

**NATIONAL INSTITUTE OF ECONOMIC
AND SOCIAL RESEARCH**

Occasional Papers

VI

**TEN YEARS OF CONTROLLED TRADE
IN SOUTH-EASTERN EUROPE**

NATIONAL INSTITUTE OF ECONOMIC AND
SOCIAL RESEARCH

OFFICERS OF THE INSTITUTE

PRESIDENT

SIR HECTOR HETHERINGTON, MA., LL.D.

COUNCIL OF MANAGEMENT

HENRY CLAY (<i>Chairman</i>)	LORD KEYNES
PROFESSOR A. L. BOWLEY	PROFESSOR D. H. MACGREGOR
A. M. CARR SAUNDERS	SIR FREDERICK OGILVIE
GEOFFREY CROWTHER	PROFESSOR D. H. ROBERTSON
N. F. HALL	AUSTIN ROBINSON
SIR HUBERT HENDERSON	SIR ERNEST SIMON
SIR HECTOR HETHERINGTON	BARBARA WOOTTON
PROFESSOR JOHN JEWKES	

*EXECUTIVE COMMITTEE OF THE COUNCIL
OF MANAGEMENT*

HENRY CLAY (*Chairman*)
GEOFFREY CROWTHER
SIR HUBERT HENDERSON
SIR HECTOR HETHERINGTON
SIR FREDERICK OGILVIE
AUSTIN ROBINSON
BARBARA WOOTTON

SECRETARY

MRS F. S. STONE

2 DEAN TRENCH STREET, SMITH SQUARE,
LONDON, S.W. 1

TEN YEARS OF
CONTROLLED TRADE
IN SOUTH-EASTERN
EUROPE

by

N. MOMTCHILOFF

CAMBRIDGE
AT THE UNIVERSITY PRESS

1944

Occasional Papers, of which this is the sixth, will serve as a medium for the publication of several types of research results. Some will give preliminary and partial results of studies which will later be published in full in book form. Some will bring reports up to date. Others will be small-scale, independent reports which are complete in themselves.

Occasional Papers will appear from time to time, as occasion demands, and not at regular intervals. They will vary in length, some being considerably longer than this present one. By the publication of *Occasional Papers* it is hoped to make quickly available those results of our research which are of particular current interest.

Occasional Papers

- I. The New Population Statistics.
By R. R. KUCZYNSKI.
- II. The Population of Bristol.
By H. A. SHANNON AND E. GREBENIK.
- III. Standards of Local Expenditure.
By J. R. HICKS AND U. K. HICKS.
- IV. War-time Pattern of Saving and Spending.
By CHARLES MADGE.
- V. Standardized Accountancy in Germany.
By H. W. SINGER.

The Institute assumes no responsibility for the theories and opinions expressed in the *Studies* and *Papers* prepared under its auspices.

CAMBRIDGE
UNIVERSITY PRESS

LONDON : BENTLEY HOUSE
NEW YORK . TORONTO BOMBAY
CALCUTTA MADRAS: MACMILLAN

All rights reserved

PRINTED IN GREAT BRITAIN

CONTENTS

Introductory Note

page 7

PART I

Chapter

I. Developments in the Inter-war Period	9
II. Collapse of Transfers—Remedies tried by Governments	15
III. Later Developments	22
IV. Some Monetary Aspects—Financing of Trade and of Government Contracts	34
V. Recent Changes and Trends	39
VI. The Present Position	48

PART II

VII. Possible Uses of Past Experience—Distribution of Supplies	55
VIII. Payments in Goods and Services	60
IX. Transfers	65
X. Regional Co-ordination of Tariffs and Price Controls	80
<i>Conclusion</i>	84

STATISTICAL TABLES

Appendices

1. Production and Exports to Germany of South-Eastern European Cereals, Tobacco, Cotton and Hemp *page* 86
2. Production and Export to Germany of Certain Metal Ores by six South-Eastern European Countries 87
3. Analysis of thirty-two classified Exports from Germany to six Balkan States, 1935-37 88
4. South-Eastern Europe's chief Imports of Manufactures, 1937 90
5. South-Eastern Europe's Exports, 1937 90

ACKNOWLEDGEMENT

The writer owes a debt of gratitude to his colleagues who have read the script and have given very valuable advice, and to Captain E. Saunders for his help in dealing with some of the statistical material.

TEN YEARS OF CONTROLLED TRADE IN SOUTH-EASTERN EUROPE

INTRODUCTORY NOTE

'South-Eastern Europe' seems to be a somewhat vague term, both geographically and politically. In certain cases, Turkey and Hungary are included in the general area; in others, its meaning is confined to the Balkan peninsula, Hungary being excluded as belonging to Central Europe, and Turkey, as a predominantly middle-eastern country.

The absence of clearly discernible organic cohesion throughout this area's recent political and economic history may be an explanation of this state of partial confusion. It can, however, be contended that there is a good deal of similarity in the ways in which these countries have been affected by the strong economic undercurrents shaping the life of the continent since the end of the first world war. The reactions, adjustments and ultimate consequences have been strikingly parallel in every individual country of South-Eastern Europe. So much so that the whole region became, within a relatively short time, an attractive field for Germany's expansionist plans aiming at its permanent economic assimilation.

If this similarity is taken as a basis for examining the region as a whole, there seems to be enough ground for grouping *Hungary, Roumania, Yugoslavia, Greece, Bulgaria* and *Turkey* together under the common regional term of South-Eastern Europe. In spite of important divergencies in certain special cases, e.g. Roumania's petrol resources, Hungary's industrial development, Greece's shipping, all these six countries depend for the bulk of their foreign trade on exports of agricultural products. Ever since the mechanism of international transfers broke down, whoever was in a position to provide outlets for these agricultural exports was likely to secure a decisive influence on the region's whole trade and economic life. When raw materials and cereals became drugs in the world markets, extensive and permanent outlets for such goods could only be provided by Government action: the real commercial demand was, to say the least, irregular and insufficient. As a consequence, all South-Eastern European countries became dependent on

Government action, in their own territories as well as in the countries where they had to find outlets for their exports.

This is the main reason for examining, in the pages to follow, the nature and working of Government controls in the region. Under the stress of war, these controls have gradually included nearly the whole economic life of the six countries. After ten and more years of continuous use, they have created habits, mentalities, and sometimes provided solutions. The point would be worth considering whether, instead of being discarded, some of the methods and instruments of control could not be put to good use when the time should come for devising new patterns for the machinery of trade, exchanges and distribution so widely damaged by the war and its long economic prelude.

The ultimate aim of such new patterns may be the gradual relaxation of controls and their abolishment altogether, after a lengthy period of transition. This survey is confined to that period of transition.

LONDON,

31 *December* 1942.

PART I

Chapter I

DEVELOPMENTS IN THE INTER-WAR PERIOD

The Aftermath. The end of the first world war brought to some of the countries in South-Eastern Europe considerable increases of territory and potential resources, to others—more or less important curtailment of their political and economic strength; to all—severe losses of life, property and internal stability.

In Hungary and Bulgaria the turmoil of war was superseded by revolutionary movements of short duration but with long repercussions on their social and political life.

Turkey and Greece had to undergo, all over again, the trials of resumed warfare before they had time even to start repairing the damage of the first Great War.

In the newly formed Kingdom of the Serbs, Croats and Slovenes (Yugoslavia) deep psychological and political divergencies stood in the way of recovery.

On the whole, in spite of the long and elaborate endeavours of peace conferences to devise final settlements, many things remained unsettled in this part of Europe. In the eyes of the outside world the region continued to be the politically unsafe and economically backward area it had been for so many years past.

Their exhaustion and domestic troubles made the countries in South-Eastern Europe utterly helpless in the midst of the generally dislocated environment in post-war Europe. As late as 1922 the League of Nations' Economic Committee reported on 'the disorder in the currencies and the disorganisation of the international exchanges'.¹ According to the *Federal Reserve Bulletin*, in November 1924 Bulgaria's currency was worth 3.0 % only of its pre-war value, Greece's 9.23 %, Hungary's 0.01 %, Roumania's 2.79 %, Yugoslavia's 7.51 %. These are not the lowest levels recorded.

¹ League of Nations, *Commercial Policies in the Inter-war Period*, Geneva, 1942.

The Brussels Financial Conference in 1920, the Portorose Conference in 1921, the League of Nations' inquiries into the position of raw materials (1921), the Genoa Conference in 1922, and many other attempts at international action for finding a way out of the chaos, produced little more than qualified statements, non-committal good wishes and timid recommendations. 'International Conferences at this period were strangely reticent about the special economic problems to which the war (and the peace) had given rise, and when reference to such problems was made, it was almost always in terms of abstention from action (abolition of control, etc.), rarely of action.'¹

Temporary Recovery. The situation did not begin to show signs of improvement until the later part of 1924, when some of the severe restrictions on trade were loosened and gradually removed. As late as 1927, however, control of foreign exchange remained in force, in one form or another, in Bulgaria, Greece and Yugoslavia. With the League's assistance, Hungary lifted her export and import restrictions in 1924. In 1926 and the following three or four years, financial help and valuable rehabilitation work were carried out by the League of Nations in Hungary, Greece and Bulgaria. By 1928 foreign capital was again finding its way into the region. The volume of trade increased, industrial development made visible progress. On the whole, better times were coming back, and a wave of optimism spread along the Danube, accompanied by increasing spending, especially by Governments.

The 1931 Collapse. 1929 was the last year of relative recovery and, as this became clear soon, of ill-founded hopes for restoring some sort of economic welfare in South-Eastern Europe. The first rough readjustment of economic factors after the end of hostilities had made it possible to revert, in many cases, to pre-war ways of trading and finance, in the belief that things might settle down and the patchwork hold good till a general state of 'normality' returned to stay with us.

Underneath the structure, however, the ground had been softened and broken up by some far-reaching changes which required corresponding alterations to the economic structure of many a country, of almost every country, perhaps. Certain of these changes had affected South-Eastern Europe much deeper and in a more direct way than was realized during the apparent improvement between 1924 and 1929.

¹ *Ibidem.*

By sweeping away the patchwork assembled in the 'recovery' years, the world-wide breakdown in 1931 laid bare the extent and implications of the fundamental changes, especially with regard to South-Eastern Europe, so much so that an international Conference had to be called at Stresa in 1932 to deal, among other things, with the plight of that area. A brief outline of what has happened would help in following the further course of developments.

Vital Changes in Agriculture. Agriculture, which provides the livelihood of the vast majority of the populations in South-Eastern Europe, has, especially in the course of the world-wide conflict, become a mechanized industry, based on large land holdings, highly organized grading, marketing and transportation. The total output of wheat in the mass-producing overseas sources, from a yearly average of 1,086.9 million bushels in the period 1909-13, had advanced to 1,525.5 million bushels a year during the five years 1922-26, and their 1931 crops had yielded 1,673.3 million bushels. Wheat-growing in other producing and consuming countries made considerable progress (Italy, U.S.S.R., French North Africa, Iran, Iraq, Syria, Egypt, Czechoslovakia, the Scandinavian and Baltic countries).

Meanwhile, in South-Eastern Europe, both acreage and production had been rising on the whole, and in the long run, after the post-war setback.

A. *Acreage under Wheat* (million acres)

B. *Output* (million bushels)

		Average 1909-13	Average 1922-26	1931
Bulgaria	A	2.41	2.47	3.05
	B	37.8	32.9	63.8
Greece	A	(0.95)	1.14	1.50
	B	(10.3)	9.8	11.2
Hungary	A	3.71	3.51	4.01
	B	71.5	64.1	72.6
Roumania	A	9.52	7.48	8.57
	B	158.7	96.1	135.3
Turkey	A	(5.00)	(6.24)	8.77
	B	(55.0)	(62.4)	104.9
Yugoslavia	A	3.98	4.05	5.29
	B	62.0	62.7	98.8

The figures in brackets are estimates.

Source: P. de Hevesy, *World Wheat Planning and Economic Planning in General*, Oxford University Press, 1940.

Allowance must be made for territorial changes, but the final result still was that considerably more cereals were being produced in the region at a time when their costs of production were increasingly at a disadvantage in comparison with those of large-scale overseas producers, and when there was a growing excess of world output over world demand.

Production and Consumption of Wheat (excluding U.S.S.R., Iran, China, and Manchuria)

	Yearly average 1909-10 to 1913-14	Yearly average 1922-23 to 1926-27	Year 1930
Total world production in million bushels	3,047.5	3,397.3	3,903.5
Total world consumption in million bushels	3,076.9	3,284.7	3,774
Human consumption:			
(a) 19 European countries bushels per head	5.53	5.25	5.30
(b) Danubian countries	4.36	3.77	4.90

Source: P. de Hevesy, *op. cit.*

This disparity continued all through the inter-war period and is likely to assume yet larger proportions after the present war, as a result of greatly increased cereal growing in Europe, the Near and the Middle East. The factor is thus a long-term one and, for the purposes of this survey, a strong permanent trend. Its cumulative effect, briefly stated, was to reduce the marketing prospects for Danubian cereals to dangerously low levels, and export of cereals, especially wheat and maize, was one of the region's main sources of foreign exchange.

Changes in Foreign Lending. The lack of reliable data on the balances of payments of the countries in South-Eastern Europe makes it impossible to give even an approximate description of the movements of international means of payment to and from the region. It may be stated, in a general way, that current deficiencies were nominally met, before the first world war, by short-term borrowing, chiefly through Viennese bankers, and by relatively considerable (for local standards) lines of commercial credits carried by British, French, Belgian and German exporters, who supplied these markets.

When poor harvests or other reasons brought about heavier short-term indebtedness in foreign exchanges, the position was usually 'consolidated' by foreign loans, issued in Vienna, Paris, sometimes London, rarely Berlin. Often the major part of such loans was used for railway construction or purchase of arms, and political counterparts were a customary accompaniment to such financial arrangements.

After the war, the Western European financial markets became practically closed to the countries of South-Eastern Europe as far as long-term investment or Government loans were concerned. Vienna and Berlin were no longer in a position to lend on long term. Paris was little inclined to do so. The French 'rentiers', ultimate holders of the bulk of French pre-war foreign loans, had suffered cruel losses in Russia and elsewhere, and the widespread currency depreciation after the war, as well as his domestic troubles with home politics and, still more, with taxation, stood squarely in the way of the French rentier's return to optimism and confidence in the future. Such loans as the French Government made to be issued for Roumania and Yugoslavia remained mainly with the issuing bankers. American and British investors had no special reasons to be interested in financial loans to that part of Europe.

Since the investors in the principal financial centres were not prepared to risk their money in loans to Balkan Governments, the League of Nations had to devise special safeguards and to make things look more plausible. Sizeable amounts of long-term money were invested in League loans or otherwise made available to parts of the region. Undoubtedly good work was done, and the finances, even the general administration and economic life of the countries submitting to the clinical treatment showed gradual improvement.

Yet the League's work and the remedies it did provide to individual small States could not possibly stop the progress of world-wide maladjustments between production and consumption, between fluid idle money and creative investment.

Inflow of Short-term Funds. The pressure of idle funds was weighing on the great financial markets while redundant stocks of commodities blocked the vital interplay of offer and demand. Short-term loans were offered with insistence all over Europe and, through the medium of Central European, French and Italian banks, the tide reached even the Balkans, after having

flooded Hungary. Between 1926 and 1930 it was easier to borrow foreign exchange than local currencies. And it was cheaper: dollars, guilders, francs or sterling could be had at 6 or 8%, while bankers' loans in leva, dinars or lei cost anything between 14 and 18 and even 20%. In times of tight cash, local banks borrowed foreign exchange and sold it to their Central banks for replenishing their tills.

As the intermediaries through whose offices foreign funds were lent to South-Eastern Europe did not insist on ascertaining whether these funds were to be used for short-term or long-term needs, industrial equipment, building, even prospecting for minerals were financed in this way. Yet, as a matter of fact, the owners of the foreign resources thus lent were by no means *investors*. Most of them held their money at sight or short-term deposit with the banks in Western Europe or the United States. It is open to doubt whether they had an idea of the way in which their bankers used these deposits.

As a result, every country in South-Eastern Europe had, by the end of 1930, borrowed short-term funds to such an extent that it became more and more difficult to repay even normally maturing loans, and prolongations were the rule rather than exceptions.¹

As the markets for the region's exportable surpluses of agricultural goods were steadily narrowing and the prices for these goods falling, especially after 1929, the power of resistance and recuperation of these countries was practically non-existent. As was to be expected, they were amongst the worst casualties of the powerful landslide of 1931.

