industry declined from 131 million francs in the first six months of 1929 to 112 million francs in the corresponding period of 1930 and showed

<sup>1</sup> Translated by National Industrial Conference Board.



a new and formidable decrease to 64 million francs in the first half of 1931.

The decline in Swiss exports occurred in all markets, but it was particularly marked in the case of Germany and the United States. Exports to Germany declined from 153,584,000 francs in the first half of 1930 to 113,448,000 francs in the first half of 1931, or 26%. During the same period exports to the United States decreased from 81,579,000 francs to 53,182,000 francs, or 33.5%. This is explained by the financial and political situation in the former country and by the increased tariff barrier in the latter.

Agriculture has equally suffered from the effects of the disastrous crisis. Exports of cheese, which are to some extent a barometer of prosperity, declined from 47,270,000 francs in the first half of 1930 to 38,756,000 francs in the corresponding period of 1931, a decrease of 8,514,000 francs, or 18%.

The slowing down of industrial, commercial, and agricultural activity has produced its repercussions on the financial situation and the development of the banks, which cannot find employment for their funds. The official discount rate was 2% at the end of June, 1931, as compared with 3% at the end of June, 1930. Sight liabilities of the National Bank during the same period increased from 130 million francs to 315 million francs.

Reliance is placed upon fixed income-bearing securities, and the index of obligations of the Swiss Confederation and of the Federal Railroads, base, average yield of 1906 to 1925 = 100, increased from 105 in 1930 to 115 at the end of June, 1931, while the index of shares declined from 209 to 180.

One observes also a hoarding of Swiss notes in foreign countries, which carries with it an increase in circulation. Furthermore, the continuing increase in deposits of Swiss banks with the Central Bank as well as the inflow of funds has enabled the National Bank to increase the importance of its holdings of foreign exchange and have resulted in large imports of gold. The gold reserve of the National Bank, including holdings of foreign exchange, amounted at the end of June, 1931, to 1,251 million francs, as against a note circulation of 1,087 million francs. The ratio of gold reserve to

notes was 116%, as compared with 94% in 1930. The respective proportions were 90% and 83%, if both notes in circulation and sight liabilities are considered.

These tendencies became accentuated after June 30, and the balance of the National Bank at the end of September, 1931, was as follows:

Notes in circulation.....	1,462 million francs
Gold reserve, including foreign exchange.....	2,039 million francs
Ratio of gold to notes.....	139%
Sight liabilities.....	716 million francs
Ratio of gold to notes and sight liabilities.....	94%

This whole situation has its varied and profound repercussions in all phases of the country's life, economic, social, and political.

Unemployment is increasing. Out of a total of 353,034 workers insured with the different unemployment offices, there were 12,577 workers completely unemployed at the end of June, 1931, or 3.6%, as compared with 1.7% in 1930, and 34,266 workers partly unemployed, or 9.7%, as compared with 5.7% in 1930. The Confederation as well as the Cantons, in addition to all that is being done by private initiative, are obliged to provide large allowances to assist the needy.

The watch-making industry, which is so severely affected, will also benefit by financial aid from the state both in the form of advances by, and participation in, the capital of a company combining the different enterprises.

Finally, the peasant class, more and more oppressed, has also appealed for support to the State, and the Federal Council is studying the idea of a system of loans at very low interest rates, to be amortized in annual instalments, to give to small peasants, in particular in mountainous regions, the total of which would amount to about 100 million francs.

These subsidies are perhaps inevitable in present times, and it is particularly important to preserve for the country a sound and robust peasant class; but in the long run they threaten to become ruinous for those who give them and to weaken those who receive them; they tend towards a collectivism that may have grave political and social consequences.

The firmness of Swiss francs is no longer an unadulterated good. In the midst of great countries whose exchanges have declined, Switzerland has seen a reduction of its exports, gravely handicapped by very high cost of production, as well as an aggravation of the unemployment crisis, the consequences of which cannot yet be measured.

The index number of the cost of living declined from 158 at the end of June, 1930, to 150 a year later, but the decline in retail prices is still much smaller than that in wholesale prices. For foodstuffs, the index number of retail prices is 141, while that of wholesale prices is 119. The index number of housing rents is still 187.

To sum up, the prospects are still gloomy. To fight against the difficulties which will be met, the country must face a reduction in its expenditures, the lowering of salaries, and the practice of the greatest possible economy in all phases of its life, in order to bring its standard of life to a level better related to the circumstances and to permit its industries to work under less onerous conditions.

Vevey  
November, 1931

## THE POLISH BALANCE OF PAYMENTS

Report of Hon. Hipolit Gliwic, Chairman, Consolidated Katowice and Königs-Laura Corporation, Warsaw

**N**OTHING reflects better the international economic position of any country than its balance of payments. Until recently the economists were satisfied with figures pertaining to the foreign trade and used to derive very far-reaching conclusions from those figures forgetting, of course, that the economic relations between different countries, just as well as business relations between individuals or corporations, are not limited to the exchange of merchandise and consist of various transactions, such as loans, payments for services, expenditures of governments and citizens abroad, and so forth.

It is not an easy task to establish a transparent and true balance of payments. There are plenty of invisible items which are available only as estimates and cannot be precisely calculated. Such estimates depend very much on different kinds of anticipations and therefore never can be free from more or less personal considerations and from various points of view. That is perhaps the reason that even now there are very few countries that are publishing their official balances of payments, fragments of which can be found in special issues of the League of Nations. In Poland, however, the Central Statistical Office does not refrain from collecting, putting in order, and divulging pertinent tables.

The three last available balances of payments of Poland are shown in the accompanying tables.

The first glimpse of these figures shows us quite distinctly that Poland had to pay in the last three years for the surplus of its imported goods by short- and long-term credits. On the other hand, she covered the interest due on her debts by emigrants' remittances and receipts for different services.

In order, however, to analyze the situation properly, one has to go to some details concerning particular items.

In million zloty

Item	1927		1928		1929	
	Credit	Debit	Credit	Debit	Credit	Debit
Merchandise.....	2,611.2	3,332.1	2,583.2	3,682.7	2,810.0	3,369.0
Receipts for services of transport, post, telegraph.....	199.7	96.1	247.3	86.9	281.4	79.0
Interest and dividends.....	24.6	252.8	46.3	327.8	150.6	542.0
Expenditures of tourists and travelers	71.1	122.0	98.3	169.0	167.1	164.9
Emigrants' remittances.....	242.7	53.6	271.1	61.1	277.8	68.7
Short-term capital items.....	922.1	935.4	1,570.3	679.0	1,398.8	847.2
Long-term capital items.....	614.1	95.5	326.9	107.6	243.9	202.0
Sundry items.....	19.2	42.4	19.2	41.6	9.1	72.7
Balance.....	225.2	..	..	6.9	6.8	..
	4,929.9	4,929.9	5,162.6	5,162.6	5,345.5	5,345.5

1 zloty equal to \$0.1122

The most important item here is, as in any other balance of payments, the foreign trade, which in our case occupies the 25th place in the world trade, 0.95%, being a trifle lower than the trade of Brazil and a bit higher than the exchange of merchandise of Irish Free State. For the last 9 years it represents rather a changing picture as far as its balance is concerned.

In million zloty

Item	1923	1924	1925	1926	1927	1928	1929	1930	11 Months of 1931
Imports.....	1,920	2,542	2,755	1,539	2,892	3,362	3,111	2,246	1,371
Exports.....	2,056	2,177	2,188	2,246	2,515	2,508	2,813	2,433	1,761
Balance.....	+136	-365	-567	+707	-377	-854	-298	+187	+390

During these 9 years the final balance against Poland amounts approximately to 1 billion zloty.

The new Polish currency, zloty equal to the Swiss franc, was introduced in 1924 with the immediate result of increasing the imports which could not be suitably developed under the depreciated value of the former Polish mark.

The new monetary unit, however, was not at first properly stabilized, and its depreciation in the second half of 1925 and 1926 caused again a rapid contraction of imports. Only its final stabilization in 1927 had the effect of increasing the imports, in order to let Poland be supplied with the raw materials and implements so necessary and vital for her recovering industry. This movement has been stopped by

the crisis which has been responsible for the renewed shrinkage of imports, particularly intense in the last year.

It is of great interest to analyze the essential component parts of Polish foreign trade. The most important articles of our import and export are the following:

### CHIEF ARTICLES OF IMPORT

In million zloty

Item	1928	1929	1930	Three-Year Average	Per Cent of Total
Cotton.....	326.0	271.0	198.0	265.00	9.11
Machinery.....	320.0	300.0	171.0	264.00	9.08
Wool.....	181.0	198.0	124.0	167.66	5.76
Hide and skins.....	175.0	128.0	110.0	137.66	4.74
Textiles.....	125.0	127.0	128.0	120.00	4.13
Yarn.....	157.0	140.0	140.0	133.66	4.60
Ores.....	85.0	105.0	72.0	87.33	3.00
Grease.....	63.0	78.0	66.0	69.00	2.37
Paper.....	84.0	73.0	58.0	71.66	2.46
Edible fats.....	96.0	87.0	56.0	79.66	2.74
Automobiles.....	83.0	71.0	43.0	65.66	2.26
Scrap and iron.....	75.0	76.0	43.0	64.66	2.22
Fur skins.....	64.0	71.0	96.0	77.00	2.65
Herrings.....	50.0	57.0	52.0	53.00	1.82
Tobacco.....	34.0	52.0	61.0	49.00	1.68
Copper and copper goods.....	37.0	44.0	26.0	35.66	1.22
Coffee.....	34.0	37.0	26.0	32.33	1.11
Rice.....	62.0	30.0	26.0	39.33	1.35
<b>Total imports.....</b>	<b>3,362.0</b>	<b>3,111.0</b>	<b>2,246.0</b>	<b>2,906.33</b>	<b>..</b>

### CHIEF ARTICLES OF EXPORT

In million zloty

Item	1928	1929	1930	Three-Year Average	Per Cent of Total
Coal.....	363.0	384.0	335.0	360.66	13.95
Timber and lumber.....	588.0	480.0	346.0	471.33	18.23
Cattle and hogs.....	212.0	201.0	161.0	191.33	7.40
Sugar.....	102.0	134.0	138.0	124.66	4.82
Eggs.....	145.0	143.0	135.0	141.00	5.45
Meat.....	68.0	88.0	110.0	88.66	3.43
Zinc.....	144.0	152.0	105.0	133.66	5.17
Petroleum.....	70.4	62.7	49.0	66.20 <sup>1</sup>	2.34 <sup>1</sup>
Iron and steel.....	75.0	107.0	162.0	114.66	4.43
Textiles.....	65.0	112.0	83.0	86.66	3.43
Rye.....	3.0	59.0	71.0	44.33	1.71
Butter.....	66.0	88.0	59.0	71.00	2.74
Barley.....	46.0	82.0	50.0	59.33	2.29
Fodder.....	50.0	65.0	44.0	53.00	2.05
Seed.....	39.0	46.0	30.0	38.33	1.48
Yarn.....	46.0	88.0	85.0	73.00	2.82
<b>Total exports.....</b>	<b>2,508.0</b>	<b>2,813.0</b>	<b>2,433.0</b>	<b>2,584.66</b>	<b>..</b>

<sup>1</sup> Estimated.

Such articles as cotton, wool, hides and skins, ores, grease, scrap and old iron, and copper make almost 30% of the total imports of Poland. This shows quite clearly that the Polish economic structure relies and depends to a serious extent on manufacturing which is contrary to the very widely spread opinion that she is an exclusively agricultural country.

On the other hand, the rather high figures of machinery and automobile imports prove obviously that the equipment of the Polish industry is far from being adequate and still needs more expansion and amplification. The average consumption of machinery in Poland does not exceed \$1 per capita against \$30.7 in the United States and \$8.6 in Germany.

The Polish exports comprise chiefly the products of Polish soil and mines that are sold abroad in more or less finished form, as, for example, sugar, oil products, zinc, iron and steel, or even coal, which, in order to be extracted from the surface, demand the application of great amounts of labor and capital.

The geographic expansion of the Polish foreign trade is not very extensive, as shown in the following table:

Country	1930		Country	1930	
	Imports Per Cent	Exports Per Cent		Imports Per Cent	Exports Per Cent
England.....	7.9	12.1	Sweden.....	1.8	4.6
Austria.....	5.7	9.3	Hungary.....	1.0	1.5
Belgium.....	2.5	2.5	Italy.....	3.1	1.3
Czechoslovakia.....	7.5	8.9	Russia.....	2.0	5.3
France.....	6.7	3.1	Europe as a whole..	77.5	94.9
Holland.....	3.5	3.4	Asia.....	3.6	1.8
Latvia.....	0.3	2.8	America <sup>1</sup> .....	15.6	1.7
Germany.....	27.0	25.7	Africa.....	1.4	0.5
Rumania.....	1.0	2.1	Australia.....	1.9	..
Switzerland.....	3.8	2.1			

<sup>1</sup> Especially United States, import 12%, export 0.9%.

Geographically the Polish foreign trade concentrates chiefly in European countries, the most important of which are: Germany, United Kingdom, Czechoslovakia, and France in imports; and Germany, United Kingdom, Austria, and Czechoslovakia in exports. The turnover with the

United States, being very moderate in exports, is rather high in imports on account of cotton shipments.

Coming to other items of the Polish balance of payments it is to be stated that the strikingly large item of receipts for services, such as transport, post, telegraph, and so forth, is due to the territorial situation of Poland. The fact that 8% of the aggregate goods carried by Polish railways belong to the transit traffic is self-explanatory.

Another interesting and characteristic feature of our balance of payments is reflected in the comparatively exorbitant volume of emigrants' remittances. The natural increase of population in Poland is one of the highest in the world, amounting to 1.8%; every year there is an increase of 500,000 people that makes Poland one of the most prolific sources of working hands for the world. During the period 1919-1929 there emigrated more than 1.3 million persons, and this emigration would be double or even triple, if it were not for the immigration restrictions in the United States and afterwards in other overseas countries. In 1930 emigration from Poland amounted to 218,400 persons. The American continent being practically closed to immigrants, the main destination for the permanent Polish migratory movement has been France, 86,500, and Germany, 77,500; for the seasonal migration the United States, 6,900; Canada, 16,900; and South America, 18,700.

It is not without interest that among the sundries the hiring of films amounted in the 3 years to 74 million zloty constituting an average annual payment, mostly to the United States, of about \$2.2 million.

If it were not a very well known fact that Poland does not possess any capital of her own to speak of, the Polish balance of payments could clearly explain that she has to be supplied with necessary funds from abroad in order to develop her rich natural resources and to give occupation to her skilled, industrious, and thrifty population. Poland's foreign indebtedness is a small one and does not exceed 4 billion zloty, about \$350 million, averaging \$11 per inhabitant, and leaves plenty of room for new credits. The present crisis, however, does not allow us to expect any abundant



flow of foreign capital. On the contrary, the last available figures show us a great decrease of capital issues for Poland. She has to be satisfied, as the above figures display, with the short-term loans representing chiefly credits for imported goods. The return to normalcy of the whole world will bring, let us hope, fresh capital into Poland.

Warsaw  
January, 1932

## THE WORLD MARKETS AND DENMARK DURING 1931

Report of Mr. Ernst Meyer, President, Grosserer Societetets Komite,  
Copenhagen

**T**HE year 1931 will ever stand out in the annals of national economy as the year witnessing the subversion of the monetary system in a number of countries. The English Government resolved on September 8 to abandon the gold standard; a bill to this effect was submitted in Parliament and became law on September 21. On September 22 the Danish Government issued a prohibition against the exportation of gold, and on September 29 the gold standard was abandoned in the country, after Sweden and Norway had taken the same step on September 27.

The happenings on the English money market toward the end of September shifted the focus of the international financial crisis to New York, where the United States' enormous gold stock suffered under the immense withdrawal of money that took place. Already prior to the outbreak of the sterling crisis the French capitalists had largely mobilized their American balances, enabling conversion at short notice into gold irrespective of whether for depositing in New York or for remittance to France. On one day no less than \$109 million in gold was deposited in New York for French account, and at the same time a gold movement to Europe of very considerable dimensions commenced. In addition to France, Switzerland and Holland in particular drew large amounts of gold, but in the last half of October the gold movement fell off appreciably. The gold stock of the Reserve Banks on October 29 amounted to \$2,738 million, which, compared with the figures for September 17, represented a decrease of about \$760 million.

The main factor contributing to arrest the outflow of gold was the negotiations that took place at Washington on October 23-25 between Prime Minister Laval of France and President Hoover. The discussions touching economic ques-

tions were of great importance, and the two governments declared that they would regard pending economic and financial questions from the same standpoint, to which end the maintenance of the gold standard in the United States and France was deemed a factor of the greatest importance. The last statement is of peculiar interest because during the last few years these two countries by reason of their economic policy—the United States chiefly by a high protectionist policy, France by her marked disinclination to allow the reparations question to be drawn into a plane where due regard would be given to existing economic conditions in the world—more than any other states have undermined the very presupposition for a gold standard. Furthermore, the many tariff boundaries resulting from the Versailles Treaty and the whole high protectionist policy of the post-war period, in conjunction with the isolation of Russia from the west European trade system, have likewise tended to undermine the presuppositions for a favorable working of the gold standard. It would be unwise, however, to deduce from the foregoing that gold is no longer suitable as a regulator of international payments; what is really required is that the factors which have hitherto prevented gold from functioning as an effective regulating medium should be checked and kept in the background.

There can hardly be any doubt that when the choice has to be made between a paper standard and a gold standard the decision will lie with England, and many small states will follow England's example. History shows that the most flourishing period of the European states—the nineteenth century—occurred in the epoch when the gold standard predominated. As a money system basis gold has signified steady exchange rates and easier transference of capital from country to country in a far greater measure than any other monetary system has hitherto been able to show. The best guarantee for the maintenance and development of the world lies without doubt in the re-introduction of the gold standard.

As for England, the chief event in 1931 for Denmark, Norway, and Sweden was the abandonment of the gold standard by these countries. In all three countries trade was to an increasing degree affected by the world depression,

and, so far as Denmark was concerned, this manifested itself in heavily falling prices on principal exports.

Denmark's exports amounted in January-September, 1930, to 1,220 million kroner, and in January-September, 1931, to 998 million kroner, a decline of 18.2%; Sweden, 1,150 and 794 million kroner, a decline of 31.1%; Norway, 529 and 320 million kroner, a decline of 39.5%.

England's suspension of the gold bar standard on September 21 came as an entirely unexpected and astonishing event to the northern countries, and consequently none of the central banks had properly prepared in advance for this contingency by taking up the foreign credits. Whereas Sweden with great zeal promptly declared that Sweden would follow the dollar and adhere to gold, public opinion in Denmark was obviously divided from the moment the financial catastrophe occurred in London. But about September 28 the Government vigorously went in for the maintenance of the gold krone. In the meantime, great alterations had occurred in Sweden, and on Sunday, September 27, in the evening the sensational announcement was issued in Stockholm and Oslo that the respective governments and national banks of Sweden and Norway had resolved to suspend the obligation of the banks to redeem their paper currency with gold. This immediately caused Denmark, too, to abandon the gold standard, and on September 29 a bill providing for this was submitted and passed through Parliament, receiving the royal assent on the same day.

With regard to Danish trade conditions, the price quotations for some of the more important agricultural products have undergone a very considerable fall. For instance, the Copenhagen quotation for cattle for slaughtering has fallen from 38 to 20 öre per kilogram, live weight, and the bacon quotation has fallen from 90 to 66 öre per kilogram, dead weight. The prices on eggs and cheese have fallen somewhat in 1931, but much less than the bacon prices, whereas butter and milk prices have even undergone a slight rise. On the raw materials used in the turning out of agricultural products, most of the fertilizers have been reduced very considerably in price during the year.

The stock of pigs during the last year has increased by

563,000 head, or about 12%, to about 5.5 million head, in the summer of 1928, 3.5 million head. The horned cattle stock has grown by 140,000 head, July 15, 1931, 3,197,000 head; and the number of horses, by 4,000 head, July 15, 1931, 498,000.

On the basis of official figures the grain harvest in 1931 must be presumed to have been inferior both in quality and quantity to that of recent years, due largely to the cold and wet summer.