Withdrawal of Credits. Immediately after the Viennese banking crash in 1931 a wholesale run on the banks started all over Central and South-Eastern Europe; a double run in fact: from their local depositors who feared a heavy depreciation of their own country's currency, and from nervous, hard pressed foreign bankers whose depositors were presenting their cheques over the counters in Vienna, Paris, Brussels and many other places.²

¹ According to the *Annual Report of the Hungarian National Bank for 1930*, long-term loans for 87 million pengœ, medium-term loans for 175 million pengœ (total 262 million pengœ = £9,493,000) were made to Hungary in the course of 1930. The amount of sight and short-term advances is not specifically shown, but was known to be considerable.

² 'The tidal wave of uncertainty and fear... originated in Austria, swept quickly on to Hungary and Germany, and, after devastating these areas,

It was obviously unthinkable to deal with the situation by orthodox methods. The Bank of International Settlements, some of the Central banks in Western Europe and not a few of the important foreign lenders were ready to help and did actually try to help. The drain on the foreign exchange reserves in the small countries was too great, however, to be stemmed by partial measures, and there was no psychological basis for joint action on a large scale. Actual investment had ceased in the large financial centres; there was only universal flight into 'liquidity'. This in most cases meant flight into gold. It could hardly be expected that Governments or Central banks should be able to provide funds for international rescuing operations in the circumstances then prevailing, even if Governments and Central banks in the various countries concerned were of one mind as to the measures to be taken. They were not: fundamentally divergent courses were followed by the leading financial centres.

Chapter II

COLLAPSE OF TRANSFERS—REMEDIES TRIED BY GOVERNMENTS

The mechanism for transferring means of payment collapsed under the aggregate strain of cancelled commercial and banking credits, recalls of loans and headlong flight of capital, both foreign and local, from the countries considered unsafe. Very few countries in Europe escaped trouble on that account at one time or another, during those months of despondency and recurrent panic.

Restrictions on Foreign Exchange Dealings. On 18 July 1931 Germany decreed compulsory declaration of foreign exchange held by Germans or foreigners residing in the Reich. Time dealings were stopped; all transactions in foreign exchange were

flowed onward to Great Britain and the Scandinavian countries, sweeping down their currencies, and then, backwashing into the U.S., carried with it the unusual demands upon the American gold supply and credit system.
B.I.S. Report, 1931-32, p. 10.

concentrated at the Reichsbank, whose official rates became compulsory.

The day before, Hungary had reimposed foreign exchange restrictions.

In September Greece followed suit, and Yugoslavia and Bulgaria did the same in October.

Before the end of the year, Hungary had declared a partial transfer moratorium.

In the words of the *Bank for International Settlements' Report for 1931-32*: 'Wherever foreign exchange restrictions have been introduced the main object has been to control capital movements and especially to prevent flight of capital. In Great Britain this was the only object. In most other countries the restrictions have served another purpose, i.e. the control of imports.'

Aims of Government Policy. This is an adequate description of the process. Powerless to deal with the mass exodus of capital, Governments had to slow down, or to stop altogether, transfers of *financial claims, as distinct from commercial payments*, i.e. from payments for goods imported. The distinction is a feature characteristic of all further developments in Government control of foreign exchange in South-Eastern Europe.

In spite of the indignant protests of holders of financial claims—some of them owners of 'mobile' funds who had specialized in foreign exchange speculation in the area—it soon became a matter of current Government and Central bank policy to confine transfers to commercial payments only. Financial claims became 'blocked', 'frozen', in fact lost to their owners' as far as using the funds abroad was concerned.

However, even after stopping transfers of financial claims, the Central banks of the area were unable to secure enough foreign exchange to pay for imports of goods. Apart from the unsatisfactory state of their current trade balances, these countries' resources in foreign means of payment were heavily curtailed by 'blocking', 'freezing', control and restrictions in many quarters outside South-Eastern Europe.

Berlin Suspends Transfers. One of the heaviest blows fell when Berlin suspended the free disposal of foreign funds, including proceeds of goods exported to Germany, whose share in the region's exports had increased during the last few years. In 1930,

Bulgaria	sent 26·2 %	of her exports to Germany.
Greece	„ 23·3 %	„ „ „
Hungary	„ 10·3 %	„ „ „
Roumania	„ 18·8 %	„ „ „
Turkey	„ 13·1 %	„ „ „
Yugoslavia	„ 11·7 % ¹	„ „ „

Relatively important credit balances in Reichsmark suddenly became unusable for payments outside Germany, and thus increased the small countries' transfer difficulties. Moreover, some of the countries in Central and Western Europe, affected by the unilateral restrictions imposed on the movement of their funds out of Germany, Austria, Hungary and the Balkans, took milder or sterner defensive action in blocking both export proceeds and credit balances in order to secure some sort of setting off of credits against debits and thus obtain what payment they could out of their debtors.

First Exchange Clearings. This off-setting method opened the way to the conclusion of the first exchange agreements. Switzerland and Hungary were among the first to sign and put into practice a formal clearing accord, in November 1931, followed by a series of arrangements on the same pattern by both countries with Austria, Yugoslavia, Bulgaria, Roumania, Greece and Turkey. The countries in South-Eastern Europe soon found out that the new device was providing them at least with an expedient for continuing their trade with part of the outside world, and they made extensive use of it. Clearing agreements were made also with Germany, France, Belgium, etc., and gradually covered a very important part of South-Eastern Europe's foreign trade.

Clearings as Instruments of Settlement. The implications of the exchange clearing and its practical possibilities were not realized at the beginning, but became more apparent as the technique developed and was brought to ever greater efficiency when Germany overcame her initial reluctance² and put this 'new weapon' to the extensive and fruitful use so widely known in later years.

¹ All calculated in value in local currency, according to the League of Nations *International Trade Statistics*.

² Dr Schacht was at first an outspoken adversary of the clearing method. As late as 5 March 1935 he sharply attacked clearing agreements, to which he attributed the disappearance of Germany's active balances of trade in Europe. Cf. *The Economist*, 16 March 1935.

The primary objective of the exchange clearing was to conduct foreign trade without recourse to transfer of funds in foreign exchange. The mechanism was simple at the beginning. Instead of sending to Germany Reichsmark in payment for his imports from Germany, the Hungarian importer had simply to pay *in pengoes* to the Hungarian Central bank the equivalent of these Reichsmark. The German importers of Hungarian goods did exactly the same, in Germany, paying *in Reichsmark* the equivalent of the pengoes he owed. As the Reichsmark paid in this way accumulated in Berlin, and the pengoes in Budapest, the German Central bank was able to use the *Reichsmark* funds for paying German exporters to Hungary, as the Hungarian Central bank was able to use the *pengoe* funds so accumulated for paying Hungarian exporters to Germany. This procedure could be carried on as long as there were no abnormally large and persistent differences between the totals accumulating at both ends. Movement of means of payment from one country to another was avoided to an extent unsuspected at the beginning.

How Clearings Worked. From a somewhat clumsy device in its initial stages, the exchange clearing gradually became a fairly flexible instrument for settling accounts of trade, but on a *bilateral basis* only. The technical improvements and adjustments which brought the method to its later degree of efficiency were evolved step by step, as a result of practical experience rather than of economic doctrine. This may be one of the main reasons why considerable difficulties of application could be overcome without concluding bulky and complicated special treaties. So, for instance, the tricky point of giving debtors final discharge from their obligation as soon as they had paid to their Central bank the equivalent of their foreign debt in their own currency was dealt with by rule-of-thumb methods rather than by way of legal disquisition and recourse to permanent changes in commercial legislation. When credit balances were accumulating in an alarming way, additional exports to the creditor country were negotiated, and the balances cleared.

One of the advantages of this method was that the authorities entrusted with the control of foreign exchange and trade at both ends were in almost constant touch and able thus to settle difficulties as they arose and to adjust the currents of trade through a continuous course of almost routine work.

Dangers and Possibilities. But this very circumstance led to

quite different developments, which in many cases upset the advantages. Governments lost no time in realizing that the clearing method, primarily used for 'safeguarding the national currency', could be made into a powerful instrument for both controlling trade in their own country and, if they were the stronger partners in these bilateral agreements, for influencing not only trade, but the whole economic life in the other partner's country. One of the basic conditions of most clearing agreements being the maintenance of a stable parity of exchange rates, it became possible for the stronger party so to fix that parity as to put the other partner's home prices on an artificially high level and to cut him off from his other markets. If applied to a number of countries, bilaterally but over a whole geographic region—as it was applied to South-Eastern Europe—this advantage can lead to far-reaching economic and political results, as we all know only too well.

There seems, however, to be some solid ground for the contention that clearing agreements not only help to overcome transfer difficulties, but may be an efficient way of increasing trade between the two parties. Germany's example is not the only one. Switzerland, for instance, has made several successful experiments in this way, and so have some other countries where the peculiarities and implications of this unorthodox method were promptly realized and used with skill and imagination.

Cutting down Imports. To increase the volume of their foreign trade was not always the actual policy of Governments in Europe in the troubled times after 1931; especially not in South-Eastern Europe. It is common knowledge that, before and after 1931, the predominant desire was to export as much as possible, and to cut down imports to the minimum practicable. This was not always done for reasons of self-sufficiency based on strategic considerations. Questions of employment, of protected home industry, of nationalistic outlook in every direction, of strongly voiced sectional interests were so interwoven, even before the breakdown in transfers, that the additional troubles in matters of foreign exchange only strengthened the impetus and contributed greatly to the further thriving of restrictions and protectionism.

Quotas. Since the exchange clearing could not do the whole job, the older method of quotas was put into extensive use.

There were quotas by kinds of goods and quotas by countries, quotas based on conveniently selected pre-crisis averages, and quotas imposed without going to the trouble of looking for bases and justifications. At any rate, this method of shutting the doors to imports and of strictly regulating trade proved much more efficient than the exchange clearing. And its effect on world trade was the more detrimental as it was adopted and applied even by the great countries who had stood aloof from the comparatively milder heresy of clearings. One of the corollaries was that the most-favoured-nation clause was practically—and quite efficiently—put out of action. Bilateralism became ever more solidly entrenched in international trade relations.

Subsidies. South-Eastern Europe was conspicuously keen on using all these restrictions, probably because of its less complex and less close trade connections with the rest of the world. For the same reason, it would seem, the inevitable recoiling effects of this policy were only realized and assessed when retaliation began to tell. It became more and more difficult to get from abroad essential raw materials and to sell agricultural goods for free foreign exchange. Owing also to the permanently high level of prices maintained by Germany in the region, exports of goods like tobacco, fruits, dairy products, etc. to other markets became impossible without subsidizing exports in one way or another.

Private Compensations. One of the devices used for helping difficult exports over the national frontier was the so-called private compensation. It has nothing to do with exchange clearings, but is rather a way out of the limitations of the clearing method. Neither is it barter for barter's sake. The actual purpose of the compensation deal is to leave to the exporter the proceeds, in foreign exchange, of his exports of goods, so that he may get a rate higher than the official rate by selling the proceeds to importers. If, for instance, grapes cannot be exported at a convenient price and rubber cannot be imported through the clearing but must be paid for in free currency, the exporter of grapes is exempted from the obligation to surrender to the control the Swiss francs obtained from the sale of his grapes to Switzerland, and authorized to sell the francs to rubber importers *at a price above the official exchange rate*. In certain countries this 'free rate' was nominally regulated by addition of officially controlled premiums to the Central bank's rate, but this control was not, and could not be, enforced in practice.

In other words, the private compensation method was based on an officially tolerated black market for foreign exchanges. By the end of 1937, considerable amounts of business were being done by means of private compensations, with most unfortunate consequences for the price levels of imported goods.

State Monopolies. Exports were subsidized in many other ways. Grain monopolies, run by the Governments of several South-Eastern European countries, aimed at securing higher cash income to the peasant population, but also at keeping wheat, cereals and in some cases oil-bearing seeds out of clearing channels, as a source of free currencies needed for the service of Government debts abroad and also for gold purchases by the Central banks.

Bad Effects of Burdensome Controls. The intricate, ever-changing checks and regulations brought about a steadily increasing Government control of trade and interference with almost every kind of economic activity. Large staffs of controlling officials worked hard at canalizing every commercial and financial transaction, every movement of goods and services, through innumerable counters, access to which was not always easy. Bottlenecks occurred at every office. Waiting lists piled up on busy desks. Controllers, inspectors, surveyors were invested with considerable powers, and penalties were set at higher and higher levels. The inevitable effects were an alarming increase of political backdoor influences and other, still worse, forms of bureaucratic corruption.

This is likely to be one of the lasting aftermaths of Government control over trade and exchanges, in South-Eastern Europe at any rate. Delicate as the subject may be, it would be a mistake to underestimate the importance of the issues involved and to avoid calling some of them by their names. In summing up, it may be stated without risk of exaggeration that the ground was thus efficiently prepared for the Germans to secure a firm grip on practically the whole administration and economy of certain countries in South-Eastern Europe. As a matter of actual political and administrative experience, it proved possible to bribe not only individuals in high places, but considerable and politically potent groups of sectional interests. To quote but one instance, the high price levels maintained by German deliberate action over the whole range of agricultural products in South-Eastern Europe have created a powerful and

widely based vested interest in trading with Germany. No Balkan Government or political party could easily face the risks of putting an efficient brake to this trend, which gathered momentum year after year. On the other hand, it could hardly have gathered such momentum without Government control over trade and economic activity in the countries concerned.

It must be stated, however, that these defects are not inherent in the clearing method itself, and can be eliminated by good administration. In a number of soundly administered countries, the method has been and is working without creating such unhealthy practices. At any rate, exchange clearing has performed great services in the most difficult years after the collapse of the older transfer machinery, and as a device for settling commercial claims between different countries it is likely to remain in extensive use in the near future.

Chapter III

LATER DEVELOPMENTS

How did Government measures and policies of control affect production and the distribution of trade in South-Eastern Europe? And what were the wider repercussions on the region's economic life in the period up to the outbreak of war in 1939?

It may be useful to outline the main developments in this field, before trying to examine how the various methods of Government control have been working in the exceptional circumstances brought about by the war.

Changes in Production. It does not seem possible to find out with any degree of accuracy to what precise extent the production of the region's exportable goods has been altered as a result of Government control alone. Prices and other conditions in free-currency markets, progress of industrialization in almost every country in South-Eastern Europe, increased demand for certain goods due to preparations for war, or at least to anticipation of war in many parts of the world—all these, and some other causes, have no doubt played varying parts in the aggregate process of changing trade over the period 1931-39.

There seem to be, however, changes in production more directly amenable to the new methods of managing and controlling trade through Government policy and action. A brief description of some such cases may be attempted in the way of illustration, rather than as an assessment of the absolute or relative extent of the economic changes involved.

Cereals. The increase of cereal production since 1934 would seem to be due to the combined effect of Government subsidies and, from 1936 onwards, also to active building of war-time reserves by Germany. For most of the countries in South-Eastern Europe exports of cereals were the main source of free foreign exchange, and it was a matter of set policy for Governments to encourage these exports. The discrepancy between the low world prices and the 'official' domestic prices paid by Governments in one way or another for keeping their farmers' income at a higher level was no longer a real handicap to exports, but often resulted in heavy losses to the Treasuries. This policy of directing exports of cereals to free-currency markets implied keeping the bulk of these goods outside the clearing with Germany, at least up to 1936, the notable exception being Hungary with its steady and massive grain exports to Germany. Turkey also went on exporting grain to Germany up to 1938.¹

Tobacco. By means of bilateral dealing—both in clearing and private compensation—exports to most of the usual markets were maintained, and even some new outlets could be secured. The total output of Bulgaria, Greece and Turkey rose from a yearly average of 109,700 metric tons for the five years 1930-34 to 197,300 metric tons in 1936 (a peak year), and was about 146,800 tons in 1939.¹

Central Marketing of Tobacco. After the slump in 1932, a new method of Government action was tried in order to dispose of accumulated stocks for which there was no commercial demand. In 1934 the Bulgarian Government made a huge compensation deal with a German group of industries, and sold practically the whole of the stocks in payment for supplies of industrial products to various administrations—mainly to the Army and Railways. In the other tobacco-producing countries also, Governments had to give constant and vigorous support to tobacco exporters,

¹ Detailed figures are given in Appendix 1.

and often to make considerable concessions when negotiating with foreign Governments, in order to induce them to buy Balkan tobacco.