The wholesale trade in 1931, as in 1930, has during the greater part of the year suffered under falling, or in any case uncertain, prices, and not only raw materials but also semi-manufactured goods gradually fell, as far as many articles are concerned, to so low a price that even normal sales did not leave a profit in any reasonable proportion to costs, and it must be expected that the lesser earning power of agriculture will mean reduced sales in the future. The abandonment of the gold standard has completely upset the calculation basis for the goods, and due to this it has since October been exceedingly difficult to procure the necessary currency to pay for bought goods.

The wholesale price index for imported goods in November, 1931, was only one point below the corresponding figure in the preceding year, while the price index for export goods is no less than 21 points lower. In other words, the relation as to the prices between import and export goods during the period in question has moved 20 points in Denmark's disfavor.

Details of Denmark's trade with foreign countries in the first ten months of 1931 show under agricultural exports that the figures for bacon, eggs, and butter are higher than those for the corresponding period of the preceding year. Bacon exports alone have risen by 62,000 tons, or about 25%, which is far higher than in any former year. The egg exports show a rise of about 16%. The exports of live cattle have fallen off considerably, but the exports of fresh beef and veal have risen by about 75%.

In the industrial field there has been a marked decline in cement exports, which amounted to 127,000 tons only, as against 272,000 tons and 384,000 tons respectively in the

corresponding periods of the two preceding years. On the other hand, the exports of soya-oil have shown a striking rise of about 35%, and the export figures for this article have almost touched the high export figures recorded in 1919 and 1928. On the other hand, the export value of wagons, machinery, and so forth, during the first 10 months of 1931 only amounted to 47 million kroner, as against 70 and 73 million kroner in the two preceding years; and the value of ship tonnage exported has fallen to 25 million kroner, as against 35.6 and 30.8 million kroner in 1930 and 1929.

On the import side under raw materials for agriculture the imports of maize show an enormous rise, the quantity imported having amounted to 579,000 tons as against 253,000 tons in the corresponding period of 1930. Remarkable also is the great rise in the soya bean imports, corresponding almost to 25%. On the other hand, the bad times for agriculture have found expression in the violent decline in the import figures for all kinds of agricultural machinery. In several cases these figures have been more than halved.

In the industrial field there has been a heavy decline in the imports of raw iron, and other articles used by the shipping industry. The coal imports show a slight decline, but in spite of bad times the petrol imports touched a new record figure, the total quantity imported being 209,000 tons against 194,000 and 158,000 tons in the corresponding periods of 1930 and 1929.

Denmark has in all during the first 11 months of 1931 imported goods to a value of 1,332 million kroner, while the exports amounted to 1,223 million kroner. There has thus been a total excess value of imports over exports of 109 million kroner, as against 108 million kroner in 1930 and 81 million kroner in 1929.

The figures and information given in the foregoing, together with particulars of the traffic on the port of Copenhagen—the latter showing higher figures both for the number of vessels entering the port and for the cargo dealt with than in any preceding year—clearly indicate that 1931, like 1930, has been a good year of employment for Danish trade on the whole. Unfortunately the relation between the import and export prices throughout the whole year has to a marked

degree been in Denmark's disfavor, and the uncertain currency situation, together with the extremely great depression prevailing on the world market, could not but give rise to the general pessimism entertained.

For the shipping trade the past year has been even worse than 1930, freights throughout the whole year having been unusually poor. The quantity of tonnage laid up has in consequence been materially greater than in the preceding year. On January 6 the figures stood at 98,000 gross registered tons, thereafter rising gradually until April 28, culminating at 218,000 gross registered tons. On November 24 the tonnage laid up amounted to 138,000 gross registered tons, corresponding to the lowest figure in the summer. In December, however, the figures have shown a further rise.

Several industrial concerns had orders on hand for execution during the first six months of the year, and this fact, in conjunction with the falling prices on raw and auxiliary materials, has doubtless contributed to the well consolidated firms having earned good profits. The industries have also benefited in various ways through the building trade, which has been particularly brisk in Copenhagen throughout the whole year. However, as the securing of new orders has been attended with great and ever-increasing difficulties, the industrial conditions in the autumn were on the whole unfavorable. On the other hand, the abandonment of the gold standard and the automatic increasing of the protective duties consequent upon the lesser value of the krone, have undoubtedly had a stimulating effect on several branches of industry and resulted in their securing orders which otherwise would have passed them. Moreover, the export prospects of some few concerns have been enhanced at all events temporarily by the value of the krone. Naturally, however, the prevailing uncertainty with regard to the currency situation, which renders all calculation extremely difficult, has in other ways proved detrimental to Danish industry. Unemployment figures in 1931 have been somewhat higher than for the preceding year, but not higher than those for 1928, which was a tolerably good business year for Danish industry.

Copenhagen  
December, 1931

## DENMARK'S BALANCE OF PAYMENTS

Report of Mr. B. Dessau, President, Tuborg Breweries, Copenhagen

**F**OR a number of years the net indebtedness of Denmark to other countries has amounted to about 960 million kroner, which at par rate of exchange equals about \$70 per inhabitant. Most of this indebtedness is in the form of government loans and municipal loans. Thus loans placed in foreign countries by the Danish Government and Danish municipalities at the end of the year 1930 amounted to a little over 1,000 million kroner. Various other Danish securities, especially mortgage bonds issued by the Danish Credit Associations, with mutual liability, were held abroad to the extent of 310 million kroner, and the commercial indebtedness amounted to 381 million kroner. Against this, foreign securities were held in Denmark to the extent of about 235 million kroner, and the commercial indebtedness of the other countries toward Denmark amounted to about 518 million kroner.

The corresponding figures for the end of the year 1931 are not yet available, inasmuch as the official statistics will only be issued in a few months. It is possible, however, to some extent to form an impression of the features which will principally influence the monetary balance between Denmark and foreign countries. Thus, it is a fact that there is a deficit in the trade balance and that the imports during 1931 exceeded exports by approximately 115 million kroner. Sales and purchases abroad of securities, including repayments of Danish loans falling due within that period, seem to have balanced. The gross income from Denmark's important shipping interests is estimated to amount to about 160 million kroner, and further it is estimated that the banks have diminished their foreign currency balances to the extent of about 130 million kroner, including gold disposed of by the National Bank. Summing up these items, a surplus of about 175 million kroner in favor of Denmark is arrived at, and this may be compared with a surplus of only 40 million



kroner for 1930. The excess of the amount for 1931 over the corresponding amount for the preceding year—about 135 million kroner—must undoubtedly be due to repayments of loans abroad during the first half of 1931, and for the latter half of the year must have been due to payments for merchandise purchased. The position has also been influenced by the fact that the fluctuating rates of exchange caused purchases, which formerly took place on credit, now to be paid for in cash.

As already mentioned, the final figures of the balance of payments of Denmark are not available, but what is said above will show that the extraordinary financial conditions have not caused an increase in Denmark's net indebtedness abroad. If this indebtedness is calculated in gold, it will even show a reduction, inasmuch as the decrease in Denmark's indebtedness abroad is greater than the decrease in foreign indebtedness to Denmark.

Copenhagen  
January, 1932

## THE ECONOMIC OUTLOOK OF NORWAY

Report of Mr. J. Throne Holst, President, Freia Chocolate Fabrik, Oslo

CONSIDERING the future prospects of Norway it is necessary in the first instance to understand the condition of affairs today. Like most of the other countries of Europe, as well as the United States, Norway is in the midst of an economic crisis, the result of which is quite uncertain to all countries concerned. This crisis reached our country only at the end of 1930, the effect of the same during last year, however, being all the more strong. The level of wholesale prices dropped from 128 at the beginning of the year to 117, being still higher than in most of the countries with which we may compare ourselves. On September 27, 1931, Norway suspended the gold standard, England having taken the same step one week previously, on September 21. Since that date, that is, September 27, the level of wholesale prices has risen somewhat, so far, however, to a very small extent only, and the cost of living has not as yet increased much. During the last three months of 1931, however, the external purchasing power of the Norwegian krone has declined to 70% of the gold parity, based on the rate of exchange of the dollar.

An important fact to be borne in mind in considering the economic condition of Norway at the turn of the year is the protracted stoppage of work, which affected almost our entire industry from the beginning of April—the paper industry from the middle of March—until the middle of September. The results of this break of production were felt everywhere. Our export was, of course, affected in the first instance. It has improved, however, also in consequence of the fall of the krone after the suspension of the gold standard. The export of several important industrial products has thus increased. Owing to international conditions, however, and in the first instance as a result of the protectionist efforts prevailing in most countries, several of our exporters must be prepared for sales difficulties.

The shipping industry, it is well known, is of vital importance to Norway. On January 1, 1932, the registered merchant fleet amounted to 4.2 million gross tons, that is, an increase of 0.3 million gross tons, or 8.7%, during 1931. The greater part of this increase consists of motor ships, especially motor tankers. The year 1931 has been an exceedingly difficult one for the shipping industry. As already mentioned, the domestic exports during the past year have partly failed, and the transport quantities have been seriously reduced. The international freight level being at the same time exceptionally low, a considerable part of the fleet has consequently been laid up during the whole of the year. The whaling fleet, which was able during the 1930-31 season to show a record catch of 2.3 million casks, is also having sales difficulties and has been laid up during the present season.

Agriculture and forestry, whereupon the greater part of the population of the country is depending, have given no satisfactory results. The yield of agriculture was below the yield of an average year, and, the prices of farm products having at the same time decreased, the profits of the rural population have been very poor. It is obvious that this fact also results in sales difficulties for the home industry. On account of the protracted labor conflict, forestry has been paralyzed; pulp mills and paper factories have been brought to a standstill.

It seems, perhaps, as if the above facts give a disheartening picture of the state of affairs of Norway. It must be borne in mind, however, that the Norwegian population is a very elastic one. In the first instance, a good many of them are living by agriculture and consequently are self-supporting. Added to this, several of the Norwegian trades, especially the shipping industry, will be able very rapidly to utilize more favorable international conditions. On account of its considerable overseas trade and its large shipping industry in proportion to the size of the country, Norway is a country the economic welfare of which is strongly dependent on an extensive trade with the world. The narrowing in of the universal trade, which has lately taken place, has therefore greatly affected Norway. As known, this restriction of the

trade of the world is extensively a result of political events. In this connection I might mention the political conditions of Russia, the question of the German reparations, and the settlement of the war debts, the political difficulties in India, China, and South America.

Owing to the fact that the Norwegian trades that are economically most important are to such an extent dependent on international business, Norway takes an active interest in the removal of the obstacles that are now put in the way of trade. Important conferences are to be held on this subject, the results of which are anticipated with anxiety. It may perhaps be objected that up to now the conferences have given no important results. The distress in many countries is now so great, however, and the difficulties which international trade has now to fight are so many that the politicians of the different countries ought to realize that it will now be necessary to take extraordinary measures if one is desirous of returning to times which may be described as comparatively normal. If no improvement in this direction can be expected, it is most likely that a stagnancy will take place in the greater part of the civilized world, and this stagnancy will of course also hit Norway, scarcely harder, however, than any other country.

Oslo  
January, 1932

## THE LEGAL STABILIZATION OF THE CURRENCY IN JUGOSLAVIA

Report of Hon. Ignjat Bajloni, Governor, National Bank of Jugoslavia,  
Belgrade

**A**MID the tremendous difficulties with which the economic system of Jugoslavia had to contend in the course of the year 1931 an important act was brought out. The Jugoslav monetary unit, the dinar, was stabilized by the law of May 11 at the level at which it had stood without change for the last six years. In this way a term was set to that long period of struggle for the Jugoslav currency begun immediately after the War, which left to the Kingdom of Jugoslavia a legacy of complete monetary chaos. Superhuman efforts were necessary to bring order into this chaos, to unify the monetary circulation, and to establish the bases of a solid monetary system. After a certain fall in the international value of the Jugoslav currency in the first years after the War, an opposite process set in. The value of the dinar suddenly began to rise and for slightly less than two years, from 1923-1925, the rate improved by about 250%. This rapid improvement of the dinar was not without unfortunate results for the national economic situation, and consequently in the summer of 1925 a check was put to the rising value of the dinar, which since then has maintained the level at which it has now been legally definitely stabilized.

The principal features of the new monetary system, according to the Currency Act of May 11 and the National Bank Act of June 17, 1931, are as follows:

As the monetary unit, the dinar has been adopted with a value expressed at 26.5 milligrams of pure gold. The National Bank has been assigned the responsibility of supervising the proper working of the monetary system, and it will carry out this task as a public service in the name of the State. Its banknotes will continue to have legal currency. The maintenance of the stability of the monetary unit in relation to gold is secured by the establishment of the con-

vertibility of the bank's notes. The National Bank, Article 3 of the Act, will exchange its notes for gold or foreign gold bills. The conversion of notes into gold is only permitted for sums over 250,000 dinars, but for foreign exchanges there is no limitation.

To carry out these obligations the National Bank is required to keep a reserve in gold and foreign gold exchanges. This reserve must amount to 35% of the total sight liabilities, and of this at least 25% must be in gold.

As will be seen, the Yugoslav monetary reform consists in the adoption of a gold standard. This, of course, differs considerably from the gold standard that existed before the War and still exists in certain countries. There will be no gold coinage in this country, and payment in exchange for banknotes will be made in bullion. This means that the rôle of gold will be reduced to its serving only as a basis for the notes in circulation, which is quite justifiable, for the actual circulation of gold coin represents at the present time a superfluous luxury. The chief thing is that money should be expressed in gold and related to the monetary units of other civilized countries by its gold parity and that this parity should be assured by the establishment of its convertibility.

Another departure from the strict gold standard consists in the regulation whereby the gold covering may consist of foreign gold exchanges as well as of gold. Such a decision is the result of the spirit of the present age and is inevitable in view of the fact that the world's gold supply does not permit of the general exclusion of exchanges as a gold basis. The use of gold bills is not without its disadvantages, but at the present time it cannot be avoided. In many countries bills are accepted as a covering on the same footing as gold. In this country, however, a very proper restriction is made, which consists, as we have shown, in the fact that our currency must be covered by pure gold to an extent of at least 25%. Thus the system in its working out approaches more nearly a strict gold standard than is the case in many countries. A particularly important regulation is that making the convertibility of banknotes obligatory, which does not exist at present in many European countries, Belgium,

Germany, Hungary, Czechoslovakia, and Austria. The monetary system of this country, therefore, may be considered as more complete than that of the above-mentioned countries.

A further regulation, which is also the fruit of the experience of recent years, is seen in the obligation to maintain a gold reserve not only for the notes in circulation but also for all demand liabilities. These prescriptions, which also do not exist in many countries, give the circulation of banknotes a much firmer basis than was the case under the provisions of the former law.

The carrying out of this reform has inevitably caused a need for the adaptation of the organization of the National Bank, which has to shoulder the whole new monetary system, in accordance with the new conditions and with the needs of monetary and credit business. The National Bank Act of 1920 was passed at a time when the experience in money matters was very incomplete. In the course of its duration both its good and its bad features could be seen. All this has been taken into account in the formulation of the new law, and hence this presents considerable changes and improvements as compared with the old law. The principal regulations of the new National Bank Act are as follows:

The most important legal measure for the settlement of the question of the stabilization of the currency is the partial liquidation of the national debt. As is well known, the inflation of the currency in this country took place as a result of the indebtedness of the State to the National Bank. For the unification of the currency and the needs of national expenditure at a time when the War had completely exhausted the economic resources of the country so that it was unable to offer the State the necessary means, the National Bank issued banknotes to the value of 4,500 million dinars—this sum was reduced by successive repayments to 4,020 million in 1930—on the basis of its own circulation derived from its granting of business credits, which for the last nine years has varied between 1,500 and 1,600 million. This national debt has been a heavy ballast for our monetary circulation and has rendered it very difficult for the National Bank to pursue its financial and credit policy. Now the question of

the national debt is settled in what we may consider a satisfactory fashion. The State has handed over to the Bank from the amount of the stabilization loan, in repayment of the debt, 1,400 million dinars. By the valuation of the Bank's gold coverage, the amount of which will be used for the reduction of the national debt, about 880 million will be obtained. The profit from the minting of small silver coins will in a short time yield 250-300 million, which will be employed for the repayment of the national debt. Thus we have a reduction of the national debt from 4,020 million dinars to about 1,820, and in a very short time this sum will be further reduced by the amount of the profit from the coinage of silver money. To wipe out the national debt completely, the State's annual share of the net profits of the Bank will also be used. In this way a considerable reduction of the national debt has been at once achieved, and it may be expected that in ten years' time less than a quarter of the original debt will remain. This regulation of the monetary system will set the National Bank free to conduct an efficacious policy, especially if the next few years bring, as is to be expected, an improvement in the state of our balance sheet as regards payments. In that case the resources at the disposal of the Bank will be increased, and the Bank will be able in a true sense to control the circulation of money and credit in the country. Significant changes have been introduced in the sphere of the Bank's activities. The most important is doubtless that enabling the Bank to abandon the usual term in the case of three-month loans where agricultural credits are concerned. Thanks to this regulation the National Bank will at last be able to take more interest in agrarian credit business. Nevertheless, in view of the great necessity for the Bank to have an effective influence on its circulation and volume of credit in the country, it is stipulated that agricultural credits should not occupy more than 25% of the Bank's credit business. A further relief for agriculture consists in the provision for credit to be granted on the security of pledges. This business, which is of great importance for the economic system in general and particularly for agriculture, has not been developed before chiefly because of the lack of the necessary public store-



houses. There is, however, every appearance that there will be an improvement in this respect and that this form of economic activity will further develop. Much may be expected from it in regard to the regulation of the prices of agricultural produce and the progress of agricultural production itself.

A whole series of new regulations have as their purpose the strengthening of the Bank's position and its rôle in our money market. Thus it is permitted to buy State bonds and other fixed income securities up to the full amount of its capital and reserve fund. The Bank is also permitted to mobilize wholly or partially State Treasury bonds, which represent the remainder of former loans to the State, in the form of securities with a term of not more than three months. These two regulations offer the Bank a very powerful means of regulating the monetary system of the country. Through them it can at need restrict or extend its circulation, independently of the extent of its credits. It may be expected that in this way the National Bank will gain a very powerful weapon for regulating prices and rates of interest.

The importance and influence of the National Bank are such as considerably to increase the bearing of the new legal measures that enable the Bank to enter into firmer and closer relations with other issuing banks and with the International Settlements Bank. By these regulations the Bank will be able to obtain credit abroad and to make use of it; it will be able to accept deposits from foreign banks of issue and from the International Settlements Bank; and either to invest these deposits in business credits and other short-term securities or to deposit them with the banks of this country. The bank will be in a position to rediscount these securities and also to endorse them. Through these regulations the National Bank will be able to play a very important part in providing the country with means from abroad. It will become an important organ through which foreign capital can be invested in this country. It may be expected that such activities will develop considerably and that through them much can be done to improve credit conditions in this country.

As we have seen, the Jugoslav reform has been carried out

in a serious manner and after long and careful previous study and preparation. It may be considered one of the most complete reforms carried out in Europe since the War. Its working will show in the near future its results and its importance. It may be expected that the influence of the legal stabilization on the whole of our economic system will be very great and that with it will at last begin the fundamental economic reorganization of the country.

Belgrade  
January, 1932

## THE WORLD-WIDE ECONOMIC CRISIS AND THE ECONOMIC OUTLOOK OF HUNGARY

Report of Mr. Eugene Vida, Member of the Upper House of the Hungarian Parliament, Vice-President and General Manager of the Hungarian General Colliery Company, Budapest

**I**N THE last year's article I emphasized the necessity of a change in the economic system of the world, otherwise we have to expect new grave crises. Unfortunately this assumption proved too quickly true. The financial crisis that broke out in July, 1931, in Austria and Germany, among others, took possession of Hungary too. Especially after repeal of gold currency in England, it became a world-wide financial crisis, the well-known symptoms of which I need not discuss. I shall try, however, to describe shortly the effects of this crisis on Hungarian economy and afterward examine by what means the Hungarian crisis could be met: whether by those means which have been recommended by the Financial Committee of the League of Nations or only by way of a general solution of the world's crisis.