It must, however, be stated that the socially and economically important production of tobacco could hardly have been kept at these high levels without the steady purchases of large quantities by Germany. In 1935, for instance, 39,900 metric tons of Balkan tobacco were imported into the Reich, out of its total imports of 87,300; in 1936, 40,800 tons out of 87,300; in 1937, 43,600 tons out of 90,400 tons of total imports. In 1938 Germany bought from South-Eastern Europe 51,800 tons of tobacco.

It has often been stated that Germany's purchases of tobacco from this region had been one of the most effective instruments used by her for gaining economic preponderance. This is no doubt true; but the weapon could hardly have been used to that extent, over a period of at least fifteen years, if Balkan tobacco were not actually needed in Germany, or, it may be said with more precision, if the German consumers were not made to smoke Balkan tobacco to that extent. This is one of the cases where Germany's political ends coincided with hard economic necessities: she could not pay for overseas imports of tobacco, while it suited her political book to buy Balkan tobacco without actual payment in foreign currency.

Cotton. Cotton growing became important for countries like Turkey, Greece and Bulgaria, in order to keep in operation their spinning and weaving mills, which work mainly for peasant consumption, and also to supply the large requirements of cottage looms to be found in almost every farmer's home.

After 1931, it became impossible to buy American, Egyptian or Indian cotton without paying in free currencies, and there were none to spare. So the Governments in Bulgaria, Turkey and Greece encouraged and 'protected' uneconomical cotton growing, at prices which the holders of unsaleable stocks in the U.S.A. and elsewhere would not have believed possible at the time. And, as a further consequence, the area became a source of cotton fibre and seeds for Germany's war effort, as soon as Germany was able to drain the meagre Balkan outputs into the clearing. Moreover, it was through another new device of Government control that the U.S.S.R. resumed in actual practice trade and industrial relations with Bulgaria. Russian

cotton was imported, spun on Bulgarian mills, part of it retained in Bulgaria in payment for the spinning, and the balance re-exported to Russia, after having kept at work the bulk of labour employed in the cotton industry. The experiment proved fairly successful and was repeated by other Balkan countries.

Oilseeds. The extension of oilseed growing all over South-Eastern Europe under strong and persistent German action is common knowledge by now. From 21,100 tons in 1935, German imports of oilseeds and vegetable oils from South-Eastern Europe rose to 77,100 tons in 1937, and are reported to have reached 95,000 tons in 1941, after the region was cut off from possible alternative outlets.

Here again, Government action was instrumental. For at least twenty years past, most of the Governments in South-Eastern Europe had been trying to induce their farmers to switch over from wheat to other crops, especially to industrial crops. The artificially high prices brought about by the clearing with Germany, steady demand from the Reich and, also, local protective policy made it possible to hasten and extend the switch over.

Fruit and Vegetables. Much the same developments took place with respect to fruits and vegetables. There was practically no demand for these products in the Western European markets, except for Greek and Turkish raisins, almonds and figs. By dint of hard bargaining, and also by numerous concessions on other items, it became possible to squeeze relatively large quantities of grapes, tomatoes, wine and apples into the clearing and quota arrangements with Germany, Switzerland, Poland and Czechoslovakia. This would hardly have been possible without direct Government action linking up closely with the control of trade and foreign exchange.

Free and Controlled Trade. It may be interesting, at this stage, to show some comparative figures in order to plot the general course of changes in trade accompanying (though not entirely due to) the spreading net of Government control over South-Eastern Europe.

In 1934, when clearings, private compensations and quotas had made considerable progress, a small part only of South-

Eastern Europe's foreign trade was conducted with 'non-clearing' countries, namely:

Bulgaria	12.5 %	of imports and	16.4 %	of exports.
Greece	29.5 %	" "	40.5 %	" "
Hungary	15.9 %	" "	19.1 %	" "
Roumania	23.6 %	" "	24.8 %	" "
Turkey	26.8 %	" "	32.4 %	" "
Yugoslavia	25.0 %	" "	16.5 %	" "

The following year, both the import and export percentages dropped still further, but in 1936 and 1937, as a result of more or less open Government action by Great Britain and France as well as in the South-Eastern European countries themselves, the percentage of exports to free currency markets increased, and there were some clear advances on the import side.

1936

Bulgaria	9.4 %	of imports and	23.1 %	of exports.
Greece	38.9 %	" "	38.5 %	" "
Hungary	17.5 %	" "	21.2 %	" "
Roumania	16.4 %	" "	31.1 %	" "
Turkey	23.0 %	" "	27.1 %	" "
Yugoslavia	26.4 %	" "	21.1 %	" "

1937,

Bulgaria	9.5 %	of imports and	23 %	of exports.
Greece	40.5 %	" "	43.2 %	" "
Hungary	17.2 %	" "	23.2 %	" "
Roumania	19.9 %	" "	37.5 %	" "
Turkey	19.6 %	" "	22.2 %	" "
Yugoslavia	24.0 %	" "	21.5 %	" "

In this case the actual reasons for Government action were mainly political. Promises given in Geneva (except by Hungary) in connection with the economic sanctions against Italy were fairly well kept by most of the countries in South-Eastern Europe. At the same time, the growing realization of the political implications of Germany's economic advance over the whole region created uneasiness and alarm in both Western and South-Eastern Europe. Without formal agreements, a parallel policy for increasing trade was entered upon, though in a somewhat hesitating and incoherent way. The results were not, and could not be, of a decisive character.

By the end of 1938, the trend away from Germany and towards free-currency markets seems to have lost some of its

impetus, and the downward movement was resumed: the respective percentages were

Bulgaria	13·3 %	of imports,	12·0 %	of exports.
Greece	29·5 %	„	35·7 %	„
Hungary	14·1 %	„	17·0 %	„
Roumania	17·5 %	„	27·1 %	„
Turkey	19·5 %	„	21·3 %	„
Yugoslavia	23·6 %	„	20·5 %	„

These figures, compiled from the League of Nations *Annual Statistics of World Trade*, give but a rough outline of trends, since they do not include (i) all private compensations, a substantial part of which included exchanges of goods with non-clearing countries also; (ii) the percentages of free currency—sometimes up to 30 %—left at the disposal of South-Eastern European countries by their partners in clearing agreements; (iii) the fluctuations of foreign exchange rates and of the rates of exchange premiums.

The general trend is, however, borne out by facts of practical experience. A relevant illustration is provided by the following statement:

‘Practically the whole of the foreign trade of Turkey is conducted by a system of clearing or similar agreements.

During 1937, out of a total export trade of £T 137·9 millions, 105 millions represented trading with clearing countries, 1·1 millions with compensation countries, 24·3 millions with recognized free-exchange countries, and 4·5 millions with others.

Imports to a value of £T 114·3 millions were divided as follows:

Clearing countries	£T 86·2 millions. ¹
Compensation countries	1·4 „
Free exchange countries	21·9 „
Others	4·8 „

Extension of Controls. The declared primary aim of Government control, after the general economic breakdown in 1931, was to ‘save the national currency’.

This elastic formula has been made to mean various things at different times, even at the same time.

¹ *Report on Economic and Commercial Conditions in Turkey*, published by the Department of Overseas Trade in April 1939, p. 39.

The first efforts were, in fact, directed to reducing the drain on gold and foreign exchange. By limiting and, later on, stopping altogether transfers of non-commercial payments abroad, the volume of outward-bound funds was greatly reduced, but only after considerable depletion of the foreign exchange reserves available to the Central banks, of balances held by private banks and short- and medium-term credits to trade and industry. It has been estimated that in a single year more than 30 milliard Swiss francs of short-term indebtedness were liquidated.¹ The figure applies to the whole of Europe, and it is difficult to assess the share of the countries under review, but the strain put on their banking system was certainly very great and the resulting dislocation of their whole trade and credit system can be described as crippling.

The Volume of Trade. When there was little left over even for transferring the price of imported essential goods and services connected with trade, the foreign exchange controls tried to reduce new imports to the lowest possible level, at the same time doing all they could to encourage exports.

This seems to be an impossible task. The general result was a decline of trade in both directions, which made things even worse. Nevertheless, the impossible goal was ruthlessly pursued further and further, restrictions becoming more and more severe, and their repercussions spreading over wider fields of every country's economic activity. These widening effects brought about the realization of the enhanced power of Government control to alter not only the volume of trade, but its direction and distribution both within and outside a country.

Distribution of Foreign Trade. As it was almost impossible to obtain raw materials through clearing channels, imports of these materials, severely rationed, became the main object of trade with free-currency countries, while manufactured goods were imported more and more through clearings and private compensations from countries controlling their foreign payments. As explained earlier in this chapter, the resultant shifts in the total exchanges of goods with both categories of countries are obscured by the general shrinkage of trade all over Europe, and by roundabout ways of obtaining goods from some free-currency countries through methods of disguised barter (private compensation, triangular barter, etc.), impossible to trace in

¹ *Bank for International Settlements, Second Annual Report, to 31 March 1932.*

the published statistics of foreign trade. The basic feature, however, remains that *raw materials were bought for free currencies, while the clearing method was increasingly used for obtaining manufactured goods.*

On the export side, great efforts were persistently made to increase sales of South-Eastern European goods to free-currency countries, leaving for export to clearing countries goods which were not needed in free-currency markets.

Goods as Means of Payment. This was roughly the general plan of the controlling and directing authorities. In spite of a great display of ingenuity in detail and resourcefulness in 'regulating' devices, the results did not come up to the Governments' expectations. The basic factors at play were not much affected by these policies. The free-currency markets really did not want South-Eastern Europe's exportable surpluses. The continental markets where these surpluses were wanted could not pay for them in foreign currency. No Government policy could alter these material facts in a permanent way, and the inevitable consequences soon became apparent. The bulk of South-Eastern Europe's trade found its way into the clearing system, i.e. *into exchanges of goods against goods.* The lack of means of payment from one country to another was thus overcome by eliminating the use of these means of payment, or, more precisely, *by substituting payment in goods for payments in foreign exchange.*

Bilateral Trade. This substitution could not be made, at the initial stages at least, on a multilateral basis. The 'goods-against-goods' exchanges had to take place between couples of partners only. Those of the South-Eastern countries of Europe producing the same or similar kinds of goods could obviously not sell them to each other, and the clearing arrangements they made with their neighbours in the region did not come to anything like complete fruition. The fundamental requisite remained that, in bilateral trade, perhaps more than in the older ways of trading, the goods must be really wanted by the purchasing partner. This hard necessity blocked the way to multilateral extension of the bartering methods and, in spite of much advertised recent efforts by Berlin, the obstacles have not yet been overcome in a practically important measure.

Support from Agriculture. On a bilateral basis, however, the new devices worked fairly well, and, within a few years, there

was a recovery. The region's turnover in foreign trade gradually increased and, as Germany—the chief purchaser—by skilful handling of the exchange parities through her clearing agreements succeeded in keeping high the local price levels for agricultural goods, the peasant populations of the region had no grounds for complaining about the prices they were getting.

Complaints, however, came from these and from other quarters about the high and rising prices for manufactured and imported goods. By maintaining the Reichsmark at a high level in terms of all South-Eastern European currencies, Germany could not escape the consequence of making her exports to the region more expensive. The so-called 'price scissors' opened wider and wider, but the purely German factor in the process was obscured by the additional costs of private compensation, foreign exchange premiums and, in general, by the inevitable rise in prices for goods imported from free-currency sources in rationed quantities. Once again, Government control proved unable to overcome the latent influence of real costs working beneath the rigid structure of regulations and restrictions.

Support from Industry. Times of relative prosperity came also for local industries in South-Eastern Europe. Ever since industrialization began in that area, the bulk of its industries had lived, and some of them thrived, on Government protection. During the first years after 1931, dwindling consumption, withdrawal of foreign credits and severe deflation pursued by the banking systems at home had dealt hard blows at these industries. Many of them disappeared, others suffered heavy losses.

Foreign exchange restrictions and Government control of trade gradually brought about better times. One of the corollaries of exchange control was (at least in the majority of the countries in South-Eastern Europe) so to scale down the transfer of old debts and repayments on old credits, that industries which had not repaid their foreign obligations were practically left in possession of these foreign credits and used them as part of their own working capital. This was a welcome offset against the necessity to deal on a cash basis inherent in the use of clearing and compensation methods.

The high level of prices for imported goods and the severe restrictions on imports improved the prospects of local industries

still further. Always dependent on protection by tariffs, they found in the new devices of quotas, exchange regulations and clearings fresh prospects of sheltering behind more modern and efficient barriers. And, amongst the defenders and upholders of the new methods of trade, industrialists were perhaps even more instrumental than the representatives of agricultural interests: they had better access to the relevant high quarters directing foreign trade. Their more subtle action was carried out with greater skill and consistency. When Germany's effective power spread over that part of Europe, she had no difficulty in securing collaboration from local industrial quarters. And since the Reich has become the sole dispenser of raw materials, the only alternative to working with and for Germany was to close down.

Improvements to the Clearing Method. The mechanism of exchange clearing as applied in its initial stages was too clumsy and simple to allow adjustment of the whole complex of trade currents in the longer run. Even the addition of quotas and private compensation did not fully achieve the ends Government control had in view. These ends changed, widened and became more diversified as the control devices went on working.

One of the many difficulties to overcome in South-Eastern Europe was the discrepancy between the internal price structure imposed by Germany and the changing but persistently lower price levels prevailing in other free-currency or clearing markets. It was more and more difficult to go on selling at the same time to Germany and also to Great Britain (for free sterling) or Switzerland (70 % on clearing account, 30 % in free currency), or the U.S.A., where interesting prospects for tobacco exports were in the offing.

Premiums. Various methods were devised for adapting exchange and trade control to these divergencies in the foreign markets. It would bring us too far into technical description to analyse the development of these measures and regulations. The more important and successful ones, in the longer run, were exchange premiums, differential exchange rates and contractual prices for supplies over several years.

The primary object of exchange premiums was to bridge the gap between high local prices resulting from the over-valuation of the Reichsmark and the much lower prices prevailing in the other world markets. The over-valuation of the Reichsmark

actually meant a corresponding depreciation of the home currency, and there would have been much less harm if Governments had accepted the fact openly and acted in accordance with this situation.¹ For a number of reasons, however, maintaining a 'stable' national currency, i.e. stable in relation to gold or gold currencies, became a kind of superstition in most of the countries in South-Eastern Europe, a superstition carefully fostered through subtle German influences in high administrative quarters and upon popular psychology.

Prestige grounds very seldom do prevail against hard facts, especially in the long run. One such hard fact was that you could not sell goods for sterling or dollars if you did not pay the right price for sterling or dollars. Since the right price could not be paid openly, the Central banks authorized paying premiums (up to 35 % and even 90 %) above the 'official' rates quoted by them for free currencies.

Differential Rates of Exchange. This, however, did not suit the book of their Governments, who had to make transfers on their foreign debt service. It was therefore decided to pay premiums only on a varying part of the free currencies resulting from exports or coming from other sources. The rest of these free currencies was acquired by the Central banks at the official rates, and sold to their national Treasuries practically at the same low rates.

By varying both the level of premiums and the percentage of export proceeds entitled to premium, an elastic scale of differential exchange rates was made to suit the particular needs of exports and to render possible imports unobtainable through the clearing channels. Thus, for instance, if the official buying rate for dollars was 100 units of local currency, the Central banks issued authorizations to acquire dollars at 130 for certain imports. As all exporters stood under the obligation to offer to the Central bank *all* the proceeds of their exports, the Central banks purchased 10 or 20 or 30 % of these proceeds at the official rate of 100, allowing the balance of 90 or 80 or 70 % to be sold at 120 or 130, or more. This practice was continued until Berlin was able to put an end to it. In 1941 the level of premiums was brought into line so as to represent a uniform premium of about 20 % on the rates for the Reichsmark.

¹ Austria did so, eventually, and the economic results achieved before the Anschluss were an indication of a possible better way out of South-Eastern Europe's difficulties.

Long-term Prices. It took Germany a long time, however, to remove from South-Eastern Europe the influence of world prices. For many years this influence had been a serious inconvenience to the German economic controls bent on keeping prices at a stable level, as a prerequisite for the success of their whole planning.

Germany was not interested to the same degree in the price movements for every export article in the region, although it was one of the general objectives of her policy to keep the *whole structure of domestic prices* at a high level so as to prevent South-Eastern Europe from selling to other markets goods needed by Germany.

For these goods she was keen on getting prices stabilized over a period of years. The experiments made with the conclusion of contracts for growing and supplying soya beans are common knowledge. Relatively stable prices were secured by more flexible methods in the case of tobacco. Being the chief purchaser of Balkan tobaccos, the German cigarette manufacturing concerns had a powerful weapon to hand, although the way of using it was often influenced by Government foreign policy more than by considerations of business expediency. At any rate, in the case of several important transactions in tobacco, prices were fixed for two or more successive crops at a time.

Such longer-term agreements on prices were made possible by the use of central marketing methods, years before the outbreak of the present war. Soya beans, tobacco, and other Balkan goods were purchased by one agency acting on behalf of all or many consuming industries and efficiently backed by the Reich's Government.

This method often compelled the exporting countries either to negotiate the transactions through their Government's channels or to use for the purpose of negotiation and execution of the contracts collective bodies such as co-operative societies or associations of exporters.

Export and Import Offices. On the eve of the second world war, there were in most of the countries of South-Eastern Europe Government semi-commercial export organizations (Export Institutes) on the one hand, and importing agencies run under the auspices of the foreign exchange controls, on the other hand. This double grouping of the most important inward and outward currents of foreign trade brought centralized marketing

several steps further. The somewhat bulky and, from the business point of view, slow and expensive apparatus seems to be performing useful work since trade routes were cut by the progress of the war and supply of raw materials and most manufactured goods from abroad became practically impossible through the usual channels of private trade.

This brings us to a consideration of some more recent developments, closely connected with the circumstances of the present war.

Chapter IV

SOME MONETARY ASPECTS—FINANCING OF TRADE AND OF GOVERNMENT CONTRACTS

Do Clearings affect Monetary Policy? At the annual meeting of the Reichsbank in March 1942 its President Walter Funk stated that the clearing system was a 'method of payment and not a matter of monetary policy'.¹

This may be true so far as purposes and intentions go, and only if the clearing mechanism works smoothly, i.e. if claims and counterclaims are set off against each other without long delays resulting in accumulation of uncleared balances at either end.

In point of actual practice, such quick and smooth working is only possible if, all the year round, exports and imports at both ends follow upon each other in quick succession and their values are, on the whole, balancing over short periods. A position of this kind is probably an ideal one, hardly possible in the commercial exchanges between industrial and agricultural countries, the latter being notoriously subject to important seasonal variations. And such variations can only be adjusted by means of appropriate measures of credit policy and, eventually, of monetary policy. At this point the Reichsminister's contention leaves the solid ground of actual facts.

Seasonal and Permanent Discrepancies. Although seasonal discrepancies of this kind were the rule rather than the exception

¹ *Donau Broadcasting System*, 17 March 1942.

for South-Eastern Europe's foreign trade, there were also causes of a more constant nature which contributed to the accumulation of unwieldy balances on clearing account. After 1936, Germany's policy of increasing her purchases in the area became more energetic and insistent. At the same time she was less and less able to supply her clearing partners with the goods they needed, mainly raw materials and consumption goods, but also certain kinds of capital goods for the equipment of industry, railways, etc.

Exporters to the clearing countries could not wait to collect the proceeds of their exports until there was, in the exporting country, enough money paid into the clearing account by *importers*. According to the basic principles of the clearing methods, exporters had to be paid with the funds collected by the Central bank from importers through the same clearing. If there was a chronic lagging behind on the import side, exporters had to wait, unless some means could be devised for providing funds from other sources.

Measures for Paying Exporters' Claims. Various measures were tried to this end. Some Central banks purchased the exporters' claims outright, and paid to the exporters the equivalent in local currency. In other cases advances were arranged through the banking system. Sometimes exporters were allowed to sell their claims direct to prospective importers, even at a discount. On final account, however, *most of these measures amounted to increasing the volume of currency and credit in the exporting country* beyond the levels at which currency and credit volumes would have remained if the proceeds from exports could be used without undue delay. In point of fact, such repercussions on the internal monetary position are not inherent in the clearing method itself, the primary object of which is to set off imports against exports in the quickest possible succession. The unwelcome monetary expansion only sets in when the time-lag between exports and imports is long and recurrent, so that the Central banks have eventually to purchase exporters' claims not with funds paid in by importers, but with fresh money.

A less avoidable corollary of clearings is the necessity for traders to deal in cash to a much greater extent than under free exchanges. The smoother a clearing agreement runs, the quicker and more often will importers be called upon to pay cash into the clearing account of their Central bank. It is no doubt

possible to import or export on three or even six months' credit, but, as a fact of actual experience, the bulk of trade done through clearing channels is being carried on a cash basis. At any rate, the portion of commercial credit granted by the domestic system is much larger than it was before clearing agreements were made. It can hardly be denied that foreign trade bills, acceptances and bankers' credits from abroad have almost vanished under the various clearing agreements, while book credits by foreign exporters have become rather exceptional features requiring special arrangements and notification to the clearing authorities at both ends.

Special Circumstances in South-Eastern Europe. This may need some further explanation, from the special South-Eastern European angle, because these secondary effects of Government control, and more especially of the exchange control, are not apparent to the same extent in other countries (e.g. Switzerland, the Netherlands, even Germany herself) where similar if not stricter controls were in use.

One of the reasons seems to be that prolonged accumulations of credit balances in Berlin were not allowed by the Western European countries to become a permanent factor, or were dealt with in technically more efficient ways. In most cases, the demand for goods obtainable through clearing channels was more elastic than in countries producing mainly primary goods. The fact also that South-Eastern Europe was more dependent on Germany as principal outlet for the region's exports goes a long way to explain its greater readiness to submit to the Reich's policies and exigencies. The rapid increase of trade with free-currency countries in 1936 and 1937 referred to in the preceding chapter seems however to bear out the conclusion that, by that time, there was in South-Eastern Europe a marked inclination to dispense with the clearing method wherever possible.

Failure of Attempts at Trading with Free-currency Markets. This inclination did not prove a practical policy. The reasons are well-known, but one of them—probably the most potent one—bears repetition and stressing. There was no demand, no real commercial demand for the bulk of South-Eastern Europe's exportable surpluses outside the markets with which the clearing method was the only way of trading.

Whatever the reasons and however unwelcome the repercussions, for South-Eastern Europe there was no practical

alternative to controlled and managed trade. And the effects of this policy spread farther and farther afield, under the constant and cumulative action of the causes outlined above. It soon became obvious that even credit and monetary expansion were not enough for dealing with situations arising out of the working of the various controls and restrictions.

End of Foreign Credits. Government controls had undoubtedly brought solutions, however temporary and imperfect, but real solutions for some of the hardest and most pressing problems created by the crisis in 1931. But the very same measures, regulations and restrictions had practically stopped the influx of medium- and long-term capital to South-Eastern Europe. Within the region itself, deposits and savings in *local currency* had considerably increased between 1932 and 1937, and continue to rise as the inflationary spiral gathers momentum. It was easier for the Treasuries to provide resources for ever greater budgets, just as readiness to invest local resources in new industries, in building and other long-term ventures grew from year to year. The issue was how to provide capital goods for the more and more urgent requirements of Governments and private undertakings.

Need for Long-term Credits. The new methods of payment—clearings and compensations—were based on settlement in cash or, at best, at short term. The point arose how to adjust these methods to the requirements of medium- and long-term credits for capital goods. Some hesitant experiments were tried—with varying success—to use the guarantee of Central banks that, if there were not enough funds available on clearing account at the maturity of medium-term bills, payment would be assured either by special exports of goods or in other ways within the power of these banks. Unfortunately these powers were limited in such matters. The prevailing opinion indeed was that these matters were not the business of Central banks.

How the issue would have developed further on can only be guessed, as the imminence of war put an abrupt end to the technical objections and to the scruples of Central banks and financial authorities. Armaments and war supplies had to be secured by any means. And means, or rather expedients, were hastily devised.

Using Export Proceeds for Medium-term Credits. As Germany, and other clearing countries also, became heavy buyers of grain, fats,

skins and other products of South-Eastern Europe, clearing balances were rising. Especially in Germany, they were far ahead of the increased import requirements of the region, requirements which the Reich was not over-anxious to satisfy promptly. Arrangements were made for reserving or earmarking parts of the current and future credit balances for meeting at maturity medium-term Treasury bills issued by several South-Eastern European Governments in payment for military supplies, railway equipment, and, later on, for agricultural machinery. In actual practice, however, things did not work according to plans and schedules. The following few lines may serve as an adequate illustration of these developments.

How the Scheme Failed in Practice. 'As considerable Government purchases in Germany could not be financed by current budgetary means, a medium-term credit, up to seven years, had been arranged. But, since Bulgarian exporters to Germany were paid in cash, the clearing with Germany became unbalanced and the National Bank (of Bulgaria) thus acquired a large holding of Reichsmark. The law of 9 March 1940 authorized the bank to utilize its Reichsmark holding to repurchase the Bulgarian Treasury bills given in payment to German heavy industries. Eventually arrangements were made for the Bank to buy the bills at the moment of issue, so that actually cash was paid to the foreign firms, and the National Bank granted the credit to the Government.'¹

Circulation and Hoarding. The actual snag apparently was that the Central bank must pay *in cash* the equivalent also of exports the proceeds of which were to be earmarked for the settlement of *future* maturities. In such circumstances, there is no justification at all for calling the arrangement a 'credit'. The Central bank pays the amount once to the exporters and then advances to the importer (i.e. to the Government in this case) the same amount by purchasing the corresponding Treasury bills. The clearing account is thus settled, but the monetary implications within the country are really disturbing. It must be borne in mind in this connection that the banking systems in South-Eastern Europe do not function with the flexible precision of the British banking system. Notes once put into circulation are not 'finding their way back into bank deposits' as often as they do here. There is an extensive and spreading epidemic of

¹ *B.I.S. Report for 1940-41*, p. 138.

hoarding bank-notes in South-Eastern Europe.¹ And, since a great deal of purchases and sales of goods take place in villages and far-off places outside the scope of strict rationing and controlled prices, hoarding, in these special circumstances, means not only storing notes away in hiding places, but using them in a kind of clandestine circulation outside the banking system. The ultimate effects can be easily understood.

In summing up, it may be stated that, like so many other plans for extending and co-ordinating the use of Government control and management of trade and payments, the scheme for using the clearing method as a basis, or rather as an instrument for medium-term credits and investment, has been upset by the hard necessities of war. Whether different and better results might have been reached in less abnormal circumstances remains an unanswered question.

Chapter V

RECENT CHANGES AND TRENDS

It may seem that too much space has been given in these pages to the description of clearings, private compensations and their effects. An excuse, if not an obviously valid reason for doing so, could be found in the growing importance of these methods of Government action in relation to the other weapons at the disposal of State authorities.

Effects of Bilateral Trade. This relative importance does not, however, detract from the large part played, in the field of Government action, by other measures of control, such as tariffs, quotas, restrictions on travelling, etc. It is quite probable that, without the additional powers to regulate and direct made available to State authorities through these potent auxiliary

¹ In introducing his Budget for 1942, the Bulgarian Finance Minister explained in Parliament that taxation represented 20-25 % of national income, savings 10 % only, and 'at least 64 % went into consumption and hoarding'. His Hungarian colleague, on a similar occasion, stated on 23 October 1942 (according to *Neue Zürcher Zeitung*, 31 October 1942) that, out of a total note circulation of 2,400 million pengoes, 700-800 million pengoes were hoarded.

measures, the ultimate effects of clearings would have fallen short of many expectations and purposes. At any rate, as long as the basic principle of controlling trade and payments remains bilateral dealing, the efficiency of clearings and compensations as means of regulation is likely to go on gaining ground over the subsidiary methods, especially tariffs. But, since the very basis of this efficiency was and still is bilateral dealing, it was inevitable that the whole system should become more cumbersome as its application was spreading and bringing forth cumulative effects.

Attempts at Multilateral Settlements. In 1935, already, several Governments found that the difficulties in using their credit balances on clearing account outside the bilateral agreements required urgent attention. In their reply to the League of Nations questionnaire on Clearing Agreements, the Greek Government complained of the system's 'lack of elasticity' and advocated 'expansion into plurilateral agreements'. They also stated that they had 'already taken certain steps in this direction by successfully insisting on their recent agreements with Yugoslavia (1 April 1934), Roumania (17 October 1934) and Turkey (10 November 1934) being concluded on a tripartite clearing basis'.¹

The results were disappointing, as plainly stated in the Yugoslav Government's reply to the same questionnaire: 'Unfortunately, it has not proved possible up to the present to recover any part of the Yugoslav claims on Greece through this indirect channel. . . . The difficulty at present in the way is the existence of large Yugoslav claims against the country in relation to which Greece is a creditor (Germany)'.²

The difficulty is still there, to this day. Perhaps a much greater one than in 1935, when there were some other outlets, however limited, for the region's exports. Yet, persistent efforts have been made, comprehensive plans have been drawn up and widely advertised for overcoming this obstacle of physical facts. A number of agreements were signed, elaborate regulations and directions published, but there is still very little to show in the way of really workable achievements. It is still impossible, in actual practice, for South-Eastern Europe to buy Swiss, Swedish, even important Italian goods and to pay by

¹ *League of Nations Enquiry into Clearing Agreements*, Geneva, 1935, p. 144.

² *Ibid.* p. 146.

drawing on its huge balances in Berlin. In spite of particular cases where settlement *through Berlin* was made possible (e.g. the present Clearing Agreement between Roumania and Bulgaria; various other arrangements for settling in the same way trade accounts with countries under German occupation), these facilities have been and are being kept within determined limits. In point of fact, Germany herself seems to be applying a discreet but effective brake on the eagerness of her clearing partners to settle their claims by drawing on Berlin. On a bilateral basis, she can much better prevent huge and simultaneous calls on the clearing balances. She can negotiate, promise, send from time to time some supplies; shortly, stave off a run on the clearing accounts the aggregate balance of which has risen to alarming proportions as a consequence of additional German debts for services and for expenses incurred by her troops spread all over Europe.

Debts for Services. Commenting on this state of things, the *Deutsche Allgemeine Zeitung* wrote, on 2 September 1942: 'It is true that balances on clearing account have accumulated in favour of certain countries as a result of the war; this cannot be avoided. This is a natural consequence of Europe's general adjustment to the war situation. War-time production naturally brings about a reduction in the output of consumers' goods, consequently a drop in German exports. It is however, interesting to note that in most cases of German *debit* balances on clearing account, exchanges of actual goods are in equilibrium. . . . The passive balances in these cases are *only due to other countries for labour* or other services. . . .'

Imports before Exports. In point of fact, a glance at the latest data on exchanges of goods between Germany and South-Eastern Europe will show that the countries of that region are not among the 'most cases' where 'exchanges of actual goods are in equilibrium'. It has become almost a platitude by now to state that all Europe is in sore need of goods and that 'supplies come before money'. This position was plainly described by the Bank of International Settlements early in 1941: 'In the approach to the problems of foreign trade a great change has occurred: while up to the end of August 1939 the aim of the commercial policy was to achieve a "favourable trade balance", the attitude thereafter may be indicated by the formula: "imports precede exports". Instead of import restrictions of

various kinds, *export* quotas and *export* prohibitions have been imposed, and the accumulation of free *devisen* is no longer regarded as a major objective.¹

If Reichsmark accumulating on clearing account cannot provide goods, they are no doubt still less of an objective, especially if it is borne in mind that the situation has become considerably worse since that statement was made.

Important Changes in Direction of Controls. The statement, however, is of great importance. It points towards far-reaching changes not only in the direction of Government control of trade, but also in the purposes of Government control. If sober-minded administrations like the Swiss controls see themselves compelled to take severe punitive measures against infractions of export regulations,² this is a sure indication that the change is reaching a significant stage of progress.

As to the countries in South-Eastern Europe, strict and elaborate measures of export control have been taken recently in Hungary, Roumania, Bulgaria, and particularly in Turkey, where, more than in any other part of this region, Government action, by achieving remarkable results in the country's recovery after ten years of wars (1912-22), has become an integral part of its whole economic life. Certain Turkish exports (e.g. chromium, vegetable oils, cotton, wool, etc.), by their strategic importance, place Turkey in a particularly delicate position as a neutral and make necessary much closer and more careful control of exports than elsewhere in South-Eastern Europe.