It is to be stated first that the situation of Hungarian economy did not turn out as badly as was expected. Certainly the situation was very serious indeed, and the outbreak of the crisis showed only that a secret disease in Hungarian economy had become acute.

The effect of the crisis was not perfectly uniform in industry and agriculture. On account of the restriction on transactions of foreign bills since July, 1931, Hungarian industry has to contend against great difficulties in the supply of its absolutely necessary raw materials.

Nevertheless, certain industries are helped, to a certain extent, by this restriction on bill transactions.

The situation of agriculture is to be called still more serious. The harvest has failed very much this year. The total produce of the seven principal products of agriculture was one fifth less than during the producing period of 1929-

1930.<sup>1</sup> Nevertheless, sale of the substantially decreased produce is very difficult, especially in foreign countries, a disadvantage of great importance, as Hungary is exporting agricultural products at about 60%, in value, of its total exports.<sup>2</sup> The principal markets of Hungary are: Austria, January–September, 1931, 28.4% of the total export; Germany, 12.4%; Italy, 10.7%; Great Britain, 8.4%, countries which are also contending against difficulties of finance and currency and are therefore also compelled to restrict their imports and to develop their exports. The extension of recently opened markets, such as Switzerland, 7% of total exports, France, 4.6%, and Great Britain gives little compensation on account of constantly growing obstacles. How is Hungary, among such circumstances, to be able to raise the 287 million Pengös a year, which according to the report of the Financial Committee of the League of Nations are needed for interest and amortization of its foreign debts? The total amount is about 4,094 million Pengös.<sup>3</sup> Moreover, the balance of payments, lacking invisible exports, can only be improved by the improvement of the balance of trade.

The Hungarian Government has proved already that it will not spare any effort to obtain this surplus by rigid economy and by avoidance of any deficiency in the budget, by compelling people to lower their standard of living, and thereby also reducing imports. Hungary would be able perhaps to obtain this surplus, if it could sell its products. This was also noticed by the Financial Committee of the League of Nations, which recommended to Hungary the striving for proper commercial treaties. The Committee refers to certain results obtained in this direction by certain countries. These countries were not named by the Committee. Probably Argentina was meant, which country was able, as a result of its good crop and proper credit policy, to develop its exports

<sup>1</sup> Report No. 13 of the Hungarian Institute for Economic Research, Budapest, December, 1931, p. 53.

<sup>2</sup> According to data of the Hungarian Statistical Monthly, Budapest, Nos. 7–9, 1931, p. 316, the value of exports of victuals during the period January–September, 1931, was 38.11% of the total exports in value, during the same period of last year, 41.64%; exports of livestock, 19.21%, or 23.62% of the total exports in value.

<sup>3</sup> Report of the Hungarian Government, No. 17, Appendix No. 10; Report of the Financial Committee of the League of Nations about Hungary's financial situation, Budapest, November, 1931, pp. 18, 19.

by more than 72% compared with the last year.<sup>1</sup> This result, however, Argentina could only obtain in weight; in value the surplus was only 3%. As to Hungarian export goods, in the third quarter of 1931 the fall of prices averaged 18.6%; the fall of prices of import goods, 11.7%.<sup>2</sup> Moreover, in these data the "agrarian scissors" are not fully visible yet, as export data comprise the industrial exports too, January-September, 1931, 38.43% of total exports. Increase of the latter, however, is perhaps still more difficult on account of the present obstacles in the supply of raw materials.

These data show most clearly what obstacles there are in the way of an agrarian country that is compelled to increase its exports. In the case of Hungary they are constantly growing on account of the above-mentioned policy of isolation in its natural markets. The principal buyer, Austria, was recommended the same method of restriction of imports and increase of exports by the Finance Committee of the League of Nations. How are both these divergent counsels to be executed in practice?

Though our balance of trade, which has been passive since January, 1931, became active again in August in consequence of increased crop exports and the import restrictions, the surplus in October was 22.2 million Pengös; in November, 28.6 million Pengös; January-November total surplus, 23.4 million Pengös.<sup>3</sup> Contrary to the view of the Finance Committee of the League of Nations, we see no chance for Hungary to obtain the export surplus of nearly 300 million a year, necessary for foreign loan service. And let us assume Hungary could obtain this sum, what about repayment of short-term loans? And how can our industry be supplied with raw materials, when all available foreign bills are used for the service of foreign loans?

At the time of writing the Hungarian Government's decree with regard to a transfer-moratorium came into effect. If Hungary can pay, this moratorium influences only the technical execution of the foreign loan service, centralizing

<sup>1</sup> Kálmán Buday: *The Report of the Financial Committee of the League of Nations, Economic Review*, Budapest, 1931, Nos. 10-11, p. 714.

<sup>2</sup> Report of the Hungarian Institute for Economic Research, *op. cit.* p. 42.

<sup>3</sup> Report of the Hungarian Institute of Economic Research, *op. cit.* p. 38; November data from *Pester Lloyd Morgenblatt*, December 22, 1931.

the latter in the hands of the National Bank. The decree declares, namely, that Hungary will pay without reserve, if the stock of foreign bills makes it possible. But it will also not be possible in the future, when it is already impossible now, at the time of an export surplus of 28.6 million Pengös, to pay on every foreign loan. A general respite agreement, called "Stillhalte" treaty, an agreement with all the creditors, is therefore to be obtained.

As a matter of logical consequence Hungary, the most agrarian among the defeated countries of Central Europe, had first to declare a moratorium after the agrarian states of South America. Austria and Germany will soon be forced to follow suit. Germany is trying in vain to fulfill its liabilities by a desperate increase in exportation. No one of the afflicted countries will succeed by itself in fighting against the power of the crisis. And what if respite agreements are made with them? It means only a delay in repayments, not the final settlement of the problem. A solution at longer term is needed. In the present conjunction of world economics only a general solution can bring the real solution, as the symptoms of crisis, succeeding each other in the different countries, show. All other attempts are only waste of time and energy.

The deeper causes of the symptoms of the world-wide crisis are to be disclosed in order to approach the general solution. Though there are many theories in circulation, I shall try to deal with this matter more fully, not only on account of the one-sidedness of most of these explanations but also because it will be easier thus to fix one's eyes upon the economic outlook of Hungary in particular, when treating of a general solution.

One of the most striking features in the general situation is the crisis of agriculture. Lack of capital and high interest rates doubtless contributed much to the aggravation of the agricultural situation. But the principal reason is overproduction. Agricultural prosperity during the World War effected a great increase in the area of cultivation. After the War this development continued. Moreover, this enlargement of area on account of the surplus caused by technical progress effects still greater increase in production, as can be seen from the returns below. Production was in-

creased so much, especially in extra-European countries, that the principal reason for the agricultural crisis becomes thoroughly clear. Just as clear is the connection between overproduction and the crisis in the sugar industries. In the other industries the connection cannot be proved so clearly. To be sure, in European countries the apparent prosperity of inflation and the trend in the whole world toward economic separation, towards autarchy, former producers showing a tendency to keep their position too, together with technical progress, resulted in too large an extension of industry, which thereby made its masters into serfs, as the large capital that has been used for building and equipment compels production at any price.

CROP AREA IN 1,000 HECTARES AND CROP PRODUCTION IN 1,000 QUINTALS OF WHEAT, RYE, AND BEET ROOTS

Sources: Statistisches Jahrbuch für das Deutsche Reich, 1931, Intern. Übers. 28, and 1930, Intern. Übers. 28

Country	Year	Wheat		Rye		Beet Roots	
		Area	Production	Area	Production	Area	Production
United States.	1930	23,938	231,598	1,506	12,760	324	83,234
	1929	24,873	220,225	1,348	10,656	278	66,388
	1909-13	19,060	187,820	905	9,168	196	44,092
Canada	1930	10,075	107,736	2,249	30,037	21	4,409
	1929	10,220	82,878	2,398	22,276	18	3,302
	1909-13	4,025	53,648	637	9,857	7	1,448
Russia	1930	34,719	..	28,000	..	1,025	140,000
	1929	30,644	201,100	26,059	202,200	765	63,000
	1909-13	29,950	206,000	25,100	189,100	617	99,158
Argentina	1930	7,972	65,000	253	1,200	..	..
	1929	6,436	44,246	220	1,118	..	..
	1909-13	6,023	40,023	31	163	..	..
Australia	1930	7,349	55,793	..	..	..	..
	1929	6,042	34,422	..	..	..	..
	1909-13	3,077	24,630	..	..	..	..
Hungary	1930	1,647	19,959	636	6,713	75	14,455
	1929	1,500	20,408	657	7,982	79	16,070
	1911-15 <sup>1</sup>	1,511	19,950	680	8,042	59	15,020
Total	1929	126,574	1,117,564	45,477	457,017	2,830	564,990
	1909-13	109,376	1,028,609	44,649	450,393	2,322	543,071

<sup>1</sup> Moreover, these data of 1911-15 are relating to Greater Hungary, which was cut into five pieces by the treaty of Trianon, leaving only one fourth of the territory to the motherland.

## SUGAR PRODUCTION OF THE WORLD

Source: Hungarian Statistical Review, Budapest, 1931, No. 7, p. 724

Year	1,000 Tons
1890-91.....	6,371
1901-02.....	11,043
1911-12.....	15,681
1923-24.....	21,300
1927-28.....	26,666
1928-29.....	28,218

Every depression, every lowest point in business cycles, every crisis is characterized by such phenomena of overproduction. The circumstance, however, which makes the present overproduction seem especially large and thereby causes the extraordinary extent of the present crisis, is to be sought on the side of consumption. The World War had destroyed immense masses of goods. This alone would have resulted in a lack of goods and increase of production, as it indeed appeared in Europe at the end of the War and at the time of the inflation and did produce a further increase in production, which had been overdeveloped already during the War. But, beside the destruction of goods, war and principally inflation have destroyed immense wealth and chances of existence, thus resulting in income changes, which made large classes, especially the middle classes, incapable of consumption. This development, which can be noticed within the various political economies, can be observed to a much greater extent also in world economy on account of the income quota of different countries. Immense burdens were imposed on the defeated countries in the form of reparations, occupations, confiscations, and by the fact that ancient economic unities were cut to pieces and political antagonism was stirred up between them, which makes economic co-operation nearly impossible. The resulting changes in distribution of income between various countries of world economy led to the same phenomena that are caused by an unhealthy distribution of income and wealth within a single political economy. Classes or countries, one-sidedly favored by such a distribution, will in spite of their high income not be able to consume so much as can be consumed in the case of a more equitable distribution. Superfluous capital, however, will be used to further investment and thereby



overproduction increased to an extent that in the present conjunction of world economy must result in phenomena, which indicates a low point much deeper than that of the usual business cycles.

The highly civilized defeated countries cannot be reasonably eliminated as consumers. We cannot say, of course, that the crisis of consumption is caused merely by the weakening of the defeated European countries. The great fall in the price of silver is doubtless influential too, as it weakens still more the purchasing power of large countries, for example, China and India. It is also of great importance, as Paul Einzig emphasizes,<sup>1</sup> that after 1929 the United States was not able to furnish the states of Central Europe and South America with further capital as plentifully as before. All these circumstances doubtless contribute to increase the crisis of consumption. But anyhow it ought to be examined, how far also these circumstances are determined by the weakening of the European consumption, and, should the connection not prove as narrow as we suppose, then in that case the most important factor also remains the lack of consumption of highly civilized Central Europe with its inhabitants totaling more than 100 million.

Disturbance of the balance between production and consumption is thus the chief reason of the world-wide economic crisis: it is principally a crisis of consumption. By the gold currency, the crisis is also increased, as the lack of gold and the rise of gold prices in consequence of it result in a further fall of prices. This lack of gold, which can be felt still more on account of the unhealthy distribution of gold, impedes the provision of credit, as the number of issuable banknotes, in consequence of legal limits on currency, is closely connected with the available gold stock. Present difficulties are doubtless increased by the gold currency, but, nevertheless, it is not the principal reason, as the well-known monetary theory of crises holds, a school led by Irving Fisher and Gustav Cassel. Not only large circles of finance but also the English Macmillan Committee seem to follow this theory. The latter abstain from giving any

<sup>1</sup> *The World Economic Crisis, 1929-1931*, London, Macmillan and Co., 1931.

definitive opinion on the matter,<sup>1</sup> which is not to the credit of the great work done.

The causes of the world-wide economic crisis lie too deep to be solved merely from the point of view of money, by the introduction of a new currency basis, which, other things being equal, would soon result in the same distribution of money, or by international credit operations, by the placing of capital abroad by the better situated countries. As the well-known Hungarian economist, Professor Farkas Heller, convincingly states,<sup>2</sup> the latter theory resembles the "théorie des débouchés," which was propounded about 100 years ago, and means that every offer at the same time creates a demand. This doctrine is also followed by those economists who are awaiting a solution only by credit operations, not knowing that they are following long since refuted principles. The *théorie des débouchés* and the reasoning of these authorities start from the point that every production is connected with a need for raw materials and work and creates ability for consumption. Doubtless it is true, only the circumstance remains unnoticed, that the disproportion that exists between production and consumption at the start of the process cannot be avoided merely by capital. Capital is always used for production, without guaranteeing that consumption, which has been created by increase of production, will be in fact able to consume the goods which are produced now to a still greater extent. For invested capital changes not only into wage and income, destined for consumption, but also into equipment, used for a new increase of production and profit, which is partly also used for the same purpose again.

Merely by putting capital at the disposal of production the said theory intends to liberate economy from its desperate situation just at the time when the market balance is disturbed by the overextension of production.

Restoration of the market's harmony can only be obtained either by diminishing the production or by increasing the ability for consumption. In the first direction the market is working merely automatically through the great fall in

<sup>1</sup> Report of the Committee on Finance and Industry, London, 1931: §207,209.

<sup>2</sup> Hungarian Statistical Review, Budapest, 1931, No. 7, p. 729.

price, without being able on account of artificial means, such as duties, dumping, etc., to make the latter thoroughly valid and thus to take the evil by the roots. By new measures in order to stabilize prices as proposed for instance in the report of the Macmillan Committee,<sup>1</sup> this natural development towards soundness, connected, however, with great sacrifices, will be only disturbed, retarded, if from the other side, the side of consumption, no help will be obtained.

From this side help must be gained, if the automatic healing of the fall in price is not to demand many more victims, not to destroy further thousands of plants which are less able to compete, not to mention possible serious political complications. Because how easily in the souls of suffering men the idea can be formed that overproduction side by side with the greatest misery can be caused only by unjust distribution of wealth, and there is only one way out of it: Bolshevism, without imagining that Bolshevism, as an economic system, is not only impracticable, but that, even if it were practicable, every quick change in the system without a previous slow organic development is doing much more harm than it can do good. Moreover, just within political economies, which are most affected by the crisis, therefore especially in the states of Central Europe and in England, where there has never been a socialist government, distribution of wealth is executed by immense progressive taxation and social burden to a degree that is practically identical with state socialism. In most of these states even a part of the workers make the allowance that social burdens must be diminished, if it is to be possible to continue production.

The present crisis is not a problem of distribution of wealth within the various political economies, but of distribution of wealth among the various political economies, the share of the various political economies in the wealth of the world. In order to be able to increase capacity for consumption today, we must act in the same manner as in the case of an unhealthy distribution of wealth and income within a certain political economy. In this case, if upheaval and extreme social experiments are to be avoided, a proper social policy

<sup>1</sup> Report of the Committee on Finance and Industry, *op. cit.*, § 275 ff.

must commence within the political economy. In the same way in the present situation, of the unhealthy international distribution of wealth and income between the various states, I would speak about the necessity of a social policy in favor of the poorer states and warn the rich states to begin seriously with it the sooner the better, before it is too late. Through further fall in prices and possibly by Bolshevism in the poorer countries, they will feel overproduction and crisis of consumption in a still higher degree, not to mention further possible dangers and the point of view of humanity. This social policy in favor of the poorer countries has to consist in cancelling reparation debts, which otherwise would take place automatically on account of insolvency of the respective states, in a general moratorium of public and private debts of the respective countries, as well as a diminishing of interest rates, which effectively show a permanent increase on account of the fall of prices. It has to consist further in overcoming the obstacles to economic co-operation: the export and import restrictions and immense tariff rates, especially between members of such an ancient economic unity as the former Central Europe.<sup>1</sup> Also foreign credits can be of great importance, and the above statements were therefore not directed against foreign credits in general, but against the meaning of the money theories, according to which a more proportionate distribution of gold by giving credit alone brings recovery. Long-term foreign credits are of great value if by their use overproduction is not increased further, but if, like road-making and other investments, they give work without resulting in a further excess of goods. They are also of great value if such credits are used to change production into producing quality goods, as would be of special necessity in Hungarian agriculture.

These measures of the "interstate social policy," as I may call it, ought to be begun as soon as possible before it is too late. The United States, which has shown the most understanding of these problems up to now, has here to fulfill a great mission, not only in the interest of its own economy, but also in the interest of the whole of civilized mankind. When the United States begins, the other coun-

<sup>1</sup> For further reference about this problem see the works of Elemér Hantos.

tries can follow. Even France, feeling now very strong with perfect right, will be compelled to understand that, in case of a further deepening of the crisis, it will find it more and more difficult to cover the permanently growing deficiency of its trade balance, especially because reparation payments, which covered alone the deficiency of the trade balance, and the influx of foreign visitors will stop almost entirely. Since the War France issued principally short-term loans,<sup>1</sup> which were called back during the last year in great number with the consequence that its income from interest is also decreasing. Therefore France, too, will be obliged to understand that, in spite of its fortunate economic structure, it has a very great interest in the measures here discussed.

If the thought is made prevailing and these measures are seriously adopted, the crisis can be met, and Hungarian economy, together with world economy, can hope for a better future.

Otherwise, the fall in prices in spite of desperate measures will go on, demanding further great sacrifices in capital and privation, till restoration of the market balance is accomplished—or perhaps there is an absolute economic and political ruin of some states, with all its serious effects on the whole remaining world.

Budapest  
January, 1932

<sup>1</sup> See among others: National Industrial Conference Board, Inc., "A Picture of World Economic Conditions in the Early Fall of 1930," p. 30.

## LABOR ORGANIZATIONS IN AUSTRALIA, THEIR POLICIES AND METHODS

Report of Mr. Thomas R. Ashworth, President, Victorian Employers' Federation, Melbourne

**T**HE outstanding feature of Australian trade unionism is its close association with a parliamentary party. Industrial questions are viewed through party political spectacles; industrial interests are subordinated to party political aims and ambitions; industrial policy as such has virtually no existence. A brief review of the development of the trade unions will show how this unfortunate position has been brought about.

Conditions favorable to the growth of trade unionism can be seen in the steady flow of immigration during the decades following the gold rush period of the fifties of last century. Most of the immigrants were accustomed to craft organization. Needing the protection of a system of collective bargaining, they formed unions modelled on the craft system of England. In the late eighties there was a development on original lines when the Australian Workers Union with the Shearers Union as a nucleus was formed to embrace all rural workers throughout the several colonies. The nineties witnessed another original development. Previously, trade unionism had been content with such customary means of obtaining desired legislation as petitioning and lobbying. In 1891 sixteen direct representatives of labor organizations were elected to the parliament of New South Wales. This example was followed in the other colonies and later on in 1900 in the First Commonwealth Parliament. Thus began the Australian labor movement in its duality of industrial and political wings, the industrial being comprised of the unions and the political being known as the Australian Labour Party. It would be a mistake to say that the political wing is dominant; the trade unions really control the movement. But the party political outlook dominates the whole. Two hares cannot be chased at the same time, and for the trade unions industrial views scarcely count.

## THE POLITICAL WING

The declared objective of the Australian Labour Party—the goal toward which it looks—is the socialization of industry, production, distribution, and exchange. Its methods according to its constitution and platform are:

- (a) the constitutional utilization of industrial and parliamentary machinery;
- (b) the organization of workers along the lines of industry;
- (c) nationalization of banking and all principal industries;
- (d) municipalization of such services as can best be operated in limited areas;
- (e) government of nationalized industries by boards upon which the workers in the industries and the community shall have representation;
- (f) the establishment of an elective supreme economic council by all nationalized industries;
- (g) the setting up of labor research and labor information bureaus and of labor educational institutions in which the workers shall be trained in the management of the nationalized industries.