Political Motives. As prices are steadily rising and stocks of important goods dwindling, the control of foreign trade is being enforced not only for reasons of commercial expediency, but for purposes also of public security and social policy. In this way, the influence of internal political motives on Government intervention in matters of trade is growing. It is likely to become ever more powerful, as time passes. Its further implications may lead to lasting structural changes reaching down to the foundations of national economies in this part of Europe.

Under-nourishment and chronic need for the most essential consumption goods have, for many a year, been a customary state of things affecting millions of people in this region. The

¹ *B.I.S. Report for 1940-41*, p. 69.

² Announcement through the Swiss Home Broadcasting Service, Station Schwarzenburg, 17 November 1942.

usual explanation was low income, widespread poverty, backwardness—as many different names for the same thing. Governments, as a rule, felt unable to provide effective remedies, to evolve consistent and lasting solutions on a national scale.

New Tasks for Controls. Now, under the stress of emergency, when large numbers of men are mobilized and have to be fed and clothed adequately, and when short supplies and even complete lack of essentials affect rich and poor in much the same way, the State has to secure the supplies and to distribute them according to *needs* instead of to *means*. The existence of widespread hoarding, speculation and black markets does not affect much this fundamental change in the situation. To a far greater extent than ever in the recent history of South-Eastern Europe, it has become the task and the responsibility of the State to provide and fairly distribute a great number of supplies. It seems difficult to imagine that, when the present state of emergency recedes, governments could easily revert to half-measures in these matters, taking precarious cover from mass discontent behind the battered walls of budgetary limitations. Disregard of the most elementary budgetary safeguards to the extent to be observed nowadays in Roumania, Bulgaria and elsewhere will probably, most probably, make it very difficult to use them again as excuses, however sound and valid these excuses may be in themselves.

'Dynamic' Government Controls. Thus government controls, primarily devised and carried out as measures of restriction and static balancing, are now increasingly bent on expanding home production, initiating and actively backing fresh ventures, reshaping the distribution of goods and services, driving, stimulating on the one hand, as they restrict and regulate on the other. Forcing up output of cereals and other crops, urging and financing the exploitation of mineral deposits of poor content and difficult access, pushing up industrial production of goods for which there should hardly be many buyers after the war—these are but a few examples of the ever-widening field over which Government action has been spreading in South-Eastern Europe. Since there are fewer and fewer things money can buy, there seems to be less and less hesitation to spend 'dynamically' wherever there is a chance to get something in return.

Budgetary Aspects. The tendency is not entirely new. Industrialization with Government support had started in Turkey,

Bulgaria, Hungary and Roumania long before the present shortage of supplies. Agricultural improvements, schemes for raising the productivity of farming, for increasing the variety of crops, and other plans for Government action in these directions had been prepared long ago, but were held in suspense chiefly for budgetary reasons. Now, these reasons seem to be losing much of their strength, as resources flow into Treasuries as by magic. Direct taxation being, on the whole, at a much lower level in South-Eastern Europe than in the richer and more advanced countries of the continent, there does not seem to be a really strong opposition to this policy of 'dynamic' spending while the going is good and the magic still works.

There can be little doubt as to the ultimate outcome. Instead, however, of attempting once more to draw the dark picture so often drawn, one might be tempted to try and see whether, among the debris of the eventual landslide most of us anticipate, there might not be some part of this lavish 'constructing' left standing, or at least usable for later, more soberly framed work. It is not altogether improbable that, beside factories turning out substitutes of doubtful usefulness or costly goods destined for mass consumption, besides scores of unwanted aerodromes and redundant military buildings, many sorely needed roads will have been made, railways improved, agricultural machinery supplied, and long overdue diversification of crops advanced several steps.

Some Results. It is difficult to see through the artificial fog of propaganda how much of reality there is in reports about undertakings like the construction of a huge power-station on the Danube;¹ or the erection of a net of refrigerating storehouses along the railways of Hungary, Roumania and Bulgaria; or the introduction of new devices for transporting perishable agricultural products;² or the steady expansion of the aluminium,³ cellulose and fibre industries, or the equipment of Roumania's railways and agriculture with an altogether impressive amount of machinery and badly needed implements.⁴ By checking this flood of information through reports from sources not controlled

¹ Radio Vichy, 18 October 1942; Bratislava Broadcasting Station, 23 October 1942.

² *Neue Zuercher Zeitung*, 12 September 1942.

³ *The Mining Journal*, 12 September 1942.

⁴ *Frankfurter Zeitung*, 5 April and 11 May 1942; *Gardista*, 23 November 1941; *Argus*, 25 May and 9 September 1942.

by Germany, one cannot help feeling that there must be some substance behind the smoke-screen.

War-time developments in this field may or may not prove definite assets to the countries concerned. They may or may not justify the enormous resources spent by the various States. It is, however, a somewhat humiliating fact that most, if not all, of these undertakings used to be considered as desirable impossibilities as late as 1939, and that the distressing concourse of circumstances we all know should have brought them nearer the stage of accomplishment. And there can be no doubt that Government controls have, at least indirectly, played a decisive part in making such ventures look like plausible issues, almost as legitimate objectives of Government action. It is becoming more and more a habit to look up to Governments for acting and spending in this way as a matter of course. This is likely to create new political mentalities and also criteria of right or wrong governing hitherto quite unknown in domestic policies in this part of Europe.

Effects on Technique of Controls. 'Imports before Exports' is a policy apparently leading to some major changes in the technical working of Government controls. Since the main object at present is to get supplies and, in the circumstances now prevailing in Europe, there is a surplus (instead of the former scarcity) of means of payment for the goods *obtainable within Europe*, restrictions on the use of these means of payment tend to become pointless, even harmful from the controlling authorities' angle.

Far from trying to keep imports down in order to build up 'favourable balances of trade' (a real nuisance on clearing accounts), Governments in South-Eastern Europe have been taking great pains, especially in the last two years, to keep their *exports* down and bolster up imports from Germany, Italy, Hungary and any other clearing countries capable of supplying goods. And all Europe is on the clearing system nowadays.

Acute shortage of goods has hampered also the working of other Government controls, more especially the control of internal prices. There are quite a number of other causes for the strong upward trend of all prices, but the efforts of every South-Eastern European Government to keep price levels within limits have been jeopardized also by the impossibility of obtaining supplies from abroad at prices corresponding to the limits they

were trying to impose on their home market. In many cases, the persistent discrepancies were so great that the authorities had to bear part of the differences, the more so as Germany insisted on 'stable' prices as one of the foundations of her clearing agreements with South-Eastern Europe.

Subsidizing Imports. So it came about that *import subsidies* made their appearance among the newest measures of Government control of trade in the region.

The position is becoming very embarrassing indeed for the Governments in South-Eastern Europe. While trying hard to keep in some sort of check the strong inflationary factors at play, they have to prevent locally produced goods from leaving the country and, at the same time, to get out of Germany and other clearing partners as many supplies as possible of any goods obtainable. Hard bargaining is going on with home producers, commercial and industrial interests, and with foreign sources of supply, especially Germany. The existence, well known throughout every country in the region, of heavy credit balances in Germany at a time of great scarcity at home of manufactured goods and foreign raw materials has given rise to urgent requests for increasing imports from Germany. Since it is impossible to obtain exactly what is needed, the South-Eastern European Governments have to do all they can to get what is obtainable.

Centralized Imports. Considerations of this kind have no doubt played a large part in bringing forth ambitious plans for agricultural, railway and industrial equipment, based on agreements for large-scale imports from Germany, and to some extent from Italy and Switzerland. Governments have even been urging their various departments, municipalities, co-operatives, and larger commercial concerns to speed up the preparation of their lists of orders for imports. A quite recent example was a special law passed through the Bulgarian parliament for empowering a number of administrations and institutions to incur obligations totalling 12,144 million leva (twice Bulgaria's total expenditure in pre-war budgets).

Wherever private firms cannot succeed in getting goods from abroad, Governments have to step in and try to arrange mass-imports, often connected with development or re-equipment plans drawn up in close co-operation with the German authorities.

In such circumstances, import restrictions and control of

foreign exchange are bound to lose much of their meaning. And this generally leads to far-reaching changes in both outlook and methods when dealing with these matters. However powerful and widespread Government control of trade may have become in the last two years, it certainly does not operate in the same way as before.

Weakening Economic Control. It is a curious thing to observe that while steadily tightening the net of their controls of the movement of goods and of foreign payments, of distribution and consumption within their own countries, the Governments in South-Eastern Europe seem to be losing their command over other important fields of their national economy, such as prices, note circulation, hoarding, and production (especially agricultural production). This may well be an aggregate result of miscalculation, of errors of judgment and failure to appreciate the longer-term incidence of the very measures of control over foreign trade and payments, and distribution. The massive character of the resulting maladjustments seems to point towards yet another aspect of Government action, namely that, in a State-controlled and managed economy, errors and mistakes are bound to have nation-wide repercussions likely to outstrip the cumulative effects of even widespread deficiencies of individual undertakings in a given country. Since errors and mistakes made by Governments take as a rule a much longer time to detect, and cannot always be corrected, their ultimate impact on economically weak countries could make some of these countries permanent invalids, if they were left to stew in their own sovereignty.

Advantages of Closer Contacts between Controlling Administrations. Such gloomy prospects seem, however, to be to a certain extent mitigated by recent developments inherent in the working of Government controls. It has been a matter of practical experience in the use of clearings; for example, that there is a much closer touch between the respective controlling authorities than in cases of countries trading on the basis of treaties of commerce seldom altered substantially before an unbearable situation develops. Daily exchanges of information on payments, frequent consultations between the controls at both ends for adjusting movements of goods and services, even for temporary re-adaptation of certain quotas and other restrictions, all these and other contacts required by the very nature of controls have

gradually brought about more flexible relations, a more business-like approach to problems needing settlement, and a far better knowledge of the changing situation in other countries. It is difficult to imagine that these improvements of the technique of international relations in commercial matters can be dispensed with in the future. And their future evolution may well show the way, over the rigid susceptibilities of national sovereignty, on to joint management at least of technical matters related to exchanges of goods, services and payments.

Chapter VI

THE PRESENT POSITION

A coherent and clear-cut outline of the present position of Government control of trade is hardly a possible venture, not only on account of the extremely unreliable character of the information allowed by Governments to appear in publications or spread through the wireless, but also because of the rapidly changing circumstances under the relentless prompting of military and political events. A static picture of such a situation would be of little practical use, even if it were possible to draw it with any amount of accuracy.

All we might reasonably attempt to do at this stage would be to take a few bearings in the hope that, in this way, the general course of trends and changes could be plotted for further reference.

If we tried, for instance, to see what is happening to the various instruments of control, some inferences as to the policies followed and results obtained might become possible.

Customs Tariffs. Customs tariffs, although still formally applied, seem to have lost much of their economic effectiveness. Supplies to Governments are generally imported free of duty. So are most of the raw materials brought from abroad for feeding the production of local industries. On the other hand, large quantities of foodstuffs and other materials (petrol, fuel, timber, cement, etc.) are purchased and used by the German military authorities in every country of South-Eastern Europe, and consequently do not constitute German imports from the

customs point of view. All these factors tend to narrow the field over which tariffs are applied and to restrict the volume of goods on which customs duties are levied.

Revenue from this source is likely to be seriously affected as a result, although the steadily rising general price level may offer certain off-setting prospects in the case of *ad valorem* duties. Most of the Government budgets in the region are, however, so much out of gear with 'normal' methods of securing receipts, that the diminution of even important revenue items like customs duties does not appear to be among the most obsessing worries of the authorities.

Much more embarrassing are the difficulties of obtaining supplies from abroad, even at stiff prices. No tariff policy can help in such circumstances. The insufficiency of tariffs as a weapon of Government management of foreign trade became apparent in the early thirties. At present, this weapon is hardly being used for purposes of controlling and directing trade. Moreover, collecting import duties at one counter while paying import subsidies through another does not seem to make much sense, in the long run. What further developments may take place in this connection is not easy to foresee. It may, however, be stated that, as things stand at present, customs duties are losing ground as one of the main sources of budgetary receipts, and that as an instrument of control over foreign trade they have ceased to be in actual use.

Quotas. In spite of their much greater effectiveness as a weapon for reducing imports and protecting home production, quotas have fared no better than tariffs, on the whole. The fact that export quotas had to be introduced in very many cases is sufficient evidence that, here also, the course of events has proved stronger than schemes and devices. Imports no longer need restriction nor do idle looms and benches require much protection against non-existent competition from abroad. Unlike customs tariffs, however, quotas are still very much in use as a technique for regulating trade—on the export side; and are still a handy tool for negotiating concessions and obtaining supplies from reluctant partners.

Government Purchases. As a widening range of locally produced goods is withheld from the officially controlled home markets, the authorities are facing great difficulties in trying to fulfil certain export commitments. In many cases they have to

purchase themselves the goods produced at home and to make them available for export, in order to get urgently needed foreign supplies in exchange. As a consequence of their various controlling and directing functions in both home production and exports Governments are getting more and more involved in direct trading, either through already existing monopoly organizations such as the various grain offices in the Balkans, or through newly created agencies—export offices, associations of exporters, co-operatives, etc. Recent reports on the wool trade in Turkey are one of the numerous examples to be found in press and wireless items of information. 'Since the Turkish Government has taken over the country's wool industry and acts as sole purchaser and merchandiser, private firms formerly engaged in the trade have discontinued operations. No private trade was done in the domestic wool market during August. Transactions were consummated by the State owned or controlled mills the representatives of which were spot buying direct from producers.'¹

Government Sales and Distribution. Supplies obtained in exchange for such 'centralized' exports are either materials for the needs of the armed forces or staple goods urgently required by great numbers of the population. In both cases, the distribution of such imported supplies has to be made through Government channels or under strict Government control, at prices which are not real commercial prices. What is actually controlled, in these cases, is no longer trade proper, but distribution.

Distribution in this sense of the term seems to be steadily gaining ground on trade, a circumstance which, in the long run, cannot fail to create new habits and also a new mentality amongst the vast numbers of consumers.

Exchange Control. Like so many other things, the term 'foreign exchange' is undergoing significant changes in scope and meaning. Possessing credit balances, whether on clearing account of in 'free' currencies, does no longer entitle their European owner to obtain the goods or services he needs and can pay for. In point of actual practice, foreign means of payment are no longer a medium of exchange; by themselves Swiss francs, or dollars, or Reichsmark would buy no goods or services unless the authorities in the exporting countries allowed the export, allocated the necessary quotas and priorities, and

¹ *Foreign Commerce Weekly*, New York, 7 November 1942.

issued the licences required. It would hardly be an exaggeration to say that, in such circumstances, it is not the foreign means of payment which actually procure the goods. On last account, it is Government action which makes it possible to obtain delivery.

As a consequence, Central banks are less keen on building and keeping credit balances in foreign exchange. The demand for foreign exchange for trade purposes is becoming less and less important, and less worth elaborate restrictions. The main exertions of the foreign exchange controls are now directed towards reducing the accumulation of credit balances in currencies which cannot procure supplies. There is, of course, a strong under-current of distrust in the fate of the Reichsmark and the local currencies, with the naturally resulting steady demand for black-market dollars, Swiss francs and sterling for hoarding purposes. The commercial demand, however, is increasingly concentrating on ways and means of getting permits, quotas and allocations rather than on foreign exchange proper.

'Favourable' balances of trade or of payments are no longer considered as desirable achievements. In many cases they are sources of great embarrassment and worry. Items under the heading 'foreign exchange' have grown to unprecedented sizes in the balance sheets of certain Central banks in South-Eastern Europe. Yet neither these banks nor their Governments nor, for that matter, the trading communities in the region feel any happier for that.

To sum up, exchange control does not seem to have proved an adequate method of dealing with the present difficulties. It is apparently losing much of its prestige as a patent remedy, even as a specific preventive treatment. But the controlling action of the foreign exchange authorities, their apparatus and technique are still extensively used for getting such supplies as can be secured. This even seems to be the only practical way to come by some supplies in this part of Europe.

Price Controls. Government action in the field of price control has been a signal and lasting failure in South-Eastern Europe. Too much reliance on decrees and regulations published in the Official Gazettes but inadequately followed up by good administration and efficient handling by the top-heavy and overlapping controls may be one of the reasons. Another, and apparently a much stronger one, is the chronic state of fear and apprehension in which the populations of the region have been

living, almost without respite, since the economic breakdown in 1930: apprehension regarding the future of material goods or savings; fear of the threatening clash of great armed Powers and its consequences and implications for South-Eastern Europe. The psychological background for currency depreciation and for inflationary developments was not only in being, but at work for many years before fears and apprehensions materialized in such drastic ways as bombed cities, military occupation and direct involvement in active warfare. When, as an inevitable accompaniment of total mobilization and war, supplies became scarce, minds were already prepared for overbidding, illicit trade, flight into 'real values', hoarding of commodities; and the task of regulating prices became nearly impossible to perform in any consistent and enduring way.

Control of prices had begun long before the outbreak of this war. For purposes of both domestic and foreign policy, prices of cereals and other nationally and politically important commodities were being regulated and managed by means of monopolies and through other devices mentioned earlier in this chapter. When the price issue came to a head, controls were tightened, considerably increased and made to work in the opposite direction—*downwards*. Reversals of this kind seldom achieve their purpose, especially if for certain classes of goods the old, *upward* manipulation of prices is kept in operation. And this precisely was the case in South-Eastern Europe until late in 1941: wheat prices, for instance, were propped up by the Government monopolies or their subsidiary organs, while severe penalties were decreed, and sometimes applied to purchasers or sellers of other goods at illegal prices, i.e. at prices above the official limits. The results so far have been worse than disappointing. While scarcity prevails everywhere to the extent that even rationed distribution cannot always be assured, important quantities of goods are being kept away from the officially controlled channels of trade for sale through the black market, or are hoarded and consumed by their holders in addition to their rations distributed under Government control.

There is no point in trying to convey even a rough idea of the movement of prices by examining statistics of costs of living or indices for wholesale or retail prices. It is common knowledge that these statistics and index numbers are based on officially fixed prices, which are not real prices.

A third, very potent factor has been the injection of great

amounts of currency into the narrow framework of disheartened and nervous home markets. Government expenditure on armaments, on preparations for war, mobilization and actual warfare was perhaps the main cause, but it came on top of older developments such as the purchase by Central banks of large export proceeds on clearing account and the artificially high level of prices enforced and maintained by Germany everywhere in the region. As more and more money was issued and put into circulation while the supply of goods rapidly decreased, the inflation spread and quickened its pace. South-Eastern Europe is in the midst of this process at the time of writing these pages.

Control of Credits. Government control of credit comes within our scope in so far only as it concerns credits to trade and industry. Here again, there seems to be contradiction of purpose in the actual working of State intervention and management. On the one hand, efforts are being made to discourage credit expansion in order to prevent further price increases, to cut down production of goods not essential for the war effort, and to attract savings into investment in loans to the Government. On the other hand, whole crops and increased quantities of locally produced goods have to be purchased, stored and marketed by various State organizations for distribution to consumers at home and for delivery to Germany. As Central banks cannot undertake to any large extent this kind of financing, the necessary credits are arranged through the State-controlled banks and the commercial banking system. It is not always easy to assess the share of this kind of loan, discount or overdraft in the totals of banking assets as they are published, but it seems probable that such contraction of commercial credits as may have taken place as a result of restricted trade and industrial activity has hitherto been largely upset by heavy financing of Government transactions through the commercial banks. With these reservations in mind, one could hardly read in the figures given on p. 54 more than a very rough outline of the trend rather than the actual shape and structure of commercial credits in South-Eastern Europe at the end of 1942.

Non-Government Loans, Advances and Discounts

In million units of national currency, at end of year.
A, by Central banks; B, by commercial banks.

				1938	1939	1940	1941	1942 (March)
Bulgaria	Leva	A		4,829	6,043	8,021	10,357	9,555
		B ¹		3,216	3,490	3,847	—	—
Greece	Drachmae	A		2,880	3,894	4,009	2,436	—
		B		15,781	15,227	18,100	—	—
Hungary	Pengoos	A		526	628	762	1,380	1,420
		B ²		3,444	3,729	—	—	—
Roumania	Lei	A		14,865	25,042	30,311	38,028	37,786
		B ²		13,144	13,939	12,895	15,153	—
Turkey	£T	A		105.5	224.5	268.8	306.4	346.5
		B ¹		302.9	289.6	309.3	—	—
Yugoslavia	Dinars	A		1,771	2,223	1,787	2,240	—
		B		5,123	4,976	4,958	—	—

¹ Including small amounts of investments in Government securities (less than 5 % of totals shown).

² Investments and securities have been excluded altogether.

Source: League of Nations, *Money and Banking*, 1940-42.

This attempt at outlining the present state of the main Government controls of trade is clearly incomplete and rather sketchy: A more coherent and accurate picture would require considerably more space and more abundant information of a better quality. To try and fill in gaps or to round off sharp edges in the design by means of logical inferences and generalization seems to involve taking certain risks for which there would be little justification. At least, not in this first part of the survey, which is intended to be a description rather than an interpretation of happenings and developments.

PART II

Chapter VII

POSSIBLE USES OF PAST EXPERIENCE— DISTRIBUTION OF SUPPLIES

The developments described in Part I apply to an area of about 620,000 square miles with nearly 75 million inhabitants. The whole of its foreign trade—\$700 million worth of imports and \$870 millions of exports in 1937—has been under Government control ever since 1932. In the last three years, and at present, control and management by the State cover practically every field of the area's economic life.

Whether Government control and management of trade is a good or a bad thing in itself, and whether this was the best possible way to deal with South-Eastern Europe's economic troubles are questions beyond the scope of this brief survey. It seems, however, fairly certain that, in many important respects, solutions have been provided, results obtained, and that the continuous use of these methods of trading has left deep and lasting imprints on the shape and structure of commercial exchanges, production, distribution and economic policy.

Controls Likely to Stay. It is therefore difficult to imagine that the control machinery at work and the habits and outlooks which have resulted after twenty years of application could be discarded or easily superseded by very different devices, methods and ideas. On the other hand, many practical lessons and a great amount of hard-won experience can no doubt be put to good use and may possibly help to bring about workable solutions, at least during a period of transition and readjustment.

If we tried to examine the principal methods of Government control, as far as we know them, in connection with the probable requirements of the countries in South-Eastern Europe after the war, this might help us to form a judgment as to the suitability of these methods for further and possibly better use. *Distribution of supplies; Payments; Transfers*—these seem to be some of the important fields in which a testing examination of this kind might be interesting and profitable.

Distribution of Supplies. Clearings and exchange controls have, on the whole, enabled the countries in South-Eastern Europe to obtain most of the foreign goods they needed, and to pay for them by exporting their own products. The widespread economic dislocation brought about by the present war should not lead us to underestimate the great importance of these plain results. While acknowledging fully the grave political and economic consequences of excessive exports to Germany in the pre-war years, we ought to be aware also of the fact that, for a number of years, the area as a whole has been a *creditor* on commercial account, and that one of the most serious effects of the crisis, namely the chronic shortage of foreign means of payment even for essential imports, has for all practical purposes been overcome during a period spreading from 1934 to 1941. At the same time, of course, it must not be overlooked that the problem of providing foreign exchange for the payment of foreign financial claims, held mainly in free exchange countries, obstinately resisted solution and that since the crisis in 1931 all the countries in South-Eastern Europe have been in default to a greater or less degree on the service of their foreign debts.

Issuing elaborate regulations and enforcing ruthless restrictions could hardly have achieved such results, if the very working of the relevant controls had not brought into life permanent (instead of occasional) contacts, exchanges of views and information between controlling authorities in the various countries. In the course of all these years—and hard years they were—movements of goods, services and payments were the constant object of active attention, technical handling, continuous negotiations and adjustments. The controlling authorities came to know each other well and to maintain with each other businesslike relations which often developed a spirit of understanding for the other partner's position, and also an appreciation of the need for a 'give-and-take' attitude of mind as a basis for workable arrangements and successful trade policies. Negotiating even important alterations to the exchanges of goods and services between countries which have been in such relations is nowadays a much quicker, more efficiently conducted and more flexible procedure than the former methods of treaties of commerce and readjustment through more or less diplomatic channels.

Rationing of Supplies. What the practical application of quotas and exchange controls amounted to on the eve of this war was

something very similar to the working of rationing methods. The controlling authorities had to secure supplies according to the possibilities available and to their own means of payment by way of exports. Within their own countries, they had to distribute the supplies thus obtained according to plans drawn up with the active assistance of home traders, industrialists and co-operative organizations. In this field also, the controlling authorities learned useful lessons and often found simple and efficient ways of studying positions and making decisions. Authorities and the trades usually knew what was the demand for and supply of nearly all import and export goods, what outlets there were in sight for the year's production, how payment accounts stood, and what margins there were for expansion or regroupment of commercial exchanges within the framework of the clearing systems spread all over Europe.

This apparatus and the experience gained in using it in individual countries and between different countries can certainly perform valuable services during the period of transition after the war. Requirements could be assessed and co-ordinated regionally without great technical difficulties. The meagre supplies likely to be available and the scarce transport facilities could be distributed with great precision and practical efficiency. Schedules for time-delivery, orders for gradual re-equipment would require less time to draw up and to put into actual application than at any previous period during the last forty years.

Need for Simplification. No doubt, the present machinery at work in the individual countries is largely redundant and very often overlapping. It will have to be reduced to much simpler patterns. Some of the tasks for which it has been primarily designed or made to work are already being overtaken by new developments, e.g. a large part of the 'protecting' functions of customs, the intricate restrictions on dealings in foreign exchange, some of the fiscal refinements connected with import and export duties, etc. The hosts of control staffs available will certainly allow a careful selection with a view to honesty, efficiency and experience.

Regional Organization. Reorganization in this way, undertaken within every one of the individual States, would be a partial measure only. Like the rest of Europe, the region we are trying to survey will be in urgent need of almost every kind of essential

supplies. It is of the utmost importance that distribution and management of the available supplies should proceed as rapidly and smoothly as possible. This requires simplifying and re-organizing on a *regional* plane. If local authorities acting under half a dozen sovereign regimes are once again to be allowed to indulge in autonomous protecting or restricting exertions without regard to other countries' interests and needs, the chief sufferers will again be the individual small States. It would seem therefore that a sounder policy might be to secure the individual States' agreement to joint action and management in this field while the need for supplies is urgent and likely to override considerations of national or nationalist prestige. If the relief-giving Powers insisted on organizing and carrying out relief through a Regional Office, run jointly by the South-Eastern European countries themselves, it might do much to bring these countries into the way of tackling their common problems by co-operative action and to prevent them from subsequently reverting to their former separatist policies. The machinery required is largely in existence now, as well as the state of mind and the habits which would make its operation acceptable.

Regional Office of Distribution. As has been mentioned more than once here, Government controls in South-Eastern Europe have acquired the habit of working in steady contact and exchange of views with their opposite numbers not only in Berlin, but also in Zurich, Rome, Budapest, Brussels and in the capitals of their own neighbours. It does not seem a very great innovation to set up, at a central place within the region, a permanent office where technicians experienced in the matter should manage and adjust the distribution of supplies over the region. In addition to goods sent from abroad for relief purposes, there will be available for distribution some commodities produced in South-Eastern Europe. In other words, parallel with relief work, the Regional Office of Distribution would soon have to handle actual *trade exchanges* within the region. Later, commercial exchanges with countries outside the region would also have to be attended to. For all these tasks the practical experience gained during the last ten years in handling, negotiating and adjusting quotas and other devices of control and management will be of value. There can be little doubt,

indeed, that a regional office of this kind is technically possible as a continuation of the controls existing at present. And if its setting up and proper working are made a prerequisite for relief and rehabilitation by the Great Powers, it can become a reality.

Some Requirements. In order to give a very rough outline of the quantities of goods likely to be involved in this kind of rationed distribution immediately after the war, a few tentative figures may be quoted as examples rather than estimates. Including such supplies as may be still in existence within the region, but excluding any replenishment of reserve stocks by factories and public administrations, it seems likely that about 45,000 tons of raw cotton, 6,000 tons of wool, 8,000 tons of rubber, 30,000 tons of hides, 50,000 tons of wood pulp, 200,000 tons of iron and steel, 6,000 tons of coal, 15,000 tons of copper, 1,000,000 tons of petrol will have to be secured and distributed by the Regional Office of Distribution, *apart from relief supplies proper*, like wheat, fats, foodstuffs, ready-made clothing and footwear, pharmaceuticals, etc. Since locally made manufactured goods will probably not be available for some time in large quantities, the Office may have to secure and distribute, during the first year of its activity, *excluding again relief supplies proper*, about 40,000 tons of cotton yarns, 23,000 tons of cotton fabrics, 9,000 tons of woollen yarns, 4,000 tons of woollen fabrics, 45,000 tons of other textiles, 250,000 tons of chemicals and dyestuffs, 30,000 tons of metal manufactures, 225,000 tons of urgently needed engineering goods, 20,000 motor vehicles, 210,000 tons of paper manufactures and at least 300,000 tons of miscellaneous manufactures.

These tentative figures, based on the publications of the League of Nations, the official annual statistics of the countries in South-Eastern Europe, and completed through a number of other sources, press reports and research work, include no provision for certain capital goods (heavy machinery, industrial and transport re-equipment and heavy agricultural implements), but account has been taken, as far as possible, of the increased use of locally produced raw materials and some substitutes which did not appear in the trade statistics for the year 1937 taken as a starting-point. It must also be added that some of the commodities concerned, e.g. grain, petrol, and to a certain extent copper, aluminium and perhaps wood-pulp, might be

available within the region but will have to be secured and distributed through the Regional Office, because the countries needing them could not pay for them in any other way.

All through this chapter the term *distribution* rather than *trade* is used in connection with the movements of goods and services during the early post-war period. Actual exchanges of goods and services can be resumed only when almost complete lack or acute scarcity in certain areas has been overcome through organized distribution of supplies available elsewhere. We are mainly concerned in this chapter with the possible use to be made of Government controls for dealing with the difficulties during the first period of transition. Actual trade may emerge from that period so different in shape and function from all we know and think of as trade, that hardly any real purpose can be served by pursuing conjectural efforts beyond the stage of post-war distribution as a prelude to resumption of trade.

Chapter VIII

PAYMENTS IN GOODS AND SERVICES

Permits—a New Factor in Payments. To anyone acquainted with recent and present economic developments in South-Eastern Europe it would seem rather odd to speak of payments in the sense in which we have been accustomed to use the term even under the various regimes of clearings, compensations and quotas. Purchasers of goods nowadays have to provide not only the price in money but also Government permits, licences or other documents entitling them to get their lawful ration, be it of goods for their own consumption or of supplies for their commercial or industrial needs. In many cases, they can get essential goods from Government agencies only. *In order to obtain goods, money plus Government permits are required.* These permits are properly speaking *instruments of distribution*, but for all practical purposes they have become *a component factor in the process of payment*. In spite of widely operating black markets, the bulk of both home-produced and imported goods change hands through this composite process.

Annoying and burdensome as this complication of everybody's daily life may be, it might well contain the elements of a possible device for slowing down the inflationary movement in currency and prices.

Expanding Note Circulation. The latest figures available on the circulation of bank-notes show clearly that the less goods there are to purchase the more money there is to spend on purchasing them, as lending to their Governments does not seem to have become a widespread contribution by individuals to their countries' war effort, and as productive investment is practically non-existent owing to the lack of producers' goods for other than military purposes.

Note Circulation and Savings, 1938-42

In million units of national currency.

N, note circulation; S, savings and deposits.

			1939	1940	Latest data	
			31 Dec.	31 Dec.		
Bulgaria	Leva	N	4,245	6,518	16,448	Sept. 1942
		S	15,685	17,291	24,398	June 1942
Greece	Drachmae	N	9,454	15,369	85,200 ¹	May 1942
		S ²	—	—	—	—
Hungary	Pengoos	N	975	1,387	2,470	Sept. 1942
		S	1,847	2,096	2,622	June 1942
Roumania	Lei	N	48,800	64,349	100,477	Aug. 1942
		S	18,590	18,897	31,288	May 1942
Turkey	£T	N	281	403	628	Sept. 1942
		S	262	274	395	May 1942
Yugoslavia	Dinars	N	9,698	13,834	13,834	Dec. 1940
		S	6,739	6,745	6,745	Dec. 1940

¹ Approx. figure.

² Not available.

Source: League of Nations, (1) *Monthly Bulletin of Statistics*; (2) *Money and Banking*, 1940-42.

Information on the volume and composition of Government indebtedness in the last two years is scarce, but what is known of it leaves little doubt about the extremely modest share of direct lending by the general public in the war-time indebtedness of the Governments in South-Eastern Europe. In Bulgaria, Hungary, Roumania and Turkey the Central and commercial banks, insurance companies, savings organizations, co-operative and agricultural banks seem to be carrying the main burden. The growing disproportion between sight deposits and non-

Government assets of the banking system¹ is another pointer to the general trend of events.