Although the socialization of industry, production, distribution, and exchange is termed an objective, it might more correctly be called an ideal. Such an objective can only be reached through legislative power, and the Labour Party depends for power on support wider than that of the trade unions. When an election is on, attention is concentrated upon measures of immediate concern, and the objective is kept in the background. The practical program of the Party makes an appeal to some non-unionist workers, to some business men in a small way, and to many farmers. The majority of these are not socialistic in outlook. Moreover, a considerable number of trade unionists do not approve the objective. The votes of these moderate sections are necessary for the retention of legislative power, and this fact stands in the way of any attempt to reach the objective being made by the Party as a whole. In all seven parliaments the Party is normally divided into a majority right wing of practical politicians who have no time for the objective and a minority left wing intent upon its rapid achievement.

Labor leaders, so called, are delegates rather than representatives—they are controlled as to their political actions by the Party organization. Each member of Parliament is pledged to do his utmost to give effect to the Party platform and the rulings of a properly constituted caucus. The caucus, composed of all members of the Parliamentary Party in both houses of the Legislature, except in the State of Queensland in which the legislature is unicameral, meets at frequent intervals and decides the course to be followed by majority vote. When labor is in power, the cabinet is elected by, and is responsible to, caucus and not to the Prime Minister as is customary under the British form of government.

Nominally, the political and industrial wings are two distinct movements; actually, the one is controlled by the other. The supreme ruling authority within each state is the Annual Conference constituted of delegates from the Australian Labour Party branches organized in each electorate and from the trade unions. Trade unionists are the most active members of the political branches, and, as they greatly outnumber all others, pre-selection ballots for parliamentary candidates are under their control. The inevitable result is that trade union officials are invariably selected. A reference to the occupations of Labour members shows the extent to which the trade union officials have captured the political party machine. A union secretaryship is an open door to politics for a capable man.

#### THE INDUSTRIAL WING

Embraced in the industrial wing are the craft unions and the industrial unions, the latter type covering all of those engaged in an industry, regardless of whether they belong to a craft or not. Between these two types there is a continuous struggle, the industrial unions seeking to draw members away from the craft unions into one big union for each industry. While some would halt at this point, others regard the industrial unions as a step toward one big union for the Commonwealth.

The unions of each state are grouped together into a Trades Council. Most of the industrial unions are affiliated with these Councils. There is the same conflict between



moderates and extremists as in the political wing. With less responsibility than politicians in Parliament, the budding politicians in the unions are more inclined to extremist views. But for all his fervent idealism and hectic oratory, the "Red" wanes paler and paler as he mounts the ladder to political power. Those who have been members of communist organizations generally break away when successful in an election to an official position.

The Australian Workers Union, the largest and most wealthy in Australia, is not affiliated in some of the states with the Trades Councils. Included in this body are those engaged in rural industries such as pastoral, agricultural, and fruit-growing, and in construction works in the country. Serious differences have arisen between this union and the Trades and Labour Councils, especially in New South Wales. Drawing its large membership from the ranks of country labor, the Australian Workers Union is not so extreme in its views as are many of the city unions.

The Australian Council of Trade Unions is a federal body, which aims at representing the whole of the trade unions of Australia. In this it clashes with the Australian Workers Union. For, although the latter is linked up with the Trades and Labour Councils in some of the states, federally it represents the general mass of the rural workers of Australia. In fact, therefore, the Australian Council of Trade Unions represents the city unions only.

The official policy of the trade unions is that of the Australian Labour Party, namely, the socialization of industry. The political bias of the unions and their control of the parliamentary party has yielded considerable legislative results. Supply and demand have been repudiated both in theory and practice. An attempt has been made through the machinery of Arbitration Courts to fix wages regardless of the demand rates for labor and to create and extend industries regardless of the demand for their products. The existing depression is due only in part to world conditions; in much larger part it is due to a departure from business principles in the management of public affairs.

Politically, labor stands for compulsory arbitration. Up to a year or two ago the trend of nominal wages, based on cost of living figures, was upward. Real wages were nearly

stationary. Now, owing to the depression, awards are being made at reduced rates, but the unions have in some cases struck against the awards. As Professor W. K. Hancock expresses this attitude it is "arbitration plus strikes." But, although prepared to flout awards that do not suit them, the Unions insist upon a continuation of the arbitration system. One strong reason for this is that in the federal sphere, the benefit of awards can be relied upon by members of the unions only, and the system is therefore the chief cause of the growth of these organizations. The unionists in Australia number 900,000, approximately one third of the adult population.

The unions having become part and parcel of a parliamentary party, co-operation with associations of employers in matters of common interest has become virtually impossible. Joint action may be called for from an industrial standpoint, but political considerations demand that an antagonistic attitude be maintained toward employers. In his monumental work, "The American Commonwealth," Bryce declared that an important security against class strife and revolution in the United States was to be found in the fact that the line of cleavage between political parties "is not horizontal according to social strata, but vertical." This he contended might "cease to be true if the new labor party were to grow till it absorbed or superseded either of the existing parties." What prophetic words are these! The danger was clearly visualized and has actually come to pass, not, however, in the United States, as Bryce thought it might, but, first in Australia and much later in Great Britain.

The writer had an interesting talk with Samuel Gompers in Washington in 1923, when the question of trade unions becoming associated with a Parliamentary party was discussed. Bryce on "horizontal cleavage" was quoted; Gompers knew the passage by heart. He was not only alive to the dangers indicated by Bryce but he saw clearly also that, if labor became party political in the United States, the unions would be exploited by political aspirants, and the trade interests of their members would be sacrificed to political ambitions, as in fact they have been in Australia.

Melbourne  
January, 1932

## AUSTRALIAN ECONOMIC CONDITIONS

Report of Sir Lennon Raws, Managing Director, Imperial Chemical Industries of Australia and New Zealand, Ltd., Melbourne

**T**HE special difficulties that handicapped Australia when she became involved in the world depression were described in Volumes V and VI of the "Picture of World Economic Conditions."

These difficulties arose from the sudden drying-up of overseas loans following the collapse of the New York Stock Exchange boom. Australia had been able to supplement her annual income in the previous ten years by an average of £22 million borrowed abroad, and, when this source of revenue ceased, she was confronted with a shortage of funds in London, a rapid increase of unemployment in Australia, and heavy deficits in government budgets.

This loss of income was followed speedily by a drastic diminution in the value of her export products when world prices collapsed. These three difficulties were intensified thereby, and became problems of major importance. The object of this article is to state briefly the position at the end of 1931 and the prospects for 1932.

### BALANCE OF TRADE

The extent to which the London position has been improved is shown in the following table, in which values are reported in British currency:

In million pounds

Year Ending June 30	Merchandise		Balance	Gold Exports Net	Net Balance
	Imports	Exports			
1927	164.1	131.8	-32.3	11.7	-20.6
1928	146.9	137.5	- 9.4	2.7	- 6.7
1929	143.3	137.7	- 5.6	3.6	- 2.0
1930	130.8	97.4	-33.8	27.4	- 6.0
1931	60.2	75.8	+15.6	12.6	+28.2

It will be noticed that during 1930-1931, £40 million of gold was exported. This practically exhausted the gold re-

serve, and in the future reliance will have to be placed entirely on merchandise, including new gold, to produce an export surplus sufficient to pay interest on overseas debt. The Hoover Moratorium has reduced the 1932 requirements by £6 million to £30 million. Last year the merchandise surplus was £15.6 million. The volume of exports will not be so high in 1932, but prices may improve in terms of sterling. In some quarters it is estimated that the value of exports will be higher than in 1931 by £16 million. The Acting Commonwealth Statistician, who is also Professor of Economics at Melbourne University, has expressed the opinion that there is some prospect of attaining the objective of a trade surplus sufficient to meet current obligations.

#### UNEMPLOYMENT

The second difficulty, unemployment, has not been remedied. The percentages for the various states as reported by the Labour Report for the third quarter of the year were:

Year	South Australia	West Australia	Tasmania	New South Wales	Victoria	Queensland	Australia
1928	17.6	8.8	8.2	11.9	11.2	6.8	11.4
1929	17.8	9.6	15.0	12.4	13.0	6.2	12.1
1930	24.7	18.4	23.4	23.3	19.4	11.6	20.5
1931	33.3	27.9	27.3	31.6	26.8	16.9	28.3

The unemployment position in South Australia has been serious for four years owing to a prolonged drought. South Australia, West Australia, and Tasmania represent the agricultural states. The relatively satisfactory position in Queensland is due largely to the sugar bounty, which is a cause of dissatisfaction to other states.

In any case, the problem of finding employment for the large number of men who had been engaged on public works financed by borrowed money was one that could not have been solved speedily. The normal solution of migration either to other industries or to other countries was not available, as both were affected equally severely. Some assistance was hoped for from an adjustment of internal costs as between the export and local industries, but this has not been

realized yet. Those wages which are governed by the cost-of-living index number have been reduced by nearly 25%, including a 10% cut ordered by the Federal Arbitration Court. In New South Wales, however, various dodges were employed to prevent the state tribunal, which fixes wages, from meeting, and the state basic rate there has remained at 82/6d. for a family of three, against 65/3d. in the federal sphere and 65/- in South Australia for a family of five.

The constituents of the Melbourne Wholesale Price Index number show that, despite wage reductions, prices of industrial products have moved in an opposite direction to those of farm products, which comprise the export industries.

	Base, 1911 = 100	
	Industrial Products	Farm Products
January, 1929.....	175	180
July, 1929.....	176	175
January, 1930.....	178	158
July, 1930.....	182	146
January, 1931.....	190.6	118.7
July, 1931.....	199.3	116.9

The latest figures published are those for Sydney, the index, base, 1911=100, for October being: wool, 105; wheat, 75; butter, 156; non-rural, 183; all commodities, 154.

This disequilibrium means, of course, that the buying power of those engaged in rural industries and of those whose wages have been reduced by the operation of the cost-of-living index number has been still further reduced by the rise in the cost of manufactured goods. Consequently, unemployment has increased instead of decreased as it would have done if equilibrium had been restored.

The failure of non-rural prices to fall despite the fall in wages has been due: first, to the fact that the wage reduction has not been spread equally over all industries; second, that conditions of labor fixed under arbitration awards are rigid and obstacles to reduced costs; third, to the fact that the increase in the tariff, the imposition of a primage charge of 10%, and the adverse exchange rate of 30½% have seriously increased the cost of essential raw materials, while in many cases overhead has not been reduced commensurately with reduced output.

It may be worth while as an illustration and a warning of what may happen under compulsory arbitration to digress from the main object of this article to mention some of the fantastic conditions that operate in Australia under arbitration awards.

If a man does another job even for five minutes which is subject to a different award rate, he must be paid the higher rate for the whole of the day. For example, the driver of a one-horse cart is paid at a lower rate than the driver of a two-horse cart. If the former drives a two-horse team for half an hour, he must be paid the whole day at the higher rate. Contrariwise an iron-molder, 24/- per day margin over the basic wage, engaged temporarily as a machine-casting molder, 9/- margin, must not be reduced.

The Waterside Workers award prescribes 8 A. M. to 5 P. M. as ordinary hours. If a vessel has to work after midnight or on a Saturday afternoon, the award requires that the men shall be paid double rates. If work has to proceed during a meal hour, penalty rates up to 8/4d. per hour have to be paid until a full meal hour is given. "Smoke-ohs" have to be given and paid for between 9 and 9.30 P. M. and 3 to 3.30 A. M. Payment at ordinary rates has to be made for time occupied by men in getting to and from a job; also for all time waiting for rain or cargo or late arrival of steamer. If a man is picked up to commence work before 5 P. M. he must be paid a minimum of 2 hours, or to commence work after 5 P. M. for a minimum of 4 hours, even if actually he only works say 30 minutes.

The following is an instance of actual working under an award. A steamer arrived at a Queensland port to load 270 tons of sugar. The prescribed rate of loading was 15 tons an hour, and two gangs of 12 men each were required. There was only room in the hold for 6 men at a time, so this number in each gang worked, taking hour and hour about. The other 6 fished, slept, or bathed. It is estimated that it took at the outside 30 minutes to load 15 tons, so that each man averaged about 15 minutes work per hour. The gangs worked an hour overtime or 9 hours in all, and the cost per man including fares and meals was £2.18.5., or at the rate of nearly £1.6.0. per hour of actual work and nearly 5/3½d. per ton of sugar loaded.

Some awards provide for full pay for sickness or accident up to 10 days per year, 6 days' statutory holidays, and 6 days' annual leave. So that with luck a man may get 22 days per annum off work on full pay.

A person employed trimming a hedge on a race-course has to work 48 hours a week for 74/-. If he is employed trimming the hedge of a private house, he is paid 74/3d. for a week of 44 hours. A gardener employed on a metropolitan golf course must be paid 73/- per week of 48 hours, but employed on a country golf-course he can be paid any rate his employer cares to give.

It is fantastic decisions and conditions of labor of this sort, which hamper the employer who is anxious to reduce costs.

GOVERNMENT FINANCE

The third of the special difficulties was government finance. Overseas borrowings had resulted in heavy imports which had given the Commonwealth Government a high customs revenue. The states had paid their overseas interest obligations by fresh borrowings. Consequently, when borrowing ceased, both Commonwealth and states found themselves in difficulties.

In February, 1931, a Committee of Under-Treasurers submitted the following figures:

In thousand pounds

Year to June 30	Deficits			Loan Expenditure	Short-Term Indebtedness
	Commonwealth	States	Total		
1928	2,630	1,220	3,850	43,723	
1929	2,359	1,236	3,595	40,007	5,500
1930	1,471	9,655	11,126	27,805	38,500
1931 <sup>1</sup>	10,000	5,000	15,000	15,000	55,500 (Feb.) <sup>2</sup>

<sup>1</sup> Estimated.

<sup>2</sup> London £38,075,100—Australia £17,437,000.

In May a sub-committee of the Loan Council reported that the deficits for 1931 and 1932 were estimated to be:

In thousand pounds

	1931	1932
Commonwealth.....	13,400	14,900
States.....	17,750	20,680
	31,150	35,580

Subsequently, the 1932 estimated deficit was increased to £41,080,000.

In August, 1930, the Premiers' Conference after hearing a report by Sir Otto Niemeyer, a visitor from the Bank of England, unanimously declared their intention of balancing their budgets in 1931.

The Prime Minister left to attend the Imperial Conference in London, and action in the federal sphere was delayed pending his return. An election in New South Wales displaced Mr. Bavin, and his successor, Mr. Lang, repudiated the agreement. Consequently, no co-ordinated action was taken, and by June, 1931, even Mr. Lang agreed that something must be done to stop the drift. A Premiers' Conference unanimously adopted a plan whereby the deficits for 1932 would be reduced from £41.08 million to £14.65 million.

The following statement issued by the Commonwealth Bureau of Statistics shows the position on October 31, that is, after four months of the financial year have passed:

In thousand pounds

Jurisdiction	Deficit October	
	1930	1931
Commonwealth.....	5,900	717
New South Wales.....	5,306	7,782
Victoria.....	3,781	3,455
Queensland.....	679	854
South Australia.....	1,495	1,384
West Australia.....	748	894
Tasmania.....	210	218
	12,219	14,587

The sinister influence of New South Wales in Australian finance is indicated by the above table. The Premier of New South Wales, Mr. Lang, agreed to the Resolutions of the Premiers' Conference and bound his Government to effect the economies embraced in the plan. He has failed to implement the agreement, and one is driven to the conclusion that he is relying on being able to force the Commonwealth and the other states through the Loan Council to keep him provided with funds as an alternative to his defaulting in interest payments, and throwing onto the other states the responsi-



bility for the crises which will occur if his Treasury is unable to pay the salaries of civil servants, railway and tramway employees, and others who are on the government payroll.

Such a threat will have less significance now that a non-labor Government is in power in the Commonwealth, and drastic steps may be expected when the Loan Council next meets. Meantime, New South Wales is out of step with the rest of Australia and is nullifying the attempt of the other states to reach budget stability.

### BANKING POLICY

Much political criticism has been directed to the Commonwealth and trading banks which are accused of having forced deflation onto Australia. The Commonwealth Treasurer, Mr. E. G. Theodore, tried to make the nationalization of banking the main plank of his Government's policy at the recent election.

Professor D. B. Copland, Dean of the Faculty of Commerce in the Melbourne University, has rebutted this charge vigorously in a little book, "What Have the Banks Done?", from which the following figures are taken:

#### TRADING BANKS' POSITION ON SEPTEMBER 30

In million pounds

Year	Balances due by Commonwealth Bank (1)	Australian Notes Held (2)	Total Cash (3)	Deposits		Advances and Securities (6)	Ratio of (3) to (4) and (5) (7)	Ratio of (6) to (4) and (5) (8)
				Fixed (4)	Current (5)			
1928	9.7	14.1	49.6	102.9	165.8	252.1	18.5	93.78
1929	7.5	12.5	43.8	99.6	179.5	282.0	15.7	101.05
1930	15.7	17.3	35.7	82.6	179.6	276.6	13.6	105.46
1931	23.0	20.2	45.2	78.0	179.0	268.4	18.0	104.44

Over £23 million of gold and bullion was surrendered by the trading banks in 1930 to the Commonwealth Bank, and the gold reserve against the note issue was reduced from 56% in 1929 to 20.17% in September, 1931.

On September 30 last the banks held nearly £110 million of Australian notes and government and municipal securities, including short-term loans in Australia, compared with

£85 million on September 30, 1930. Professor Copland estimates that by the end of the current year the floating debt of Governments to the banks will be nearly £90 million.

The banks have stretched their resources to the utmost to meet the position. That this effort has not been followed by improved trading is due to the fact that it has been used to finance government deficits instead of to revive industry.

#### EXCHANGE ON LONDON

Australia had been off the gold standard for some years, but had been able to mask this by borrowing in London. After borrowing ceased, the trading banks tried to maintain the fiction by rationing remittances, but an outside market quickly forced them to release their grip, and in January the telegraphic transfer rate Australia/London rose to  $30\frac{1}{2}\%$  premium. This high rate was caused by a flight of capital consequent upon the Commonwealth Treasurer's advocacy of inflation and the New South Wales Treasurer's defaulting in interest payments. The rise in exchange appeared to benefit the producer of export goods and was therefore popular in that quarter, but the benefit was more apparent than real. The high rate of exchange prevented the fall in internal prices, which was so badly needed to bring equilibrium between internal and external prices and so stimulate trade. It also imposed a heavy burden on government treasurers, who had to find money in London and New York to meet interest payments.

The rise in sterling prices, when England left the gold standard, led to increased activity in the export trade, and London funds were available in greater volume than the trading banks required for current purposes. The Commonwealth intervened and announced its intention to control exchange. This was satisfactory to the trading banks, who were thereby enabled to cover their purchases in London. Unexpectedly, however, the Commonwealth Bank reduced the telegraphic transfer rate by  $5\%$ , which left some of the banks with funds in London purchased at higher rates. Propaganda has been started against any further reduction of the rate, and it is significant that it is directed by bankers

and economists who previously pinned their faith to freedom from control as the best means of insuring stability.

#### OVERSEAS LOANS

In one respect Australia has been very fortunate. No external loans have matured during the period of acute financial stringency. The internal debt was converted successfully in 1931, and the first maturity is in 1938. State loans to the extent of £24,254,000 fall due in London in 1932, but with one exception they have optional dates of repayment. The exception is the New South Wales Loan of £11,499,000, which is due for repayment in December, 1932.

Under the existing régime a New South Wales loan is not popular, even though it is backed by Australia as a whole.

However, there is time for the political situation in that State to clear and the full effect of the sacrifices made by the other states to revive overseas confidence in Australia.

#### CONCLUSION

Summing up the position at the end of 1931, the adverse drift of the trade balance has been arrested, and the prospect of maintaining stability during 1932 is favorable. Most of the governments have tackled the problem of budget deficiencies courageously, but their efforts have been offset by the failure of New South Wales to improve its position. In any case the plan agreed upon provided for a deficit of £14 million in the current year, and in the absence of trade revival the problem will become acute again, when the 1933 budgets have to be prepared.

Unemployment is still severe, and the prospects of improvement before next winter are not favorable. High internal costs prevent a free exchange of goods, which alone can increase employment.

The structure of private finance is sound and has shown gratifying strength in withstanding depression. On the other hand, the adjustment of farmers' debts, mortgages, and so forth, has yet to be tackled. A large proportion of assets has been kept frozen in the hope that a quick return of

clement weather would enable them to be thawed out before they were moribund. It is impossible to estimate what proportion will revive, but the casualties are bound to be heavy.

One satisfactory feature is that the federal elections held December 19 showed unmistakably that the people are in favor of sound finance. There are three years at least of safe government ahead, and the Senate will remain as a buffer against revolutionary legislation.

The economic problems to be solved are still weighty; but in essence they amount to an adjustment of the overhead charges in the shape of government expenditure including social services, to the lower income of producers. Private overheads are being adjusted by sheer necessity, but public opinion is inclined still to listen to currency and credit fakirs who claim that wants can be met irrespective of income and production. However, although the sense of economic responsibility may have weakened among the city dwellers, it has been strengthened greatly among the primary producers by their hand-to-hand conflict with world competition.

The result of the elections suggests that even in the city there has been a reaction against fanciful schemes of reconstruction and that the people are prepared to trust most those who offer them least.

Melbourne  
January, 1932

## COMPULSORY ARBITRATION IN AUSTRALIA

Report of Sir Lennon Raws, Managing Director, Imperial Chemical Industry of Australia and New Zealand, Ltd., Melbourne

**A**USTRALIA with an area of nearly three million square miles is divided into six states of unequal size, the largest being West Australia, 975,920 square miles, and the smallest the Island of Tasmania, 26,215 square miles. Of a population of nearly 6.5 million, 66% live in New South Wales and Victoria, which comprise 13.36% of the area; and of this 66% about 53%, or over 35% of the total population, live in the cities of Sydney and Melbourne. This distribution of population has to be borne in mind when considering any problem, such as arbitration, which involves constitutional issues.

### COMMONWEALTH AND STATES

When the Australian colonies federated in 1901, certain of their powers were transferred to the Commonwealth, including "conciliation and arbitration for the prevention and settlement of industrial disputes extending beyond the limits of any one State."

At that time all the states except Tasmania had arbitration systems or wages boards. Victoria had been the first to adventure in the field of wage regulation with the establishment in 1896 of wages boards to prevent "sweating" in certain industries.

The first Commonwealth Arbitration Act was passed in 1904. It constituted a Court of Conciliation and Arbitration consisting of a President, who was to be appointed from among the High Court judges. Until 1926 the Court had arbitral, but not judicial powers.

It is clear that the framers of the Constitution had in mind as the appropriate field of federal intervention those disputes which, because of their interstate character, were outside the jurisdiction of any one state court; also that the power to be exercised was that of arbitrator rather than of regulator of wages and conditions of labor.

However, circumstances led to the field and the authority being widened considerably. With a complacent court, access thereto was made easy. An interstate dispute could be manufactured merely by serving an exorbitant demand on employers in more than one state; its rejection constituted a "dispute," which, after the formality of a compulsory conference, was referred to the Federal Court.

The Act provided for the registration of Federal Trade Unions, and, as long as a few members of a Federal Union were employed in an industry, that industry could be brought into the Federal Court even though the majority of its workers belonged to a state union and were working under a state award.

With a membership scattered over the continent, the power and independence of the officials became considerable, and they have guarded it jealously by persistent objection to secret ballots or any supervision or regulation of the internal economy of their organizations.

#### OVERLAPPING AWARDS

The state courts had not been disposed to surrender their powers; consequently, as the Federal Court widened the field of its activity, overlapping and duplication of awards became a frequent occurrence. In 1927 Mr. Justice Higgins said that he knew of one large undertaking that was operating under 125 awards.

Interpretation of the constitutional powers of the Commonwealth lies with the High Court. In 1910 a decision was given limiting the jurisdiction of the Federal Court in the event of inconsistency between federal and state awards. The practical effect of the decision was that the higher award prevailed. As long as this decision held the unions were able to play one court against the other, secure in the knowledge that they could not get less by appealing to one court than had been secured already in the other.

The Federal Parliament tried on four occasions to obtain complete powers by amendment of the Constitution; but on each occasion the requisite majority was not obtained at a referendum of the people. The unequal distribution of popu-

lation mentioned in the first paragraph of this article makes the numerically smaller states jealous of their rights vis-a-vis the Commonwealth.

The confusion of overlapping awards continued until 1928 when a further High Court decision over-ruled the original doctrine of inconsistency. This enabled the Commonwealth Parliament to amend the Federal Act and to provide for the paramountcy of federal awards.

The serious friction and economic loss occasioned by overlapping, duplication, and inconsistency of federal and state awards cannot be charged against compulsory arbitration, but has been caused by the interaction of two independent jurisdictions and accentuated by the Federal Court overstepping the limits contemplated by the framers of the Constitution.

#### COMMON RULE

Another constitutional limitation prevents the Federal Court from making an award a common rule of an industry. Only those employers who have been cited before the Court are bound by an award. In 1926 the Commonwealth Council of Federated Unions stated that "in some cases unions have to serve logs and summonses on 10,000 employers. Several unions have to serve up to 5,000 logs and summonses." This limitation does not prevail in the state courts.

#### DELAYS AND LENGTHY HEARINGS

Much dissatisfaction with the Federal Court has been caused by long delays in hearing cases owing to the congestion of business. In 1928 the Commonwealth Attorney General stated in the House of Representatives that there were then awaiting hearing 45 disputes involving 96 claims including cases partly heard, 103 applications of various kinds, and 12 appeals. Nine cases had been listed for 2 years and upwards, 40 for one year, and 30 for 6 months and upwards. The average waiting time of the cases then before the Court was approximately 8 months.

Discontent has also been caused by the time occupied in the hearing of cases. The clothing case took 9 months, and the commercial printing case, 7 months.

## OBSERVANCE OF AWARDS

Although the great majority of awards are kept, militant bodies such as the coal-miners, seamen, and waterside workers have caused prolonged stoppages and heavy financial losses by striking against awards of the court. An employer can be compelled to observe an award, but experience has shown that a large body of men cannot be compelled similarly, if their leaders choose to call a strike.

The following statistics for 1925-1929 are taken from the Labour Report issued by the Commonwealth Statistician:

Jurisdiction	No. of Disputes	Workpeople Involved	Working Days Lost	Estimated Loss in Wages
New South Wales.....	1,486	545,981	6,731,465	£7,439,251
Victoria.....	108	53,874	1,694,174	1,508,729
Queensland.....	97	59,278	752,286	583,163
South Australia.....	57	16,063	157,458	123,548
West Australia.....	54	11,533	189,409	128,543
Tasmania.....	29	2,835	32,023	24,421
Territories.....	15	2,799	44,353	37,062
Total.....	1,846	692,363	9,601,168	9,844,716

It will be noticed that New South Wales was responsible for nearly 80% of the disputes. This was due principally to the fact that 1,301 out of 1,846 disputes, or 70%, were in the mining group involving 57% of the total loss of working days. The majority of the disputes causing this high percentage were in the coal-mining districts of New South Wales.

The coal-mining industry does not come under the jurisdiction of the Federal Court. A serious strike in 1916 caused the Prime Minister to intervene and under the War Precautions Act to constitute a Board outside the Arbitration Court to fix wages and conditions including the selling price of coal. In 1920 following further unrest the Federal Parliament passed an Industrial Peace Act, which provided for tribunals independent of the Arbitration Court in any industry operating in more than one state. The tribunals were clothed with even greater powers than those possessed by the Arbitration Court, but the Act has been applied only to the coal industry and has met with little or no success.

The relative monopoly enjoyed by the coal-mining industry enabled it to pass on the costs incidental to increased



wages and shorter hours. Whereas between 1913 and 1928 the general average of wholesale prices in New South Wales increased by 59%, that of coal increased by 127%.

The means whereby an award can be enforced against the will of militant trade union leaders is one of the most difficult problems of compulsory arbitration.

### WAGE FIXING

#### *Basic Wage*

The Victorian Wages Boards were formed to check "sweating." The idea of a "basic" or "living" wage came later. The occasion of the fixing of the Federal Basic Wage was in the nature of an accident. The "New Protection" policy, later declared unconstitutional, of the Labour Government was embodied in an Act which provided that excise duties would not apply to goods manufactured in the Commonwealth under conditions as to remuneration of labor, which were, on application to the President of the Arbitration Court, declared to be fair and reasonable by him. In this capacity Mr. Justice Higgins in 1907 heard an application in respect to a harvester factory. He declared that such a standard should be "the normal needs of the average employee regarded as a human being living in a civilized community."

He found that in Melbourne the average necessary expenditure on rent, food, and fuel in a laborer's household of "about five persons" was 32/5d. and he fixed 42/- per week as the fair and reasonable wage in connection with that application. Although this rate was based solely on Melbourne evidence and, as later admitted by the judge himself, on incomplete evidence, it was applied by the Court to other places and has been regarded as the federal standard ever since. The family of five has become the Court's typical family, although it was pointed out by Mr. Justice Piddington in 1921 that this provided for 450,000 non-existent wives and 2,100,000 non-existent children.

Until 1913 the Court heard direct evidence in respect to variations in costs, but since that date purchasing power of money index numbers, prepared by the Commonwealth

Statistician, have been adopted, and the practice now is to have quarterly adjustment based on the index number of the previous quarter. In 1921 Mr. Justice Powers added 6d. per day to the wage thus ascertained to cover current fluctuations in the cost of living. This has become in effect part of the basic wage.

The index numbers used by the Court at that time were the only measure of the cost of living available. They cover food, groceries, and housing. The Court assumes that clothing and miscellaneous expenditure comprise about 40% of the total expenditure and vary in the same ratio as the index number varies. That this is not so was shown by the Commonwealth Statistician in 1930 when he submitted to the Court, which was inquiring into the basic wage, a comparative statement of the results obtained by the application of the above index number and of an index number comprising food, groceries, rent of 4 and 5 rooms, clothing, and miscellaneous expenditure. The comparison showed that from 1925 to June, 1930, the Court's index number led to a wage of from 4% to 6% higher than the total household expenditure number. This addition to the basic wage together with the 6d. per day awarded by Mr. Justice Powers had the effect of increasing real wages from 1922 to 1930 by from 7% to 10%.

The more serious effect, however, of basing wages on costs of living is that the productivity of industry, which is the final source of wages, is ignored. The British Economic Mission to Australia in 1928 observed that "A system of wage fixation resting upon a basic money wage which rises or falls with a varying index figure of the cost of living is open to the gravest criticism as tending to deprive employees of any interest in the prosperity of the industry with which they are connected."

In his article, "The Economic Situation in Australia, 1918-23," published in *The Economic Journal*, March, 1924, Professor D. B. Copland remarked: "The general result is that in years of rapidly rising prices wages lagged behind when the productivity of industry might have justified higher rates, but in the period of depression wages are relatively higher than before and the readjustment is slow.

This shows the rigidity of the arbitration system and the difficulties that arise through the regulation of industrial costs on so artificial a standard."

The pertinence of Professor Copland's remarks is demonstrated by the recent inquiry by the Arbitration Court into the basic wage. An application for reduction was made by the Railways Commissioners in August, 1930. Manœuvres by the unions and the Labour Government delayed the hearing until October 20, and the inquiry lasted until January 15. The Court refused to make any variations in the basic wage or in the method of calculation thereof without further inquiry, but ordered for a period of twelve months and thereafter until further order, a reduction of all wage rates by 10%. This applies automatically to those industries which joined in the application, but other industries have to apply to the Court before the reduction can be made in their industries.

#### MARGINS FOR SKILL

The competence of a judge to appreciate the nice points of distinction in the higher ranks of labor has been questioned by some of the judges themselves when dealing with margins for skill. Existing practices have been accepted as a guide, but it is probable that the skilled workman has suffered compared with unskilled labor. It has been the practice of the Federal Court not to vary the margins for skill in proportion to the cost of living. During the War Mr. Justice Higgins declined to do this, although he recognized that the extra commodities which the skilled man usually purchased with his margin became almost as indispensable in his social habits as the commodities purchased by the unskilled man. It can hardly be disputed that the practice of the Court has had the tendency to lessen the incentive to technical training. Dr. Benham in "Prosperity of Australia" points out that according to the Census Returns the number of persons working "on their own account" increased by nearly 93% between 1911 and 1921. He surmises that this may have been due to the reduction in the secondary wage, and if so the effect on the efficiency and organization of production has probably been adverse. Another effect pointed out by the Royal Com-

mission on National Insurance is that young men were attracted into the ranks of unskilled labor and, as a result of their following blind alley occupations, they eventually became unemployed and had only a limited opportunity of obtaining continuity of employment.

Dr. Benham remarks that "the lesson seems to be that attempts to reduce inequality of earnings through wage-regulation (involving interference with price mechanism) affect adversely both the community as a whole and wage-earners themselves."

#### MINIMUM WAGE

The minimum wage, to quote Mr. Justice Higgins, is the rate fixed "in respect of a given occupation, for the class of employees engaged in that operation, on the basis of the qualifications required of an average member of that class."

The obligation to pay and to accept the minimum wage has been the cause of much dispute.

The High Court confirmed Mr. Justice Higgins' dictum that, although the employer was bound, it was not a breach of an award, unless expressly provided, for an employee to refuse to accept employment at the minimum wage, but this judge and others have ruled that, without limiting the right of the individual as such, it is a breach of an award for individuals in combination to try to compel employers to pay more than the minimum rate. In some later awards the union and its members have been bound unless employers elect to pay a higher rate.

#### PAYMENT BY RESULTS

Trade unions have been hostile to all forms of remuneration based on payment by results, although it is practised in many industries, including mining, shearing, and clothing. In 1927 awards in respect to engineers and blacksmiths provoked widespread hostility. The unions refused to work under the piece-work provisions, and the support of the other trade unions was so strong that this portion of the award has not been applied.

### HIRING SYSTEMS

In 1920 the Court introduced the principle of weekly hiring, and, although experience has shown that safeguards are necessary in the interests of employers, this system has been extended to many industries. The employee is engaged week by week, his employment is terminable by a week's notice on either side, he receives payment for specified public holidays, and for absence from work through sickness up to six and in some cases ten days in a year. The employer does not pay for time lost through causes for which he cannot reasonably be held to be responsible. Decisions have narrowed the interpretation of employers' responsibility, but it varies with the character of the industry. Generally employers have opposed the system on the grounds of abuse, and in 1927 Judge Beeby warned the unions that if they attached importance to the method of hiring they must co-operate with employers in preventing it from being brought into disrepute.

### HOURS OF LABOR

Up to 1920 the standard in normal industries was 48 hours per week. In that year Mr. Justice Higgins declared that the industrial position was favorable to a general reduction and awarded a 44-hour week in the timber and engineering industries.

Following this decision the Commonwealth Parliament amended the Act to provide that only the Full Arbitration Court could increase the standard hours of an industry or reduce them to less than 48 hours per week. In 1921 the Full Court decided that, on account of the general depression, the 48-hour standard should not be reduced. In 1927 in what was regarded as a test case, the 44-hour week was sanctioned, and there was a flood of applications and much discontent at the inevitable delay in hearing the cases. Since then the tendency has been to maintain the shorter working week where it has been granted, but not to extend it to other industries. In New South Wales and Queensland a 44-hour week was established by state legislation. Subsequently it

was withdrawn, but in the case of New South Wales has been reintroduced.

In metalliferous mines the hours underground are 44 bank to bank in Queensland and New South Wales. At Broken Hill in New South Wales they are 35.

#### ECONOMIC CONSEQUENCES

The Federal Arbitration Act has been amended thirteen times in sixteen years. The states have been almost as prolific in amendments to their systems. After all these years of experimental legislation, a scheme of compulsory arbitration which will be acceptable to all parties has not been found.

The British Economic Mission reported that "by workmen's representatives, not less emphatically than by representatives of the employers, it has been consistently represented to us that the Arbitration Courts are not achieving their purpose, and that a system designed to arrive by judicial decisions at fair and prompt settlement of industrial disputes such as could be fully accepted by both sides must be held to have failed."

They stated the most important of the reasons as being:

- (1) the spirit of antagonism inseparable from litigation;
- (2) the delay occasioned by the necessity for the collection and presentation of detailed evidence in a form acceptable to a court;
- (3) the expense of time and money by litigants, in attendance at the court;
- (4) the subject matter of the questions brought before the court is not of a nature with which judicial tribunals are best fitted to deal.

They considered that a change in method appeared to them to be essential and that there should be a minimum of judicial and government interference except in matters affecting health and safety.

Nevertheless, the result of the federal election in 1929, mentioned in my article published in Volume IV of this series, showed clearly that a large majority of the people still favor compulsory arbitration and that its abolition is politically impossible.

Through the agency of the various tribunals there has been a steady and progressive increase in the nominal wage level and an equally uniform improvement in the working conditions of employees. An increasing number of workers have been brought within the ambit of wage-fixing tribunals, including many engaged in state instrumentalities. Consequently, the basic wage has been applied to a larger number of workers.

That to a large degree the rise in wages has been illusory is shown by Table A, taken from the Labour Report, 1929, issued by the Commonwealth Statistician. From 1912 to 1920 effective wages with or without allowance for unemployment were lower than in 1911, and from 1921 to 1929 the average was about 9% for full work, and, allowing for unemployment, 4% above the 1911 standard. In 1929 the latter had fallen to under one per cent.

TABLE A: UNEMPLOYMENT, NOMINAL AND EFFECTIVE WAGE INDEX NUMBERS, 1911 TO 1929

Source: Labour Report, 1929

Year	Nominal Wage Index Numbers	Percentage Unemployed	Rate of Wage Index Numbers Allowing for Lost Time		Retail Price Index Numbers	Effective Wage Index Numbers	
			Actual	Recomputed (1911 = 1,000)		Full Work	Allowing for Unemployment
1911	1,000	4.7	953	1,000	1,000	1,000	1,000
1912	1,051	5.5	993	1,042	1,101	955	946
1913	1,076	5.3	1,021	1,071	1,104	975	970
1914	1,081	8.3	991	1,040	1,140	948	912
1915	1,092	9.3	990	1,039	1,278	854	813
1916	1,144	5.8	1,078	1,131	1,324	864	854
1917	1,226	7.1	1,139	1,195	1,318	930	907
1918	1,270	5.8	1,196	1,255	1,362	932	921
1919	1,370	6.6	1,280	1,343	1,510	907	889
1920	1,627	6.5	1,521	1,596	1,785	911	894
1921	1,826	11.2	1,621	1,701	1,697	1,076	1,002
1922	1,801	9.3	1,634	1,715	1,600	1,126	1,072
1923	1,805	7.1	1,677	1,760	1,700	1,062	1,035
1924	1,840	8.9	1,676	1,759	1,681	1,095	1,046
1925	1,861	8.8	1,697	1,781	1,722	1,081	1,034
1926	1,914	7.1	1,778	1,866	1,786	1,072	1,045
1927	1,946	7.0	1,810	1,899	1,766	1,102	1,075
1928	1,963	10.8	1,751	1,837	1,760	1,115	1,044
1929	1,972	11.1	1,753	1,839	1,822	1,082	1,009

NOTE: For years prior to 1914 the nominal wage index numbers and the percentage unemployed relate to the end of the year only, but from 1914 onward these figures in addition to those for retail prices are averages for the whole year.

Professor Copland, in an article on "The Australian Problem" in *The Economic Journal*, December, 1930, says: "The steady upward trend of unemployment must be regarded as an indication of the development of a wage rate somewhat beyond the capacity of industry."

Dr. Benham in "The Prosperity of Australia" remarks that "taking everything into account, an increase of 1% in the percentage of unemployment due to unwise wage-fixing would probably more than offset any gain arising from the prevention or settling of industrial disputes through Arbitration."

There is no indication that wage-fixing has increased the share of the worker at the expense of capital in the manufacturing industries. Increased costs seem to have been passed on.