In such circumstances it may be assumed without much risk of being contradicted by further developments that scarce supplies of goods will have to be distributed to communities holding large supplies of currency (or sight-claims to currency). In order to forestall what usually happens in similar cases, either the supply of goods has to be considerably and quickly increased, or the heavy supply of currency has to be kept off the goods market (or distribution). The first of these two things is clearly impossible, but the second could be achieved to a certain extent if the distribution of goods during the emergency or transition period after the war could be based on ration coupons along the whole line, i.e. including supplies to industry of raw materials, semi-finished goods and other auxiliary products. If a repetition of what happened after the first world war is to be avoided, continued and extended rationed distribution seems to be one of the possible preventive remedies worth trying. It can be made to work as a *reduction-gear* between the plethora of currency on the one side and the scarcity of goods and services available for distribution on the other. For this purpose the time factor will also have to be brought into play. In general outline, the possible working of the *reduction-gear* may be described in the following way.

Reduction-gear between Purchasing Power and Supplies. The bulk of supplies needed should be made available to the South-Eastern European Governments for primary distribution through the Regional Office. Whether the price of such supplies of goods and services be debited to the Governments' accounts on Lease-and-Lend principles or in the form of long-term credits does not matter much at the first stage. The important point is that the Governments of the six countries in South-Eastern Europe should receive their rations of goods and services against *debit on account* with and through the Regional Office of Distribution, i.e. *without cash payment* of the rations' equivalent in any currency. The individual Governments should distribute the supplies, thus obtained, by way of further rationing to the various consumers in their own countries *against cash payment* at regulated prices. It is obvious that in this way it will become possible to withdraw currency from circulation and to reduce the excessive

¹ See table, p. 54.

volume of domestic means of payment in every one of the six countries. The Governments will *sell for cash and buy on long term* the bulk of the essential supplies they will be distributing.

The reduction-gear could probably be used also on a regional basis and might help to get into motion a machinery of exchange of goods and services within the region. To use as examples Roumania and Greece, petrol could be made available to the Regional Office against book credit to Roumania, and Greece could be supplied with grain by the Office against book debit to Greece and book credits to the supplying countries. Against her deliveries of petrol Roumania would receive rations in other raw materials or manufactures made available to the Regional Office from sources within or outside the region. Greece's debit on regional account would be partially offset through her credits for shipping services to countries within and outside the region, and for sales of fruit, olive oil, tobacco, magnesite, etc. to all countries. On final account, however, Greece is likely to be a debtor to the Regional Office. So would most of the other countries in South-Eastern Europe, with the possible exception of Roumania. The region as a whole will in all probability be a debtor to the outside world for a number of years to come. This state of things cannot be easily altered by regional devices alone, but its effects could be considerably attenuated by supplies to the region of goods and services on long-term credit, and by distribution within the individual countries in South-Eastern Europe against ration coupons plus cash. If the Regional Office receives from the U.S.A. and Great Britain, say, \$100 million worth of goods for rationed distribution, the total individual rations of the six countries may be, for example, in million dollars:

Bulgaria	10	Hungary	14	Turkey	18
Greece	20	Roumania	18	Yugoslavia	20

and their accounts with the Regional Office of Distribution will then be debited with the respective amounts in dollars. Roughly the equivalent of these respective amounts in local means of payment could be withdrawn from circulation by the individual monetary authorities as the domestic distribution of these supplies proceeds.

After a certain time—probably after the next harvesting season—Bulgaria, Hungary and Roumania would have some surpluses of agricultural products to export. Roumania would

be able and probably anxious to export petrol also, Yugoslavia—minerals, Greece, Turkey and Bulgaria—tobacco, some cotton, oilseeds, wool and minerals. It would be the Regional Office's business to draw up plans for rationing these exports by a quota machinery constantly adjusted to the changing circumstances within and outside the region. Part of the surpluses would be distributed to the member States, the balance exported outside the region. The equivalent of such exports—whether to members or outsiders—would appear on the credit side of the individual countries' accounts, but new debits would also be booked as members receive supplies and settle their price through the Regional Office. On a longer view it would probably become apparent that exchanges of goods within the region were but a small part of the individual countries' foreign trade,¹ and that South-Eastern Europe is in permanent debt to the outside world for goods and services supplied. This state of things is likely to continue for a considerable time beyond the period of relief proper, as there will be a heavy and enduring demand for producers' goods, agricultural machinery, railway equipment, etc., in addition to requirements of consumers' goods and raw materials.

Repayment. It seems obvious that methods of relief could not be applied to these long-term developments. Some kind of machinery will have to be devised and put into operation for making it possible to transfer such payments as the countries in South-Eastern Europe would gradually become able to offer for their imports. An attempt will be made in the next chapter at examining more closely the possibilities of setting up a transfer scheme for these purposes.

¹ In 1938 the ratio of trade with other South-Eastern European States to total foreign trade of the individual countries was:

Bulgaria	8.2 %	of imports,	2.8 %	of exports.
Greece	16.2 %	„	6.9 %	„
Hungary	17.9 %	„	9.1 %	„
Roumania	7.0 %	„	15.3 %	„
Turkey	2.9 %	„	5.3 %	„
Yugoslavia	7.5 %	„	8.3 %	„

Compiled from League of Nations *International Trade Statistics*.

Chapter IX

TRANSFERS

It does not seem unreasonable to assume that by combined Government and regional action payments could be arranged for goods and services distributed by rationing among the countries of the region and within every member country. Such *internal* payments are unlikely to encounter great difficulties, since there is ample supply of local currencies probably distributed on a much more widespread social basis than before the war.

On the other hand, the working of the book-entry method of primary settlement between different members of the Regional Office of Distribution would obviously depend on whether, and to what extent, the region could be supplied with goods and services *in a way not requiring immediate payment* by the individual countries to the Regional Office and from the Regional Office to the outside world. This is a different proposition, less closely related to hard facts and to situations in real existence at present.

Meaning of Transfers. We are, once again, facing the old problem of *transfers*. It seems very important to be quite clear on this particular issue, even at the risk of becoming platitudinous. Should settlements through book entry prove a practical possibility, mere bilateral setting off credits against debits would not bring us very far. Bilateral balancing of accounts cannot solve the transfer problem. For the purposes of international trade and payments, transfers should mean the unhampered use of proceeds from goods and services exported to any foreign country for obtaining goods and services *from that and any other foreign country*. And services, in this connection, should include also the service performed by foreign credits and investment. It may be true that, by means of Government control, exchanges of goods and some services have been largely restored all through Europe between 1932 and 1939. But it must be borne in mind that this has been achieved only after movements of capital across frontiers had been almost completely suspended in the earlier part of that period, and has never been resumed. The difficulties which had to be overcome in order to maintain a semblance of transfer on the Governments' foreign debt service are but another indication of the real state of things.

The real state of things was that the countries of South-Eastern Europe were, as a rule, in a position to provide the funds for capital transfers *in their own currencies, but that there was no demand for these currencies* on the part of the creditor countries. Anybody acquainted with the transactions in foreign exchanges at the principal Western European financial centres—London, Paris, Amsterdam, Zurich, Brussels, also Berlin—even *before the introduction of foreign exchange restrictions* will admit that the demand for the national means of payment of the countries in South-Eastern Europe was practically non-existent. During the years of unbridled speculation in foreign exchanges, it was easy to play havoc on the bourses of Bucharest, Belgrade, Sofia, even Budapest and Istanbul, by selling short a few thousand pounds' worth of these currencies.

Lack of Demand for South-Eastern Europe's Currencies. The lack of demand for lei, leva, dinars, etc. was a clear indication that there was no-demand for the goods and services produced by Roumania, Bulgaria, Yugoslavia, etc. Later on, when clearings, quotas, exchange restrictions or other Government action artificially created larger outlets for South-Eastern European exports, this did not result in an increased demand for the national currencies of the six countries concerned, because most of their exports were being settled through clearing or compensation channels. A German or Swiss importer of Hungarian goods, for instance, needed no pengoes, since he was able—or bound—to pay for these goods in his own currency.

In this way, an almost non-existent demand for South-Eastern Europe's *currencies* was, mainly by Government action, broadened into a steady demand for the region's *goods*. The volume of foreign trade began to grow and soon several of the countries had substantial credit balances abroad. From the transfer point of view, however, the position was less satisfactory. As shown in the tables on pp. 26 and 27, the major part of South-Eastern Europe's foreign trade was conducted on a bilateral basis. Consequently, the greater part of export proceeds could only be used within the foreign country which had purchased the goods. Accounts with clearing partners were in most cases level, the bulk of the region's credit balances on clearing account being concentrated in Germany without any possibility of using them outside the Reich. Credit balances with the few countries trading on a 'free currency' basis were

extensively used for purchasing raw materials unobtainable through the clearings, and also for transferring the reduced public debt services. Sterling was, in the majority of cases, the free currency used for these purposes. *In fact, real transfers were possible outside the clearing systems only.*¹

Transfers after the War. What is the position likely to be at the end of the war? In what way could Government action be usefully applied to making transfers possible? Could such Government action be conducted on a concerted basis, within the region and between the region and the rest of the world?

Once again, even rough estimates in quantities or values would be pointless. All one might try to do with any chance of serving a practical purpose would be to outline certain trends and draw some inferences from past experience, always bearing in mind that important and far-reaching changes have taken place and are most likely to occur in the near future.

Probable Exports. There seems to be some reasonable ground for assuming that, when South-Eastern Europe may be again in a position to export its surpluses, the demand for most of its products will be limited and erratic in the U.S.A. and the British Empire, and that, whatever happens to the political shape of Europe, the main outlets for the region's exports will again be the European markets, possibly some Middle and Near-East countries also. Taking into account recent changes in agricultural production, mining and industry, the main export items will probably be wheat and other cereals, tobacco, oil-bearing crops (or vegetable oils), fresh and preserved vegetables and fruit, eggs, poultry, hides and skins, industrial alcohol, timber (possibly also plywood and wood pulp), cotton and linters, some wool, medicinal herbs (likely to become an important item), dairy products, petrol, chromium, bauxite, copper, magnesite, some lead and manganese and other minerals, and very few manufactured goods (chiefly from Hungary). If, at a later stage, as a result of regionally planned industries, processed agricultural goods gradually replace the raw products, there may be less cereals, fresh vegetables and fruit, more preserved food, leather, some chemicals, possibly some textiles available for export. An eventual improvement in the region's

¹ An exception must be made for the percentages (up to 30 % of the export proceeds) certain clearing countries, e.g. Switzerland, left at the free disposal of their South-Eastern European partners for payments elsewhere.

standards of living—especially in nutrition—may result in a decrease of foodstuff exports. Taking all these factors at their best (from the point of view of South-Eastern Europe), and having regard to transport costs, marketing conditions and habits of consumers, it seems fairly probable that petrol, some of the minerals, part of the tobacco and oil-bearing crops, possibly a small part of the high quality fruit and vegetable products, limited quantities of eggs and poultry could find outlets in the British, American (tobacco), Scandinavian, Swiss, Egyptian and Palestinian markets. The bulk of the exportable surpluses, however, will have to be sold to Germany, Central Europe, Italy, Belgium, Holland and Spain. On the other hand, as supplies from the overseas agricultural producers will again become available to all these countries, the heavy German demand for South-Eastern Europe's products will certainly decrease, and exports to Holland, Belgium and the Scandinavian countries will become much more difficult.

General Transfer position after the War. The general position may be summed up thus:

(1) Left to their own resources and possibilities the countries of South-Eastern Europe will have to sell the bulk of their export surpluses to Germany, Central Europe, Italy, the Scandinavian countries, Switzerland and Spain.

(2) Unless transfer difficulties are overcome with respect to the above-mentioned European markets, i.e. unless the proceeds of exports to these markets can be used for payment for goods and services *in all other countries*, there is no prospect in sight for breaking the shackles of bilateral trading.

(3) Bilateral trading means for South-Eastern Europe importing its requirements in manufactured goods mainly from Germany, Italy, Central Europe and Switzerland, and using its necessarily scanty resources of transferable foreign means of payment for purchasing limited supplies of raw materials and manufactured goods which Germany, Italy, Central Europe and Switzerland cannot provide.

(4) There will be little left over for repaying, even on long term, such credits in goods, services and capital as might be granted to the region after the war. As to the pre-war Government and private indebtedness, its repayment will be more problematic than it was in 1938.

(5) A new factor in the general situation may be Russia, if

her own needs (and they will be enormous) allow her to export to the region some of the raw materials and industrial goods she produces, e.g. cotton, chemicals, iron and steel, rubber, etc. This factor is not likely to come into play at an early date after the end of the war, but it must be taken into serious consideration.

Russia's geographic position and centralized management of foreign trade provide her with powerful means of action over practically the whole of South-Eastern Europe. Absorbing a large part of the region's exportable surpluses should cause little embarrassment to the Soviet trading organization, the quantities and values involved being but a small fraction of Russia's own production and prospective consumption. And there would hardly be any difficulty for a Russia relieved from the nightmare of possible aggression to pay for South-Eastern Europe's exports by supplies of machinery (especially agricultural machinery), chemicals, petrol, certain textiles, cotton, metals and very probably rubber.

(6) Relief action by the U.S.A. and Great Britain without hope of repayment would no doubt bring vitally important help to South-Eastern Europe. It might even be followed up by concerted schemes for economic rehabilitation, improvement of the transport systems, industrialization, general raising of the standards of living, etc. It must be clearly realized that all these measures, even successfully put into operation, are unlikely to provide South-Eastern Europe with *transferable* means for repayment of the investments involved. Even if these investments are free gifts, the region will be still unable to secure on a commercial basis its increased requirements of raw materials and of manufactured goods for current consumption. It is obvious that, even if vast sums are invested in South-Eastern Europe without expectation of return on repayment, a time will come when sales must take the place of presents.

From whatever angle we may consider the position, there appears on the horizon the old well-known obstacle of transfers. A way over that difficulty must be found before really useful and constructive work becomes a practical possibility. It should be clear from the preceding pages that this can only be done through Government action, at any rate so far as South-Eastern Europe is concerned. By concerted and prolonged action by the Governments in every individual country, operating through the Regional Office of Distribution or its special section for

Transfers and Payments. In order to avoid further complication of the pattern, we shall continue to refer to the Regional Office of Distribution as a unique administrative institution.

In a necessarily schematic way, such concerted action aiming at the resumption of transfers might be outlined in its rough and general features as follows.

Regional Quotas. The Regional Office will have to prepare, by close and active co-operation of all its members, yearly plans for the region's foreign trade, to be operated by quarterly quotas subject to readjustment by common agreement. Within the framework of these regional and national quotas, the authorities controlling trade and foreign exchange in every individual country will conduct and manage their imports and exports, much as they do now and have been doing for more than ten years. Bulk purchases of raw materials and some manufactured products may prove expedient at the early stages on a national and a regional basis. Concerted regional marketing of certain exports may equally be advisable. An important point to keep in view is that the Regional Office should be in a position to arrange by negotiation with the outside world the *volume and the rhythm* of regional exports and imports and, within the regional framework, the trade exchanges of the individual countries in the region, in accordance with every member's and the region's real resources, possibilities and policy.

Such joint management of the region's foreign trade does not mean arranging through the Regional Office a series of bilateral agreements or barter contracts. It means *co-ordinating* the member States' commercial exchanges, making them fit into a flexible common plan in which quotas should serve to indicate general lines of distributing and adjusting movements of goods and services, much more than to impose rigid balancing limits between pairs of countries. It may be useful to bear in mind also that such joint management is likely to be more concerned with imports than with exports. There would hardly be much need for regulating exports as long as the proceeds from exports could be freely collected and used for imports. But free disposal of the proceeds is essential. Otherwise, there can be no multilateral trade, no real international transfers.

Quotas for Borrowing and Investment. Negotiating and adjusting quotas for borrowing on medium term and for investment, based on schedules for repayment through the Regional Office, will

have to be included in the work of the Office as an integral part of that work. Agreement on all these matters should be made between the Office acting as agents for its members' Governments, on the one side, and foreign Governments, public authorities or private concerns, as the case may be, on the other side. It will be important that agreements and transactions with foreign private concerns should be clearly brought into accordance with their own Government's controlling or managing organizations, or otherwise made to fit into the region's agreements with these foreign Governments.