The primary industries are handicapped by the fact that a large proportion of their output is exported.

#### AUSTRALIAN PRODUCTION AND EXPORTS, 1928/9

Industry	Percentage of Total Production	Exports as Percentage of Total Exports	Exports as Percentage of Production
Agriculture.....	22.01	25.16	37.78
Pastoral.....	26.34	53.16	66.71
Dairy and farmyard.....	11.31	6.84	19.99
Mining.....	5.35	9.55	58.97
Forestry and fisheries.....	2.84	1.42	16.56
Total primary produce.....	67.85	96.13	46.83
Manufacturing.....	32.15	3.87	3.97

In 1928/29, 89.4% of the wool produced was exported, 62.2% of the wheat, and 61.6% of the metals.

Compensation in the shape of bounties has been given in respect of sugar, butter, wine, dried fruits, and canned fruits. The principal staples, wool and wheat, however, have been left to face the full blast of world's prices.

Australia is a debtor country. She has to pay abroad annually approximately £36 million for interest and services. It is essential therefore that her internal price level shall be such as will enable her to produce profitably those goods for which there is an overseas market. She was able to carry on precariously until 1929 by borrowing abroad roughly the



equivalent of her overseas indebtedness, and good prices and fair seasons enabled her export industries to bear the cost of the tariff estimated by the Tariff Committee appointed by the Prime Minister at about 8% of costs in these industries in 1926-27.

The cessation of overseas borrowing in 1929 followed by the catastrophic fall in wholesale prices of wool, wheat, butter, and metals has confronted her with a major crisis, and a reduction of production costs is imperative. Experience leads one to fear that the Arbitration Court method of adjusting wages is too slow and cumbersome to deal effectively with such an emergency. On the other hand, by providing a means whereby the pros and cons of wage reduction can be argued in open court, it may bring about what is necessary without the distress and turmoil of extensive strikes. It remains to be seen, however, whether the exigencies of the crisis will permit of such a leisurely method of adjustment. Unemployment is increasing, profits are disappearing, and the problems of meeting high costs of government are becoming so acute that dire necessity may pre-empt the position.

In addition to the authorities quoted, extensive use has been made in this article of Mr. Anderson's "Fixation of Wages in Australia," published by Macmillan & Co., a valuable survey of the methods and actions of industrial tribunals in Australia.

Melbourne  
January, 1932

## THE ECONOMIC OUTLOOK IN JAPAN

Report of Baron Koyata Iwasaki, President, Mitsubishi Goshi Kaisha,  
Tokyo

### GENERAL SURVEY OF DEVELOPMENTS IN 1931

**T**HE expectation that the past year would witness a revival of industrial activity was rudely disappointed, for Japan shared to a large extent the deepening gloom of the world depression.

The adaptation of the price structure to international conditions, which was successfully accomplished during 1930, made the first half of last year fairly tolerable, although the hopes entertained at the opening of the year were far from being realized. Marked progress was realized in reorganizing industry, and the results as a whole, as expressed in net profits, were even slightly better than during the previous half year. The equilibrium thus attained by painful deflation was, however, upset by events in Europe which culminated in the suspension of the gold standard by Great Britain in September. This development struck a severe blow at the prospects of Japanese trade which was, at about the same time, assailed by the anti-Japanese boycott in China. Owing to the inability of commercial banks to dispose of their sterling funds except at great loss, the transfer of fresh funds to New York for financing international trade became necessary, resulting in an outflow of gold that was increased by anticipatory exchange and commodity transactions. In the midst of this state of high tension and perplexity, a sudden change of government early in December brought about the reintroduction of the gold embargo. The immediate effect was the depreciation of Japanese exchange and a rather drastic rise in share and commodity values.

### FINANCE, BANKING, AND THE MONEY MARKET

The national budget for 1932/33, as planned by the previous government at the beginning of December, follows in

the main the former policy of retrenchment. The total calls for a reduction in expenditure of 286 million yen, but, nevertheless, envisages a deficit of 172 million yen, which was to be covered by increased taxation and the issue of government loans. The policy of the new government has not yet been made known, but it is expected that a somewhat larger total of national bonds may be issued to meet the deficit in revenue.

There was no outstanding failure among banking institutions in 1931, but 63 banks dissolved in accordance with the new Banking Act, some being absorbed by larger banks.

The money market showed marked liquidity during the first half of the year, but was later affected by the financial difficulties in Germany and Great Britain. The continued outflow of gold in the late autumn brought about signs of increasing monetary stringency that caused the Bank of Japan to increase the official discount rate twice in succession from 5.11%, which rate had been in force from October 7, 1930, to 6.57% on November 5, 1931, the date of the last increase.

COMPARISON OF MONEY RATES IN JAPAN AND ABROAD  
Per cent per annum

Period	Call Money				Discount Rates					
	Tokyo		New York		Tokyo		New York		London	
	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum
1930, 1st half. . . .	4.03	3.44	4.33	3.00	6.39	4.20	3.27	2.88	3.20	2.55
2nd half. . . .	4.06	3.56	2.67	1.92	6.53	4.57	1.88	1.88	2.39	2.09
1931, 1st half. . . .	3.84	2.58	1.92	1.33	6.26	3.94	1.42	1.19	2.54	2.30
1930, November. .	4.03	3.57	2.00	2.00	6.57	4.67	1.88	1.88	2.28	2.06
1931, November. .	5.68	5.48	2.50	2.50	7.26	5.53	3.25	2.88	5.94	5.75

In view of the extremely uncertain international outlook and the increasing monetary stringency, the bond and share market collapsed after the middle of September. Rumors of a change in financial policy, which were afterward substantiated, caused the share market to remain firm in spite of increasing call money rates, but the same rumors accelerated the downward tendency of national bonds. After the reintroduction of the gold embargo, the average price of 50 indus-

trial shares witnessed an advance of about 25% within a few days, recovering almost to the level of March, 1931, the highest during the year.

#### INDUSTRIAL AND COMMERCIAL SITUATION

Industrial production showed severe curtailment when measured by the normal annual rate of progression in this country, but the actual contraction was probably less pronounced than in most other countries. There are indications of a recovery in the latest figures for the four months July-October, 1931, but increased production was almost confined to raw silk, cotton yarn, and tissues.

Depressed market conditions during the greater part of 1931 led to widening restriction of output in many industries. The magnitude of such curtailment will be gathered by the principal restrictions now in force: superphosphate of lime, 60%; cement, 57%; printing paper, 55%; bleaching powder, 55%; rayon, 30%; cotton yarn, 30.8%; spun silk, 26%.

#### DEVELOPMENT OF PRODUCTION

Year	Real Index		Trend Figure		Difference	
	1st Half	2nd Half	1st Half	2nd Half	1st Half	2nd Half
1927, average .....	124.76	138.95	132.48	136.95	- 7.72	+ 2.00
1928, average .....	132.19	148.12	141.41	145.87	- 9.22	+ 2.25
1929, average .....	150.95	167.84	150.34	154.80	+ 0.61	+13.04
1930, average .....	148.55	150.25	159.27	163.73	-10.72	-13.48
1931, average .....	139.77	155.32 <sup>1</sup>	168.19	171.91 <sup>1</sup>	-28.43	-16.59

<sup>1</sup> July-October.

The adjustment of the Japanese wholesale price index to international conditions had been almost completed by the end of 1930, which year witnessed a heavier decline in the Japanese index figure than in those of other leading industrial countries. The decline continued on a smaller scale during the first 11 months of 1931, the total depreciation during this period reaching 8.4% compared with 16.5% in the United States.

The suspension of the gold standard had an immediate effect upon prices, the average of 11 important commodities rising from 90.6 to 100.9 within ten days. The rise was not

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## DEVELOPMENT OF PRICE INDEX COMPARED WITH FOREIGN COUNTRIES

Base, 1913=100

	June, 1929	Dec., 1930	June, 1931	Nov., 1931
Japan wholesale price index:				
General.....	167	119	112	109
Index of domestic commodities.....	222	170	167	161
Index of international commodities.....	152	105	98	96
Grain.....	147	88	79	83
Foods.....	191	149	131	128
Textiles.....	141	87	82	77
Metals.....	140	90	84	77
Materials of building.....	200	145	150	148
Fuels.....	179	141	134	132
Miscellaneous.....	171	135	129	126
Japan, retail price index.....	183	140	134	130
United States, wholesale price index...	136	103	95	86
Great Britain, wholesale price index...	133	102	97	97 <sup>1</sup>
Germany, wholesale price index.....	135	118	112	107 <sup>1</sup>
France, <sup>2</sup> wholesale price index.....	126	101	97	86 <sup>1</sup>

<sup>1</sup> October.

<sup>2</sup> July, 1914=100.

confined to imported commodities and was most pronounced in cotton yarn, lumber, steel, wheat, and paper.

Commodity	Average October, 1930	March 2, 1931	July 1, 1931	Sept. 1, 1931	Dec. 10, 1931	Dec. 21, 1931
Rice.....	100.0	93.0	98.3	105.1	93.6	103.5
Raw silk.....	100.0	115.5	101.5	110.2	91.8	98.0
Cotton yarn.....	100.0	105.2	103.0	86.4	67.0	89.3
Wheat.....	100.0	79.2	77.3	63.6	83.5	98.8
Copper.....	100.0	95.9	86.3	79.9	72.4	79.9
Coal.....	100.0	100.0	95.4	95.4	95.4	95.4
Cement.....	100.0	127.3	128.9	124.2	133.5	133.5
Paper.....	100.0	103.3	103.3	93.3	86.7	100.0
Steel.....	100.0	88.7	95.1	95.1	92.7	106.2
Sugar.....	100.0	92.6	95.3	95.2	96.8	100.9
Lumber.....	100.0	121.3	91.3	95.2	83.4	104.3
Average of 11 commodities.....	100.0	102.0	97.8	94.9	90.6	100.9

Business transactions, as evidenced by railway goods traffic and bank clearings, continue in a depressed condition. Increased unemployment, wage reductions, and the marked shrinkage in the value and volume of the rice and cocoon crops further weakened the national purchasing power already considerably reduced during previous years.

	1929	1930	1931 <sup>1</sup>
Rice crop			
Value, Yen.....	1,588,171,506	1,117,916,180	929,971,679
Volume, Koku.....	59,557,694	66,873,189	55,027,910
Cocoon crop			
Value, Yen.....	605,001,070	304,245,768	276,083,560
Volume, Kwan.....	102,093,430	106,464,516	92,893,115
Actual wage index <sup>2</sup> .....	102.1	97.0	88.7
Unemployment.....	268,590	395,244	425,526

<sup>1</sup> Estimate.<sup>2</sup> September.

Foreign trade during 1931 experienced a further sharp reduction, and it is but a poor consolation that Japanese exports up to October showed a smaller percentage shrinkage than the export trade of the leading countries of Europe and America. During the last few months of the year, foreign trade was visibly affected by the delayed settlement of the political difficulties with China, the suspension of the gold standard in Great Britain and other countries, and, to a growing extent, by adverse tariff legislation throughout the world.

#### FOREIGN TRADE OF JAPAN PROPER DURING THE FIRST 11 MONTHS IN 1931

In thousand yen

Year	Exports	Imports	Total	Excess of Imports
1928, January–November.....	1,798,085	1,993,432	3,791,517	195,347
1929, January–November.....	1,989,307	2,057,231	4,046,538	67,924
1930, January–November.....	1,353,843	1,447,301	2,801,144	93,458
1931, January–November.....	1,064,196	1,124,080	2,188,276	59,884

Conspicuous in the decrease of the export trade were raw silk with a loss of 14.8%; cotton tissues, 25.4%; and silk and rayon tissues, 17.2%. The total decline of these commodities constituted 47.01% of the entire decrease suffered by the export trade.

As regards imports, iron and steel products, with a loss of 51.8%, and raw cotton, which declined 22.3%, were responsible for about 37.8% of the total decrease of the import trade. Imports of raw cotton and wool showed a decrease in value only due to the exceptionally low prices of these raw materials, the volume being considerably larger than in the previous year. Both commodities were largely contracted

DEVELOPMENT OF EXPORT TRADE OF THREE IMPORTANT  
COMMODITIES, JANUARY-NOVEMBER, 1928, 1930, AND 1931

In thousand yen

Item	1928	1930	1931	Increase or Decrease Compared with	
				1928	1930
Total export, Japan proper.....	1,798,085	1,353,943	1,064,196	-733,889 -40.8%	-289,747 -21.4%
Total export of raw silk, cotton tissues, and silk tissues.....	1,110,309	725,171	588,932	-521,377 -47.0%	-136,239 -18.8%
Others.....	687,776	628,772	475,264	-212,512 -30.9%	-153,508 -24.4%
Raw silk:					
Value.....	659,293	381,362	324,887	-334,406 -50.7%	-56,475 -14.8%
Volume, bales.....	494,780	419,485	504,874	+10,094 +2.0%	+85,389 +20.4%
Cotton tissues:					
Value.....	327,592	251,315	187,485	-140,107 -42.8%	-63,830 -25.4%
Volume, thousand square yards.....	1,315,533	1,441,850	1,315,497	-36 -	-126,353 -8.8%
Silk tissues:					
Value.....	123,424	92,494	76,560	-46,864 -38.0%	-15,934 -17.2%

DEVELOPMENT OF IMPORT TRADE OF THREE IMPORTANT  
COMMODITIES, JANUARY-NOVEMBER

In thousand yen

Item	1928	1930	1931	Increase or Decrease Compared with	
				1928	1930
Total import, Japan proper	1,993,432	1,447,301	1,124,080	-869,352 -43.6%	-323,221 -22.3%
Total import of raw cotton, iron and steel, and wool.	719,951	495,979	384,052	-335,899 -46.7%	-111,927 -22.6%
Others.....	1,273,481	951,322	740,028	-533,453 -41.9%	-211,294 -22.2%
Raw cotton:					
Value.....	477,949	340,409	264,456	-213,493 -44.7%	-75,953 -22.3%
Volume, bales.....	3,172,211	2,900,602	3,194,109	+21,898 +0.7%	+293,507 +10.1%
Iron and steel:					
Value.....	137,292	89,589	43,220	-94,072 -68.5%	-46,369 -51.8%
Wool:					
Value.....	104,709	65,980	76,376	-28,333 -27.1%	+10,396 +15.8%

for in anticipation of the reintroduction of the gold embargo, but the relative figures will be included in the statistics of the coming months.

#### PRESENT POSITION AND OUTLOOK

The reintroduction of the gold embargo involves a new departure for Japanese economy, which enters the new year with many of the safeguards painfully acquired during the past two years swept away, but with a youthful eagerness to try out other means to emerge from the slough of long-continued depression. Whether and how soon this goal will be reached cannot as yet be estimated, but any industrial revival in the near future is likely to be of an ephemeral nature, unless it be accompanied by a genuine economic recovery throughout the world.

Meanwhile, it will be imperative to hasten slowly. The exuberance of the speculative upward movement immediately upon the reintroduction of the gold embargo has carried prices to such heights that a large part of the price adjustment of the past two years has been upset practically overnight. It is significant that the advance in prices has not been confined to imported articles, but that articles and materials of domestic origin also have risen in no mean proportion. Unless this tendency is halted soon, it will be difficult for Japanese exporters to reap the advantages hoped for from the suspension of the gold standard. Financially, too, it behooves the country rather to strengthen the dykes against excessive inflation, now that the national currency is no longer anchored to gold. Happily, the good sense of the Japanese people may be trusted, in the long run, to pursue the path of moderation and to shrink from measures that, although apparently beneficial for a time, may ultimately compromise financial stability.

The suspension of the gold standard in Japan has not been brought about by conditions inherent in the national economy. Japan is practically free from short-term loans owed to foreign countries, and the fulfilment of international payments is assured by the annually improving balance of foreign trade. The reintroduction of the gold embargo is a direct



consequence of outside factors, chief among which is the depreciation of sterling, aided by national impatience at the long-continued depression. The subsequent depreciation of Japanese currency may render the relations between creditors and debtors less irksome for a time, but an enduring revival can hardly be looked for until the world as a whole, through co-operative effort, emerges from the present unprecedented depression.

Tokyo  
January, 1932

## ECONOMIC RELATIONS BETWEEN CHINA AND JAPAN

Report of Baron Koyata Iwasaki, President, Mitsubishi Goshi Kaisha,  
Tokyo

**J**APAN, by reason of geographical and cultural proximity, stands in special relation to her big neighbor, China, a relationship which, in spite of occasional diplomatic bickerings, finds expression in the growing trade between the two countries. These economic relations are to a large extent complementary and non-competitive, which is one reason why anti-Japanese boycott movements have been invariably short-lived. Japan, by her earlier emergence from feudal conditions, has achieved some degree of industrialization and is able to supply China with manufactured goods cheaply, while China constitutes a vital source for raw materials and foodstuffs to this country. By far greater even than the present importance is the potential value of China as an economic factor, considering that the economic development of that country has been retarded by many years of maladministration and practically uninterrupted civil war.

### JAPAN'S TRADE WITH CHINA

As early as 1900, Japan took the leading position in the export trade of China, while in 1916 imports from Japan surpassed for the first time those from Hong Kong. The latter development was, no doubt, assisted by the World War, but was, at any rate, rendered certain by the progress of industrial expansion in Japan. In spite of the resumption of normal trade relations with Europe and America, Japan's share in the foreign trade of China during the post-war period was well maintained, as will be seen from the following table:

DEVELOPMENT OF CHINESE TRADE WITH VARIOUS  
COUNTRIES<sup>1</sup>  
Per cent

Year	Import				Export			
	Japan	United States	Hong Kong	Great Britain	Japan	Hong Kong	United States	Great Britain
1870	2.20	0.58	30.10	37.96	4.48	18.39	13.74	52.49
1880	4.14	1.52	38.15	27.54	2.83	11.68	11.69	35.72
1890	5.81	2.89	56.70	19.36	5.54	9.37	9.37	15.03
1900	12.20	7.92	44.46	21.54	10.65	9.28	9.28	5.88
1910	16.58	15.46	37.04	15.32	16.18	8.48	8.48	4.91
1916	29.98	10.06	28.65	13.14	23.44	24.80	14.96	7.24
1920	28.64	17.90	19.92	16.47	26.21	25.20	12.39	8.46
1930	24.63	17.50	16.44	8.15	24.20	17.66	14.74	7.00

<sup>1</sup>According to statistics of the Chinese Maritime Customs.

The largest part of the commodities exported from Japan to China are industrial products, except coal and marine products, while imports from China to Japan are mainly composed of raw materials and agricultural produce. This characteristic of Chinese trade applies equally to trade with other leading countries.

#### JAPANESE COMMERCIAL INVESTMENTS IN CHINA

The geographical distribution of the considerable number of Japanese residents and Japanese firms in China is very widespread, and their activities are so diversified that it is almost impossible to compile authentic investment figures based on first-hand information. The following statistics published by Mr. M. Odagiri, Director of the Yokohama Specie Bank, contains the most dependable figures at present available.

Total commercial investments . . . . .	1,809,154,000 yen
Railways, transportation, warehousing . . . . .	650,152,000 yen
Banking and trust companies . . . . .	256,332,000 yen
Spinning and weaving . . . . .	250,645,000 yen
Agriculture, mining, forestry . . . . .	206,695,000 yen
General commerce . . . . .	162,860,000 yen
Manufacturing . . . . .	144,941,000 yen
Electricity, gas . . . . .	47,211,000 yen
Civil engineering, construction . . . . .	31,708,000 yen
Marine products . . . . .	1,810,000 yen
Miscellaneous . . . . .	56,800,000 yen

## CHINESE TRADE WITH VARIOUS COUNTRIES

In thousand Haikwan taels

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Country	1926		1927		1928		1929		1930		
	Value	Per Cent	Value	Per Cent	Value	Per Cent	Value	Per Cent	Value	Per Cent	
Import	Japan.....	336,909	30.0	293,793	29.0	319,293	26.7	323,141	25.5	327,164	24.6
	United States.....	187,647	16.7	166,793	16.5	205,541	17.2	230,843	18.2	232,405	17.5
	Hong Kong.....	124,472	11.1	212,592	21.0	226,077	18.9	214,481	16.9	218,369	16.4
	Great Britain.....	116,269	10.3	75,072	7.4	113,756	9.5	119,148	9.4	108,257	8.2
	Total, including others...	1,124,221	..	1,012,931	..	1,195,969	..	1,265,778	..	1,309,755	..
Export	Japan.....	211,740	24.5	208,838	22.7	228,602	23.1	256,428	25.2	216,555	24.2
	Hong Kong.....	93,802	10.9	169,679	18.5	182,123	18.4	173,580	17.1	158,018	17.7
	United States.....	150,113	17.4	121,752	13.3	127,204	12.8	137,836	13.6	131,880	14.7
	Great Britain.....	55,835	6.5	57,991	6.3	61,063	6.2	74,334	7.3	62,669	7.0
	Total, including others...	864,294	..	918,619	..	991,354	..	1,015,687	..	894,843	..
Total	Japan.....	548,650	27.6	502,632	26.0	547,895	25.0	579,569	25.4	543,720	24.7
	Hong Kong.....	218,274	11.0	382,272	19.8	408,201	18.7	388,061	17.0	376,388	17.1
	United States.....	337,760	17.0	288,546	14.9	332,745	15.2	368,679	16.2	364,286	16.5
	Great Britain.....	172,105	8.7	133,063	6.9	174,820	8.0	193,483	8.5	170,926	7.8
	Total, including others...	1,988,516	..	1,931,551	..	2,187,324	..	2,281,466	..	2,204,599	..

## EXPORTS TO CHINA BY COMMODITIES

In thousand yen

Year	Cotton Tissues	Sugar, Refined	Paper	Wheat Flour	Coal	Cotton Yarn	Aquatic Products	Machinery and Parts Thereof	Iron Manufactures	Iron	Total, Including Others
1926	220,121 53.2%	33,241 97.7%	15,315 80.6%	18,109 91.7%	23,456 75.6%	34,988 49.5%	17,501 77.2%	7,495 88.4%	6,931 53.3%	3,103 88.2%	574,441
1927	165,769 43.4%	27,078 93.6%	15,642 81.2%	12,893 90.4%	19,535 76.6%	13,719 35.4%	15,172 75.3%	9,837 89.2%	5,965 49.5%	2,878 83.3%	491,983
1928	191,035 54.2%	35,330 92.0%	25,505 98.7%	23,952 96.9%	19,072 77.8%	13,075 50.5%	12,873 74.1%	9,079 85.6%	6,732 49.2%	3,933 81.2%	539,536
1929	186,259 45.1%	27,150 90.6%	22,201 84.5%	25,264 94.2%	16,767 72.2%	9,452 35.3%	16,907 75.6%	11,223 82.4%	6,692 44.0%	4,281 81.5%	532,193
1930	114,352 42.0%	25,272 94.5%	23,259 84.4%	12,496 86.3%	16,402 75.3%	5,628 37.4%	12,993 71.9%	10,560 75.7%	5,099 36.2%	7,573 83.6%	403,286

Percentage figures denote the ratio to the total export value for each commodity.

## IMPORTS FROM CHINA BY COMMODITIES

In thousand yen

Year	Oil Cake	Beans and Peas	Raw Cotton	Coal	Oil Seeds	Wheat Bran	Pig Iron	Vegetable Fibres	Ore	Beef, Fresh	Total, Including Others
1926	118,649 95.5%	48,031 78.2%	45,133 6.2%	22,734 82.5%	28,480 96.6%	13,286 99.2%	7,553 42.9%	8,229 30.5%	5,656 55.2%	7,481 89.5%	397,870
1927	98,681 99.7%	44,018 83.2%	49,259 7.9%	29,527 83.2%	16,988 90.1%	11,863 99.8%	9,197 43.8%	7,238 28.2%	5,640 43.6%	7,194 90.4%	360,080
1928	82,687 95.2%	63,875 94.1%	49,598 9.0%	29,806 80.6%	18,161 83.2%	14,215 99.8%	10,009 39.6%	9,311 34.7%	9,977 47.9%	6,065 87.0%	386,110
1929	73,561 96.9%	75,589 96.0%	33,628 5.9%	33,991 79.1%	26,654 86.6%	12,377 99.9%	9,309 32.7%	8,597 29.2%	11,755 45.5%	6,088 85.1%	376,905
1930	65,153 98.1%	47,997 96.4%	21,985 6.1%	26,610 77.8%	17,853 89.4%	10,893 99.9%	7,410 46.8%	4,549 27.7%	8,450 35.3%	7,529 90.3%	283,610

Percentage figures denote the ratio to the total import value for each commodity.

## JAPANESE LOANS TO CHINA

There are various publications concerning foreign loans to China, but such has been the administrative disorder involving a plurality of governments that there is no agreement as to exact figures, which are, therefore, difficult to ascertain. A recent inquiry places the total of foreign loans outstanding in July, 1931, at 2,025,246,000 yen, of which 706,517,000 yen, or 34.8% of the whole, were owed to Japan. The British share, according to the same publication, was 22.5%; that of the United States, 6.6%.

According to a Japanese investigation the total of Japanese loans at the end of 1930 reached 592,298,118 yen—including arrears of interest. This total does not include the Japanese share of the Liquidation Loan of 1913, 46,654,000 yen, the loans to the Chinese railway authorities made by the South Manchuria Railway Company for the construction of railways and so forth, 163,738,000 yen in Manchuria, and funds loaned by the Japanese Government to the Han Yeh Ping Iron Mine and Yu Han Mining Company, 44,172,000 yen, to enable these enterprises to keep up activity when badly pressed by revolutionary chaos. A large part of Japanese loans to China are not yet definitely secured.

## JAPAN'S ECONOMIC POSITION IN MANCHURIA

Although an integral part of China, Manchuria has been economically developed by Japanese activity. The special rights and interests of Japan, such as the Kwantung Leased Territory, and the South Manchuria Railway Zone were obtained as a consequence of the Russo-Japanese War, in which Japan staked her very existence and which resulted in Manchuria's being restored to China. Until a few years ago Manchuria kept aloof from the strife in China proper, and as a result remained fairly prosperous; later, however, the Chinese generals in charge of the province could not resist the temptation to take a hand in the general scramble, and the population was practically bled white. Since then, it has been the policy of the rulers of Manchuria to turn the popular

dissatisfaction against Japanese enterprises, while continuing their ways of extortion and oppression.

Japanese residents in Manchuria are estimated at 835,929, including 228,810 from Japan proper and 607,119 Koreans, while other foreigners, mostly Russians, total 102,198.

Japanese trade relations with Manchuria, particularly the Kwantung Leased Territory, are very intimate, as may be seen from the tables that follow.

There were 1,122 Japanese companies in the Kwantung Leased Territory and South Manchuria Railway Zone at the end of 1929 with an invested capital of 640,233,000 yen. This figure does not include the numerous individual enterprises carried on by Japanese nor the rather considerable capital invested in Sino-Japanese and Russo-Japanese joint companies.

Japanese loans in Manchuria amounted to 223,738,000 yen, mostly to Chinese railways, agricultural, mining, and forestry enterprises, and electricity and gas works.

#### PRESENT CONDITION AND OUTLOOK OF JAPANESE TRADE

Japanese trade with China in 1931 has suffered an appreciable decline, the total for the eleven months ending in November showing a decrease of 27.1% to 463,133,000 yen, compared with 634,924,000 yen for the same period of the preceding year. The decrease was more pronounced in Japanese exports to China than in imports, the respective declines reaching 33.7% and 17.7%. These declines were generally due to the world-wide depression, but exports were particularly affected by an increase in the Chinese customs tariff and the reduction of purchasing power resulting from civil war and the flood disasters in the Yangtze valley. The anti-Japanese boycott movement, which started before, and was greatly intensified after, the Manchurian incident, affected not only the foreign trade but every form of Japanese activity, particularly shipping.

While economic relations between China and Japan are at present under a cloud, there is no reason to suppose that they will not, in the near future, resume their tendency of increased development. As already stated, trade between the

**SOUTH MANCHURIAN TRADE WITH VARIOUS COUNTRIES**  
In thousand Haikwan taels

Item and Country	1929		1928		1927		Average		
	Value	Per Cent	Value	Per Cent	Value	Per Cent	Value	Per Cent	
270 Export	Japan.....	135,283	53.6	123,303	55.2	102,351	49.2	120,323	52.7
	Korea.....	29,413	11.6	38,341	17.1	48,714	23.4	38,823	17.4
	Holland.....	29,709	11.7	16,267	7.3	16,435	7.9	20,804	8.9
	Great Britain.....	21,610	8.5	13,539	6.1	12,803	6.2	15,984	6.9
	United States.....	10,035	4.0	6,922	3.1	8,009	3.9	8,322	3.7
	Total, including others....	252,374	..	222,985	..	207,961	..	227,774	..
Import	Japan.....	126,444	60.6	109,164	60.9	98,899	65.6	111,503	62.4
	United States.....	25,771	12.3	19,627	11.0	16,906	11.2	20,768	11.5
	Hong Kong.....	13,733	6.6	10,948	6.1	10,361	6.9	11,681	6.5
	Great Britain.....	9,619	4.6	6,647	3.7	4,555	3.0	6,941	3.8
	Germany.....	8,308	4.0	8,015	4.5	4,991	3.3	7,105	3.9
	Total, including others....	208,787	..	179,004	..	150,741	..	179,511	..



**JAPAN'S CHINA TRADE LOCALIZED**  
In thousand yen

	Import					Export				
	1930	1929	1928	1927	1926	1930	1929	1928	1927	1926
North China...	52,155	61,856	68,066	74,615	72,333	78,666	85,820	104,246	104,790	101,292
	18.4	16.4	17.6	20.7	18.2	19.5	16.1	19.3	21.3	17.6
Central China...	53,229	83,144	93,411	78,388	99,795	139,776	188,359	192,644	164,338	226,041
	18.8	22.1	24.2	21.8	25.1	34.7	35.4	35.7	33.4	39.3
South China....	11,084	14,070	10,671	7,400	7,918	6,807	3,394	1,466	5,164	21,310
	3.9	3.7	2.8	2.1	2.0	1.7	0.6	0.3	1.0	3.7
Hong Kong....	538	607	1,123	1,598	1,426	55,646	61,065	56,204	66,528	52,973
	0.2	0.2	0.3	0.4	0.4	13.8	11.5	10.4	13.5	9.2
Total.....	117,006	159,677	173,271	162,001	181,472	280,895	338,638	354,560	340,820	401,616
	41.3	42.4	44.9	45.0	45.6	69.7	63.6	65.7	69.3	59.9
Kwantung.....	121,405	166,322	150,439	132,447	157,033	86,814	124,476	110,190	91,270	99,606
	42.8	44.1	39.0	36.8	39.5	21.5	23.4	20.4	18.6	17.3
Manchuria.....	45,197	50,576	61,744	45,152	36,095	35,575	64,772	69,128	55,321	67,981
	15.9	13.4	16.0	12.5	9.1	8.8	12.2	12.8	11.2	11.8
Total.....	166,602	216,898	212,183	177,599	193,128	122,389	189,248	179,318	146,591	167,587
	58.7	57.5	55.0	49.3	48.5	30.3	35.6	33.2	29.8	29.7
Grand total..	283,609	376,904	386,109	360,079	397,869	403,285	532,193	539,535	491,981	574,440
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

two countries is in a large measure complementary, and, therefore, highly beneficial for both parties. The present misunderstanding, fostered by ambitious war lords, will gradually disappear when it is realized that Japanese policy does not involve any prejudice to China. Japan is very eager, if only for the promotion of her own economic development, to see political stability in China become a reality as soon as possible, and this interest is shared by the hard-working Chinese people who have so long suffered from the lack of unity among their ambitious rulers.

Tokyo  
January, 1932

## CHINA'S FOREIGN TRADE, WITH SPECIAL REFERENCE TO LOW SILVER PRICES

Report of Mr. Li Ming, Managing Director, Chekiang Industrial Bank, Ltd., Shanghai

THE extreme world crisis, which was holding the entire globe in its chilling grasp, has shown no symptoms of genuine improvement at the beginning of 1932. The lengthening shadows of unemployment, retrenchment, and poverty are still darkening the horizon. The paradox of the situation is to be seen in the fact that, while there is a superabundance of material wealth, idle merchandise side by side with idle money, millions of willing workers are near starvation and desperation. The unprecedented world depression which, at first, was considered psychological has by now become physiological.

Practical economists are considering the causes and the chronic effects of the crisis as a direct consequence of the hitherto still unliquidated World War. Hundreds of other reasons have been advanced by theorists, foremost among which stands the accusation that, since all the nations have been surrounding themselves with fortified tariff walls which they are constantly endeavoring to heighten, no relief can be expected. It is perfectly true that, as one of the War's legacies, new countries and with these new customs frontiers of about 12,000 miles increase have been created. It is obvious that this factor represents one of the contributory causes towards the extended existence of the world crisis.

There are other very plausible causes, but to discuss them here would force this study beyond the confines expediency has set upon it. Only one of those harmful factors deserves to find mention here, for its existence is intended to form the leitmotif of my essay. Among a fairly large number of financiers, businessmen, and statesmen the honest belief exists that, as long as the vast populations inhabiting China and British India cannot return to their normal consumption, business all over the world is bound to feel the drag. The diminished buying power of the peoples of China—with India

I am not concerned—is attributed mainly to the catastrophic break in silver values.

The last two sentences will form the substance of my today's investigations, my statements, and my conclusions. I shall discuss China from the economic angle, leaving politics aside, and shall deal mainly with China's foreign trade, for the latter unquestionably forms the key to the subject chosen by myself.

#### THE STATISTICAL ASPECT

I am fully aware of the fact that the outside world's knowledge about things Chinese, especially regarding an awakening China, is very imperfect indeed. Far from blaming the others, I shall be fair and attach the blame to ourselves. Old China had no use for statistics; it was much more interested in literature and the arts. The lack of accurate statistics has prevented the modern China to make propaganda regarding the actual status of its economic life. Young China has rapidly recognized the necessity of reliable statistics and is striving hard to develop this branch as rapidly as possible.

Most excellent work in this direction has been done for decades past by the Chinese Maritime Customs Service, whose statistical publications are most valuable and accurate. At a much later date the Postal Service has started the publication of statistics, to be followed by the Chinese Railway Administration.

About two years ago the Government set up an elaborate Statistical Bureau at Nanking, whose publications are valuable, though not available to foreign readers, being issued in the Chinese language only. Another recent official bureau publishing sound statistical material on Chinese economic activities is the Customs Tariff Commission. Very useful service is being rendered by the Statistical Department of the Nankai University at Tientsin, and lately also by the Research Department of the Bank of China in Shanghai.

#### THE FOREIGN TRADE OF CHINA

Before deliberating on the consequences of China's alleged crippled buying power, I deem it essential to present to my

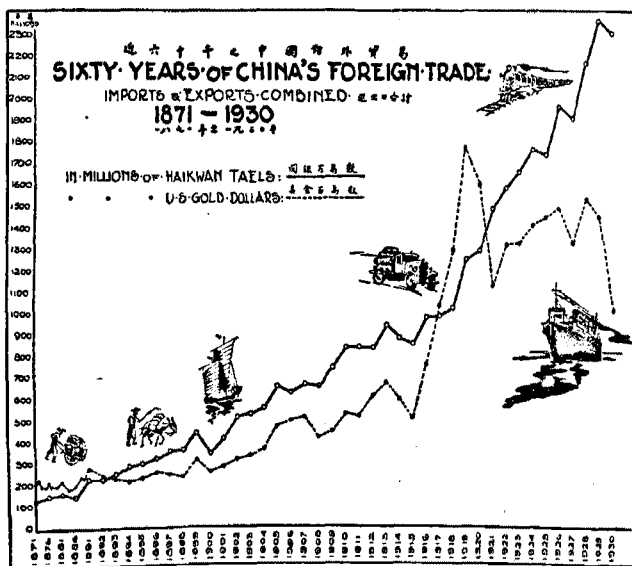
readers a detailed statement of China's foreign imports and exports for the past thirty years. The figures to be quoted here refer to merchandise only. They do not include the value of the outflow or inflow of precious metals. The source of my information is exclusively the annual publications of the Chinese Maritime Customs from 1901 to 1930. Figures cited there are always in Haikwan taels—an imaginary currency, representing 583.1 grains of fine silver and equaling 111.40 Shanghai taels in value. However, in order to acquaint my foreign readers with a picture painted in foreign style, I have thought it wise to quote all figures in United States dollars, converted at the yearly average rate of exchange between United States dollars and Haikwan taels. As a further guide the annual average official New York silver price is also being quoted here.

## In thousand dollars

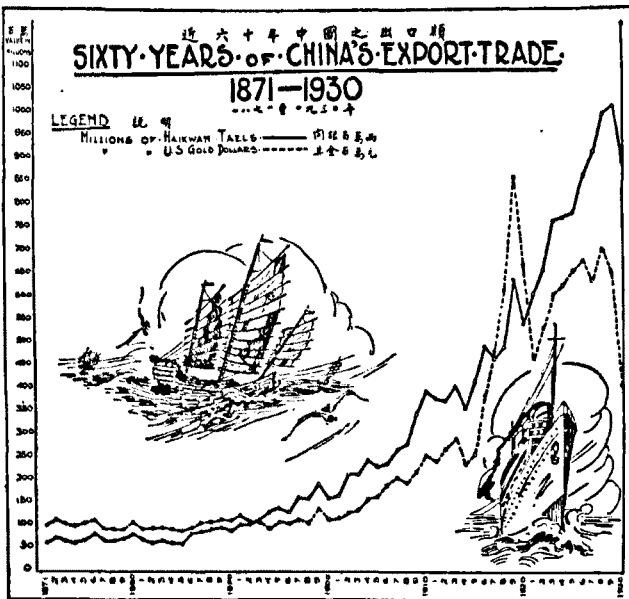
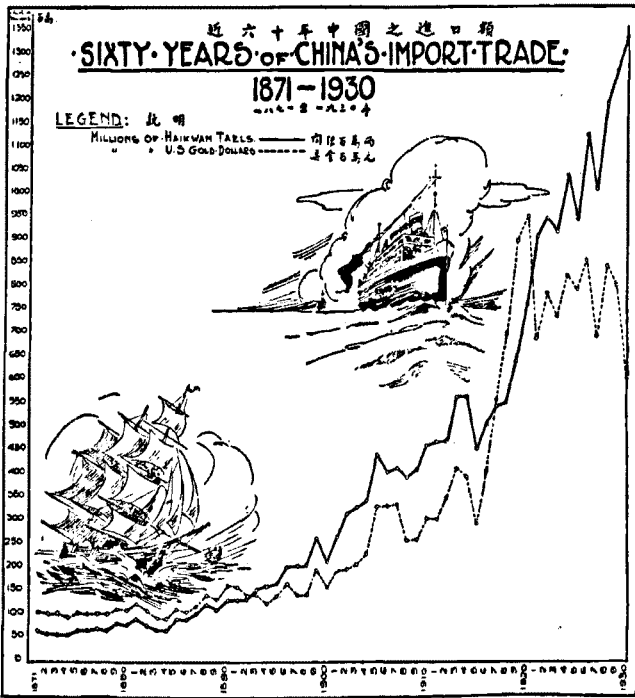
Year	Imports	Exports	Average	
			Haikwan Tael = \$	New York Silver
1901	\$193,178	\$122,153	72 cents	59.7 cents
1902	198,679	134,935	63	52.8
1903	209,113	137,185	64	54.2
1904	227,080	158,061	66	57.8
1905	326,384	165,658	73	61
1906	328,216	189,167	80	67.4
1907	328,957	208,861	79	66
1908	256,429	179,829	65	53.4
1909	263,440	213,566	63	52.1
1910	305,557	251,350	66	54.2
1911	306,478	245,370	65	54
1912	350,092	277,185	74	62
1913	416,219	294,513	73	61.2
1914	381,391	231,338	67	56.3
1915	281,775	259,694	62	51
1916	407,962	380,620	79	67.1
1917	566,005	488,820	103	84
1918	699,165	612,213	126	98.4
1919	899,327	876,824	139	112
1920	945,190	671,622	124	101.9
1921	688,652	456,954	76	63
1922	784,392	543,560	83	67.9
1923	738,722	602,333	80	65.2
1924	824,751	625,145	81	67.1
1925	796,206	652,137	84	69.4
1926	854,408	656,863	76	62.4
1927	698,923	633,848	69	56.7
1928	849,138	703,862	71	58.5
1929	810,097	650,038	64	53.3
1930	602,488	411,628	46	38.2

In consideration of the fact that all China's foreign trade is invoiced in gold currencies, imports as well as exports, the conversion of the Haikwan tael indexes is only proper. A perusal of the list, covering the past three decades, will show clearly that the value of China's external trade has trebled in the course of the said period. In the years preceding 1930 this country's foreign commerce has even been four-fold in size as compared to 1901. For 1930 we observe a falling off in the total turnover, when expressed in United States currency; in the course of the same year silver values had declined about 33%. Yet it would be rash to attribute the reduction in China's external trade to lower silver prices.

Before discussing this particular point, it is thought advisable to reproduce here three charts, depicting China's foreign trade for the past sixty years. These are taken from the timely publication by Mr. Julian Arnold, the United States Commercial Attaché for China, entitled, "China through the American Window," the issue of which coincides with the compilation of this article.



While the foregoing chart illustrates China's total foreign trade for the period of 1871 to 1930, both in Haikwan taels and United States dollars, the following two graphs deal with



imports and exports separately for the identical period and in the same two currencies.

### THE DIRECTION OF CHINA'S FOREIGN TRADE

The mere enumeration of China's external commerce in regard to its annual total value, while giving a clear picture

### COMPARATIVE PERCENTAGES OF IMPORT ITEMS IN CHINA'S FOREIGN TRADE, 1870 TO 1930, INCLUSIVE

Items	1870	1890	1900	1910	1920	1929	1930
Opium .....	35%	24%	15%	13%	..	..	..
Cotton goods, manufactured ..	30	20	20	14	23%	14%	11%
Cotton yarn ..	..	15	15	14	10	1	1
Woolen goods .....	10	3	1.5	1	1	4	2
Metals and minerals .....	5	6	4	6	4.5	3	4
Rice .....	..	8	5	7	1	5	9
Marine products .....	..	4	3	3	1	2	2
Kerosene .....	..	3	6	5	8	5	4
Coal: .....	..	2	3	2	..	1.5	2
Cotton, raw .....	..	1	1	1	3	7	10
Matches .....	..	1	1	2	..	..	0.5
Sugar .....	..	1	3	4.5	5	8	7
Flour .....	..	1	1.5	1	..	5	2
Aniline dyes .....	..	1	1	2	1	0.5	1
Machinery .....	..	..	0.5	2	3	3	3
Lumber .....	..	..	0.5	..	1.5	2	2
Railway materials .....	..	..	..	3.5	1.5	1	1
Cigarettes .....	..	..	1.5	2	3	2	2
Leather .....	..	..	1	1	1	1	1
Paper .....	..	..	1	1	2	3	3
Tea .....	..	..	0.5	1	..	..	..
Medicines .....	..	..	..	1	1	..	0.5
Wines, beers, etc. ....	..	..	..	0.5	0.5	0.5	0.5
Clothing and hats .....	..	..	..	0.5	..	..	..
Soap .....	..	..	..	0.5	..	..	..
Artificial indigo .....	..	..	..	..	2.5	1.5	1
Leaf tobacco .....	..	..	0.5	..	2	2	2
Copper and brass .....	..	..	..	..	2	0.5	0.5
Tin plates and slabs .....	..	..	..	..	1	0.5	..
Bags, gunny .....	..	..	..	..	1	1.5	1
Electrical material .....	..	..	..	..	1	1	1
Window glass .....	..	..	..	..	0.5	..	..
Motor cars .....	..	..	..	..	0.5	1	0.5
Materials for making soap ..	..	..	..	..	0.5	..	..
Lubricating oil .....	..	..	..	..	0.5	0.5	0.5
Chemicals .....	..	..	..	..	..	2	4
Wheat .....	..	..	..	..	..	2	1
Artificial silk .....	..	..	..	..	..	1.5	2
Tinned plates .....	..	..	..	..	..	1	1
Gasoline .....	..	..	..	..	..	1	1
Rubber manufactures .....	..	..	..	..	..	1	1
Paraffin wax .....	..	..	..	..	..	0.5	0.5
Totals in million Haikwan taels .....	70	125	210	460	762	1,266	1,310



of its achievements and growth, does not provide the student with material as to the direction of trade. The two tables, compiled by Mr. Julean Arnold and presented here, indicate the main articles imported by China from abroad and exported to foreign countries, between 1870 and 1930.

While opium in 1870 formed 35% of China's total imports, this item has now entirely disappeared from the list, due to the ban placed on this article in 1917. Cotton goods, while still heading the list of imported merchandise, have by now been reduced to 11% of the total, that is, to about one third of the amount in 1870. Cotton yarn shows a falling off amounting to more than 90%, when the figures of 1890 are compared with those for 1930.

On the other hand, it becomes apparent that there is a steady increase in the value of imported machinery, leaf tobacco, and raw cotton, marking the initiation of an era of industrial development in China.

Regarding exports to foreign countries contrasts are still wider. China has been the originator of silk and tea. Once upon a time she was leading as world's provider of these two commodities. Unfortunately, she has lost the lead in both articles. Today the value of tea shipped abroad by China has fallen to merely 3% of her total exports, against 50% in 1870, representing a decline of about 170%. Sixty years ago silk represented 40% of China's total exports; today the ratio has fallen to 16%. On the other hand, we observe a rise in the value of beans, cereals, and vegetable oils exported from this country. Soya beans and bean products hold now premier position among China's exports. The accompanying table gives fuller particulars.

#### THE PER CAPITA TRADE OF CHINA WITH FOREIGN COUNTRIES

Before dealing with the subject itself, I should like to give a brief sketch of United States trade with China. The first American sailing ship to engage in trade with China was named "Empress of China." She sailed from New York to Canton in 1783 with a cargo of thirty tons of wild ginseng roots from Virginia. Already in 1790 it was estimated that

COMPARATIVE PERCENTAGES OF EXPORT ITEMS IN CHINA'S  
FOREIGN TRADE, 1870 TO 1930, INCLUSIVE

Items	1870	1890	1900	1910	1920	1929	1930
Tea.....	50%	30%	15%	9%	2%	4%	3%
Silk.....	40	33	31	25	20	19	16
Cotton, raw.....	..	4	6	8	2	3	3
Strawbraid.....	..	2	2.5	2	1	..	..
Sugar.....	..	2	2	0.5	..	..	..
Beans and products.....	..	1	4	12	16	23	21
Hides and skins.....	..	1	2.5	4	3	1.5	4
Paper.....	..	1.5	1.5	1	..	..	..
Mats and matting.....	..	1.5	1.5	1	1	..	..
Vegetable oils.....	..	..	1	1	..	..	..
Tobacco.....	..	..	1	1.5	1	0.5	0.5
Furs.....	..	..	1	0.5	0.5	3	2
Cotton goods, manufactured..	..	..	1	0.5	2	2	1.5
Firecrackers.....	..	1.5	1	1	0.5	..	..
Live cattle, pigs, etc.....	..	..	1	1	1	..	0.5
Chinaware.....	..	1	1	1	1	..	..
Sesame seed.....	..	..	0.5	4	2	1	2
Tin.....	..	..	..	1.5	2	1	1
Wool.....	..	1	1	1	1	1.5	1
Bristles.....	..	..	0.5	1.5	1	1.5	1
Meats, game, etc., frozen....	..	..	..	1	0.5	..	1
Egg products.....	..	..	..	1	4	5	6
Peanuts and oil.....	..	..	..	1	2.5	1.5	4
Wheat.....	..	..	..	0.5	5	..	..
Flour.....	..	..	..	1	3	..	..
Coal.....	..	..	..	0.5	2	3	3
Iron.....	..	..	..	0.5	2	1	1
Kaoliang and millet.....	..	..	..	..	2	1.5	3
Cigarettes.....	..	..	..	..	2	1	1
Wood oil.....	..	..	..	..	1.5	3	3
Lace.....	..	..	..	..	0.5	0.5	0.5
Ramie fiber.....	..	0.5	1	0.5	0.5	0.5	1
Cotton yarn.....	..	..	..	..	..	2	2
Timber.....	..	..	..	0.5	..	1.5	1
Salt.....	..	..	..	..	..	1	..
Bran.....	..	..	..	..	..	1	1
Rape seed.....	..	..	..	..	..	1	0.5
Rugs and carpets.....	..	..	..	..	..	0.5	..
Medicines.....	..	0.5	1	..	..	..	..
Firewood.....	..	1	..	..	..	..	..
Fruits.....	..	1	1	..	..	..	..
Hair, all kinds.....	..	0.5	..	..	..	..	..
Clothing, Chinese, including shoes, etc.....	..	1.5	1	..	..	..	..
Provisions and vegetables....	..	1	1.5	..	..	..	..
Cassia legnea.....	..	0.5	..	..	..	..	..
Fishery and sea products....	..	0.5	1	..	..	..	..
Bamboo and bambooware....	..	..	0.5	..	..	..	..
Feathers.....	..	..	0.5	..	..	..	..
Nutgalls.....	..	..	1	..	..	..	..
Vermicelli and macaroni.....	..	..	1	..	..	..	..
Totals in million Haikwan taels.....	60	85	160	380	542	1,016	895

one seventh of American imports from abroad originated in China. The value of imports and exports exchanged between the United States and China in 1817 was \$5.6 million each. This country then supplied America with tea, silks, camphor, rhubarb, sugar, aniseed, pepper, nankeens, etc. On the other hand, China bought from the United States silver, ginseng, furs, copper, and sandalwood. Owing to the American Civil War her trade with China declined considerably, only to revive toward the end of the nineteenth century.

According to the report published recently by the British Economic Mission to China, the total import trade of this country, reduced to 1913 values, showed an increase in 1929 of 23% over 1913. The largest portion of the increase went to the United States, while Britain's exports to China decreased considerably. The figures are as follows:

Great Britain.....	decrease	33%
Germany.....	increase	36%
France.....	increase	100%
Japan.....	increase	52%
United States.....	increase	270%

It is a peculiar coincidence that, in face of the unprecedented world crisis, China's trade in terms of silver with the United States, including the Philippine Islands and Hawaii, has not diminished. Excepting the year 1929, it can be stated with safety that in 1930 there was the largest volume of business between China and the United States, when expressed in terms of Haikwan taels.

China's imports from the United States.....	Haikwan taels	249,414,000
China's exports to the United States.....	Haikwan taels	135,371,000
Total trade for 1930.....	Haikwan taels	384,785,000
@ 46 per United States dollar = \$177 million		

It is a noteworthy fact that, in spite of the unabated economic crisis, China has been able to buy from the United States during the month of November, 1931, the latest term for which official data are available, merchandise to the value of \$12 million,<sup>1</sup> a figure that about equals the value of her total purchases during the corresponding month of 1930.

These plain facts augur well for the future of the Sino-

<sup>1</sup>United States dollars.

American trade relations. The foregoing remarks are meant as a preliminary to our investigations concerning the per capita trade of China with foreign nations.

Basing ourselves on the figures contained in the first table of this essay, we obtain a value of China's total trade for 1930 of \$1,014,116,000.<sup>1</sup> Taking China's total population at 450 million, we arrive at a per capita share of her foreign trade of \$2.25.<sup>1</sup>

This figure is very low indeed and compares unfavorably with the ratio for almost all countries. Basing ourselves on a total foreign trade of the United States of \$6,800 million and estimating the population, including Hawaii and the Philippines, at 136,775,000, it becomes obvious that the per capita share of America is as high as \$49.70.

Japan, with a population of 65 million people, and with a total foreign trade worth \$1,508 million, yields a per capita participation for 1930 of \$23.20.

India, which in many respects may be likened to China, has a per capita foreign trade approximating \$7 to \$8.

#### THE CAUSES OF CHINA'S LOW RATIO

As has been shown China's share in world trade is lamentably small. In this somewhat disparaging admission some consolation might be found, namely that there is not merely room but also cause for improvement.

The causes for China's backwardness in world commerce are manifold. Let us consider the main reasons:

(1) It is the poorly developed system of communications throughout the country which obstructs the growth of China's foreign trade. Take the main artery for traffic, the railway system. China operates 11,000 miles of railways, inclusive of foreign-owned lines running within her borders, against 250,000 miles, of which the United States can boast. The number of motor vehicles registered here aggregates 40,000, as compared with 27 million over there. The mileage of electric railways amounts to 40,000 in America, while China has barely 5,400 miles. Telegraph wires being stretched throughout the country measure 97,000 miles in

<sup>1</sup>United States dollars.

China and 2,350,000 miles in America. Airway mileage in operation in this country aggregates 2,500 as compared with 45,000 in the States. The number of telephones installed in China is 250,000, against 20 million in the United States. The railways in our country carry per annum 40 million tons of goods, while in yours the figure is about 1,350 million tons. Passenger traffic on railways is about 60 million in China, compared with 786 million in the United States. The Chinese merchant marine owns ships to the extent of 330,000 gross tons; the corresponding figures for America are 16.5 million gross tons.<sup>1</sup>

(2) A second formidable obstacle to the normal growth of China's foreign trade is the chaos existing in her currency system. A good deal has been accomplished toward improvement during recent years, but very much more is still to be done. China is still far from some unified currency system. The issue of enormous amounts of banknotes in many of the outlying provinces, fiat money which is either heavily depreciated or very often irredeemable, is crippling the development of trade relations.<sup>2</sup>

(3) The absence of a uniform and definite system in the levy of taxes and dues, combined with a still decentralized form of government, provides another handicap to the normal development for which China is striving.

(4) The ravages of the civil war, which has been holding the country down for the past fifteen years, are one of the principal obstacles in connection with an improvement of trade relations. The amount of money involved in carrying on internecine warfare, the extent of disorganization brought about by the requisitioning of railway and cart traffic, the destruction caused by the soldiers, the insecurity caused by marauding bands, all these are factors causing disorganization, untold losses, and prevention of progress. The so-called armed communist bands are doing much harm to the districts on which they live.

(5) While it has often occurred during recent years that certain provinces of China had extended drought and famine, the past summer has witnessed floods unprecedented in the

<sup>1</sup> Figures gleaned from "China through the American Window."

<sup>2</sup> Refer to "The Currencies of China," by E. Kann, Shanghai.

history of China. The flood waters have been responsible for huge losses, mainly in the agricultural districts in the provinces of Shantung, Honan, Anhwei, Kiangsu, Hupeh, Hunan, Kiangsi, and Chekiang. The area of cultivated land in these provinces affected by the ravages of the floods is reliably estimated at 141.7 million mou<sup>1</sup>, or 26% of the total. The number of households actually affected by the floods is returned as 8,579, or 26%.

The quantities of cereals lost through the floods is returned at 8,942 million catties<sup>2</sup> of rice, or 36%; further, 142 million catties of cotton, 24%; and finally millet and kao-liang altogether 1,407 million catties, 29%. The total loss of cereals enumerated here aggregates about 5 million tons. Owing to the occurrence of these fearful floods, China was forced to buy wheat from the United States to the extent of 450,000 tons.

Expressed in terms of money these four crops represent an actual monetary loss of 457 million Chinese silver dollars. No account has so far been taken the huge toll that the floods have demanded in human lives. No account has been rendered concerning the monetary value of cattle destroyed by the waters, of private effects, furniture, and so forth, carried away by the floods.

#### FOREIGN TRADE AND LOW SILVER

After perusal of the arguments contained in these five paragraphs, is it still necessary to point to reduced silver prices as the main factor for a diminishing turnover in merchandise? Is it not surprising that, in the midst of her own internal troubles and calamities, China has been able to carry on as well as she has done?

Aside from the five points originating in this country there is another factor to be held responsible for smaller trade, a factor which hits us all with the same force, namely, the world depression. Needless to say that China has been badly hit by the continued existence of the crisis pervading the entire globe. Chinese trade has suffered inasmuch as the outside world has not been able to buy many of the products

<sup>1</sup> 1 mou = 1/6 acre.

<sup>2</sup> 1 cattie = 1½ pounds.

which China has to offer for sale. And whatever was purchased by foreign countries was acquired at very much reduced prices. Here is another international factor which, while of foreign origin, is holding us all in its calamitous grasp.

Silver and its low levels are really minor factors in the fearful story. To a certain extent they are positively mitigating points so far as China is concerned. Low silver has prevented the importation of articles which may be classed as semi-luxuries and which are known in our markets as sundries. In this class belong cosmetics, perfumes, cigarette holders, leather goods and shoes, glass, lanterns, electric fans and lamps, etc. Reduced silver prices have acted as a lever by inducing Chinese capitalists to start manufacturing these and kindred articles within our country. In this manner silver at low levels has had beneficial effects on China, though naturally it has prevented imports of certain unessentials.

There is another natural factor which has been hindering enhanced foreign imports from abroad, namely, the raising of China's customs tariff in 1929 and again in the following year from the decades-old 5% ad valorem value to a scale that goes as high as 50%. This measure has been preventing excessive imports from abroad, and incidentally it has also fostered home industries.

Instead of proving harmful, low silver prices have been largely beneficial to China. It might not be generally known that China, apart from her many trials due to conditions within her country, has not yet been dragged into the whirlpool of the world crisis. This is due entirely to low silver, a factor which, instead of proving a curse to this country, has really been a blessing.

It is only due to low silver that the Chinese farmer has been able to sell his produce for shipment abroad at about the same price in silver as he was accustomed to obtain in previous years, notwithstanding the fact that the foreign market price in gold had receded up to 50%. Due to the low value of silver China has no unemployment of any consequence. Mr. E. Kann has recently been able to show conclusively that wholesale commodity prices in silver of Chinese

produce are much higher in 1931 than they were in 1913.<sup>1</sup> The general price level in China, thanks to low silver prices, has been well maintained, in contrast to the price level of commodities in the Occident, where the break was continuous and ruinous.

If further proofs are needed, one might point to an article on Wholesale Commodity Price Changes<sup>2</sup> where wholesale price indexes in almost all countries, as quoted in certain months of 1929, high, are compared with conditions prevailing in the same countries in September, 1931. The figures indicate the percentage reduction of wholesale commodity prices since 1929. There is a minus everywhere, except for China, where a single plus had to be awarded.

	Per Cent Change from High of 1929
United States.....	-29.5
Canada.....	-28.9
United Kingdom.....	-29.2
France.....	-28.3
Belgium.....	-31.3
Germany.....	-22.0
Czechoslovakia.....	-25.5
Italy.....	-31.0
Denmark.....	-31.4
Netherlands.....	-38.1
British India.....	-37.2
Japan.....	-40.5
China.....	+20.1

In view of this rather lengthy documentary evidence I believe that the argument of low silver being a deterrent to Chinese foreign trade will have to be considered as fallacious.

Shanghai  
January, 1932

<sup>1</sup> See "Finance and Commerce," Shanghai, December 9, 1931.

<sup>2</sup> See Commerce Reports, November 9, 1931, p. 301.



## TABLE OF CONVERSION

Foreign currencies were converted into dollars at the following rates of exchange:

- Argentina*, par, 96.48 cents per gold peso, or average rate of exchange;
- Australia*, par, \$4.86 per pound sterling;
- Belgium*, par, 2.78 cents per franc, or 13.9 cents per belga;
- Brazil*, par, 11.96 cents per paper milreis, or average rate of exchange;
- Chile*, par, 12.17 cents per gold peso;
- Colombia*, par, 97.33 cents per gold peso;
- Czechoslovakia*, 2.96 cents per crown;
- France*, par 3.91 cents per franc; pre-war par, 19.3 cents per franc;
- Germany*, par, 23.8 cents per Reichsmark;
- Great Britain*, par, \$4.86 per pound sterling, or average rate of exchange;
- Italy*, par, 5.26 cents per lira;
- Netherlands*, par, 40.20 cents per florin;
- Russia*, par, 51.46 cents per ruble;
- Sweden*, par, 26.8 cents per krona, or average rate of exchange.