Within the framework of such accords between members or between the Regional Office and the outside world, actual foreign trade transactions in every member country will be carried out by private, public or mixed concerns, as the case may be, but no payment will be allowed by their Exchange Controls in any other way than through the Regional Office. As we shall see later on in this chapter, this means that exports to any country within or outside the region will have to be made so as to secure adequate transferability of the proceeds. It is obvious that the whole machinery could be put out of gear and could not even start working properly, if important outside countries were unable or unwilling to restore transfers. But this fundamental question will have to be settled in any case, before resumption of other than bilateral trade becomes a practical proposition. South-Eastern Europe can provide no solution by its own devices or resources. But a better co-ordination of South-Eastern Europe's trade and payments through joint Government action on these or, it is to be hoped, better lines might be a real contribution to any possible settlement.

Liaison with Outside Countries. It may well happen that owing to the seasonal ebb and flow of export trade characteristic for this predominantly agricultural region, export surpluses cannot be made available so as to coincide with payments for the region's urgent imports. In order to bridge temporary gaps of this kind, it will be necessary to arrange that the Regional Office's acceptances or bonds, guaranteed jointly by its members, should be easily turned into *free currency* through discounting or purchase by the financial markets in Western Europe or America. Facilities of this nature would be better arranged, and made to work more smoothly, if the Regional Office could establish and maintain with Great Britain, the U.S.A. and other great

markets the same permanent, workaday contacts and close co-operation as with the representatives of its members working at the Office. It would seem that competent technical liaison officers from London, New York, Paris, etc. ought to be included in the Regional Office's permanent organization. Strong objection on the ground of national sovereignty or regional prestige must be reckoned with, but it would hardly be possible to induce investors, traders or Governments to part with their own or their people's goods and resources without receiving immediate payment and without being really in a position to know in what way these resources are being used. After the disappointing experiences of the past, there is little trust in loans to foreign Governments and in the working value of agreements which are not being kept alive by steady contacts and joint action by the interested parties. A new basis—both economic and psychological—will have to be found for restoring the circuit of goods, services and capital moving from one country to another. It is only natural to expect that the obstacles to overcome will also be both economic and psychological.

Assistance to Member States. There will, however, be some difficulties of more real substance within the region itself. Without quoting names, it seems fairly certain that one or more of the South-Eastern European countries may be quasi-permanent debtors on trade account either to other members of the Regional Office or to the outside world, or both. If country 'A', by the very structure of its national economy, cannot export enough goods and services to countries 'B' and 'C' within the region, or to Britain and the U.S.A., to pay for vital imports and raw materials and consumption goods, it could hardly be expected that the other members of the original Office could carry 'A' on their shoulders for any considerable length of time. What could be done in this quite probable case?

What would have happened to 'A' in the bad old times before 1939? Or even in the better older times before 1930? Currency troubles, misery, political unrest, defaulting on foreign obligations, a fresh injection in the shape of a foreign loan giving 'A' some respite, and so on. If a repetition of these tribulations is to be spared 'A' (and her creditors), some sort of *concerted action* will be necessary in order to put 'A' on

her feet and help her on towards recovery. This can be achieved within the regional apparatus rather than by isolated efforts at improvising a rescue procedure. Economically weak countries are tempting and easy prey to political scheming by powerful mischief-makers. It is far better for the rest of the region to keep their unhappy colleague within the fold of the Regional Office, even at some cost. And it certainly would be a good and 'realistic' policy for the Great Powers having interests in or near South-Eastern Europe to make the cost a lighter one, again by joint concerted action with the Regional Office. Prospects of such action might well become a strong inducement to the South-Eastern European countries to work together for making the regional scheme a reality, or to be loyal to it if it is set up and put into operation as a prerequisite for post-war relief and rehabilitation action by the Great Powers.

Central Banks' part in Regional Office. The methods and working of foreign exchange controls could be considerably simplified and made less burdensome if distribution, imports and exports, and settlement of claims for goods and services, were to be carried out through the Regional Office of Distribution.

Experience since the introduction of exchange controls in South-Eastern Europe seems to show that these controlling functions are best performed by the Central banks. By entrusting the Customs authorities with the work of checking the volume of imports and exports, issuing licences, etc., the task of the Central banks would become easier to manage without excessive clerical, committee and supervisory work. If the practice of delegating to a few commercial banks part of the routine transactions can be maintained and extended, the whole machinery may function more smoothly. It is undoubtedly easier and more efficient to keep a steady check on the transactions of a few banks than to deal with the bulk of individual demands, offers and complaints of all trading firms through the single counter of the Central bank.

Among the technicians forming the permanent staff of the Regional Office, representatives of the Central banks will probably be the busiest and perhaps the most important members. The really vital part of exchange controls for the region will probably have to be carried out at the Regional Office, where the aggregate balances will have to be settled and a general framework designed for the volume and move-

ment of transfers between the six member countries and the rest of the world. The members' national exchange controls will be operating on the patterns set up at the centre and their business will be to see to it that the general plans are applied in accordance with the particular circumstances in every member country.

Exchange Control and Imports. Without too much technical detail, the working of a regional exchange control with regard to exports from member countries to other countries within or outside the region could be outlined briefly in this way:

(1) All payments for goods and services imported into member countries will be made through the Regional Office.

(2) A debt due from an importer in member country 'A' to an exporter in member country 'B' will be settled by payment by the importer in his national currency to his country's Central bank which will request the Regional Office to make the payment by the debit of its account. The Regional Office will debit the Central bank of member country 'A' and credit the Central bank of member state 'B' which will pay the exporter in its national currency.

(3) The entries in the books of the Regional Office will be expressed in a 'free currency' (e.g. £, \$, Swiss franc, etc.), but they will be book entries only and no actual transfer of currency will take place with every transaction.

(4) Importers in member States will settle their debts to exporters in outside countries in the same way, i.e. by payment in local currency. The importing country's Central bank will then request the Regional Office to make the transfer by debiting its account. The Regional Office will debit the account of the Central bank in member country 'A' and credit the Central bank of the outside country in free \$, £, Swiss francs, etc., as the case may be. Balances between the Regional Office and Central banks of non-member countries could be cleared by actual transfer of £, \$, Swiss francs, etc. at agreed intervals, e.g. every three or six months.

(5) Rates of exchange between the members' national currencies and the free currencies in which settlements will be made at the Regional Office will be fixed by common agreement between the Office and the members' Central banks.

(6) Overdraft facilities will have to be arranged for members temporarily short of free currency. Should members' debit

balances prove persistently deficient, joint action for assistance would have to be taken, as explained earlier.

(7) Gold and foreign exchange reserves of member countries would be brought into the Regional Office and credited to the respective banks' accounts.

Non-Commercial Payments. This, however, does not include all payments which will have to be made abroad. Whatever happens to the mass of Government and private debts owing before the Regional Office is put into operation, there can be little doubt that payments on some of these debts will have to be resumed one day, in proportions and under conditions which cannot be foreseen at present. Moreover, fresh indebtedness will come into existence as soon as transfers can be resumed. This cannot be avoided. The most rigid clearing systems had eventually to yield ground on this point and to make some provisions for transfer of capital and interest on debts, whether these debts were the exact and direct counterpart of exchanges of goods and trade services or not. What is to be avoided, in spite of probable pressure from many sides, is the *unchecked* movement of huge liquid balances from one country to another, the reappearance on the international scene of 'hot money' in quest of more profitable employment or in flight from real or imaginary dangers. Costly experience has shown that the temperature of money is liable to sudden and violent changes and that parts of what had been usually taken for honest savings and genuine investment more than once became red-hot within the space of a few days. Money seems to be an uncomfortably good conductor of heat.

Exchange Control and Hot Money. A reasonably practical method to cope with dangers of this kind would be to arrange between the Regional Office and Central banks within and outside the region monthly or quarterly schedules for financial transfers, i.e. for settling claims not covered by shipping documents or other equivalent title to goods and services, but supported by adequate evidence accepted by the members' Central banks and the Regional Office. The extent to which financial transfers from the six member countries to the outside world will be possible will ultimately depend on the goods and services purchased by the outside world from the region in addition to the amount necessary to pay for exports to the region. Greater elasticity in the working of the regional transfer ap-

paratus could be achieved if, instead of insisting on immediate balancing, item for item, of financial transfers against concrete purchases of goods and services, the parties to such settlements agreed to include financial transfers in their general programmes for exchanges and payments arranged by way of negotiation and adjustable through the Regional Office. It might prove easier to find means of plurilateral settlement on a regional basis than by direct bilateral balancing of claims between individual debtors and creditors.

Exchange Control and Exports. For making any multilateral transfer system work in the long run, it will be necessary that exports, like imports, be contracted in a freely transferable currency for which there is a wide and constant international demand. In this way only can balances available on the various national accounts with the Regional Office be used for multilateral settlement of claims within and outside the region.

How then would exporters cash their claims on the importing country? -Once again, there would be little to add to the technique now in use under the existing systems of clearing and exchange control. The exporters would sell their claims to their Central bank and receive payment in their national currency at the rate of exchange agreed upon at the Regional Office. Whether the Central bank purchases the claims outright or pays the exporters after receiving advice of actual clearance of the export documents is of no material importance at this stage of our description. At any rate, Central banks will have to see to it that traders and the general public be no longer burdened with unending filling of forms, tiresome checks and waste of time so common nowadays in South-Eastern Europe. This might be easier to achieve with a greatly simplified transfer machinery as a result of the regional method of settlements we are trying to outline.

To sum up this rather schematic outline, all imports of goods and services into South-Eastern Europe, though expressed in free currency (e.g. £, \$, Swiss francs, etc.), would be paid for by importers in their own national currency. All exports from South-Eastern Europe, although stipulated in freely transferable foreign currency, would be paid for in the exporters' own national currency. At the Regional Office, after the claims had been collected, the proceeds would be *debited* to the *importing* Central bank's account and *credited* to the account of the

exporting Central bank, all credits and debits being made in *free currency*. Since the resulting balances at the Regional Office would be in *interchangeable free currencies*, settlement of accounts between the six countries in South-Eastern Europe and between each of them and outside countries would be possible through *transfer* from one account to another. It is clear that, in order to make such settlement practical, outside countries would have to use the Regional Office for their transfers to and from South-Eastern Europe exactly in the same way as the six members would use it.

A most expedient method of securing smooth transfers and avoiding unwelcome fluctuations in exchange rates would be to adopt a single accounting unit in which all accounts should be kept within the framework of a common transfer mechanism. All balances between countries using that mechanism could be expressed and settled in terms of the single accountancy unit. The currencies of member countries would have to be kept in determined though adjustable relations to the unit which, however, ought not to be put into circulation in any particular country, since it would be a means of settling international balances, not a means of direct payment, still less a carrier of fluid capital from one financial market to another. As far as South-Eastern Europe is concerned, by linking its currencies with such an accounting unit it might prepare the way to a single regional currency.

Difficulties and Expedients. The scheme we have tried to describe above raises obvious difficulties. It is clear, for instance, that even close and smooth co-operation of the six member countries would not ensure the practical success of their common clearing centre if other countries trading with the region are not ready to accept these arrangements or to make use of them. Such a readiness might not be forthcoming for a variety of reasons. Some commercially important countries might prefer to deal direct with individual South-Eastern European countries rather than with a regional organization. Even quite apart from considerations of this kind, countries outside the region might not feel able to accept the risk of being required to pay in free currency for what they bought from the region without being absolutely certain that they could always obtain free currency for their exports to the region. Yet, if a single important country refused to collaborate, the whole scheme would

become unworkable as a transfer medium between South-Eastern Europe and the outside world.

Should these and other possible difficulties prove insuperable, there would be little point in discussing multilateral trade and transfers in that part of the continent. It might well be that multilateral trade and really international transfers could not be resumed for many years to come and that a number of expedients and temporary solutions should be tried in the meantime.

Agreements with other Groupings. It is certainly not 'unrealistic' to hope that, when this war is over, there will be a sterling area covering perhaps a wider economic field and organized more closely in matters of supplies and exchanges of goods and services.

The Regional Office could enter into special long-term agreements with the sterling area for settling transfers, adjusting trade exchanges and following concerted policies.

Two important circumstances seem to point towards possible success in this direction.

(1) For long years past South-Eastern Europe has been purchasing the bulk of its imported staple goods through the London market and paying for them in sterling. Though in a decreasing measure, capital goods and essential manufactured products were also bought and paid for in sterling. As already stated, sterling became the most widely used and sought after 'free currency' when exchange restrictions and clearings came to stay in 1931 and the following years.

(2) South-Eastern Europe's requirements which the sterling area might be unable to supply from its own sources would amount to a relatively small part of the sterling area's foreign trade as a whole. The heaviest items—cotton, wool, rubber, hides, copper, tin, newsprint, etc.—could to a great extent be provided from sources within the British Empire. As to manufactured goods, there would hardly be any serious difficulty in meeting the requirements of South-Eastern Europe out of the industrial production of the British Empire.

The real difficulty for the sterling area will not be to supply South-Eastern Europe, but to find outlets for the goods which would pay for these supplies. This is likely to prove mainly a question of extensive and well-organized marketing within and outside the framework of the sterling area: War-time experience like the work done by British organizations in the Middle East

and elsewhere seems to show that marketing, when put to such uses, covers an extensive field of activities and contains possibilities hitherto unsuspected. Given wider scope and free from the excessive risks and limitations imposed by the war, organizations of this kind may provide trade and industry with a powerful and much needed apparatus of public services and facilities which will help both the sterling area and the region trading with it towards finding solutions impossible to reach otherwise. A general agreement with South-Eastern Europe through the Regional Office is likely to be more successful in this connection than separate arrangements between members of the sterling area and individual countries in South-Eastern Europe. The result, in the first stage, will be that exchanges of goods and services between the countries grouped at both ends will converge into a powerful and varied current of bilateral trade, all accounts being ultimately settled between London and the Regional Office.

If a general resumption of free transfers proves impossible on a world-wide basis, relapse into bilateral dealing seems inevitable. In such a case, it would be a considerable step forward to have bilateral agreements between parties grouping together the greatest possible number of countries. On the other hand, should further regional groupings like a Middle-East Centre be willing to make similar arrangements, or should Russia, the Americas and others show any inclination that way, there would be, at this second stage, a certain scope for successfully operating a transfer machinery between all these parties in a plurilateral way.

Regional management is likely to require readjustment also of the other instruments of Government control now in use—*customs tariffs and price controls*. Some at least of the various ways in which such readjustments might be made to work in the future seem to be worth more than casual mention. We therefore propose to devote the next chapter to this side of the subject.

Chapter X

REGIONAL CO-ORDINATION OF TARIFFS AND PRICE CONTROLS

Customs Tariffs. The steadily decreasing importance of customs tariffs in the machinery of Government controls of trade may well be a temporary war-time feature of South-Eastern Europe's economic life. Customs receipts have always been one of the major items of budgetary revenue in all these countries, and an abandonment of this source is hardly to be expected unless fundamental changes in the structure of Government finances prove necessary and feasible.

However, a closer examination of the exchanges of goods between the South-Eastern European countries and with the rest of the world will show that the share of intra-regional trade in the total foreign trade of most of these countries is strikingly modest. As outlined in the table on p. 64 (footnote), imports from the region into Bulgaria, Roumania, Turkey and Yugoslavia were under 10 % of their total imports in 1938. Greece's and Hungary's imports from the region were 16.2 and 17.9 % respectively of their total imports. In terms of customs revenue, the share of receipts from intra-regional imports is probably a still smaller one in relation to customs revenue from all imports.

One of the major import items in this connection is Roumanian petrol, more or less heavily taxed in all the other countries. Another is Greece's import of cereals, foodstuffs and cattle, which, however, is not likely to be subject to heavy customs duties. On the other hand, export duties have hardly been a really important source of budgetary receipts for any of the six countries.

With regard to the great and obvious advantages of a smooth and simplified distribution of supplies combined with a concerted marketing policy, both carried out through the Regional Office, it seems that a far-reaching co-ordination of the customs regimes on a regional basis ought to become a practical possibility. If the present high import duties on petrol are replaced by correspondingly modified excise duties, there will be little budgetary loss to the individual countries in the case of a wholesale reduction of customs tariffs on intra-regional

trade to nominal proportions. As to the 'protective' functions of customs, centrally adjusted distribution through quotas and rationing could easily serve similar purposes in a better way. Should the operation of the Regional Office, as described in the preceding chapter, prove possible, the maintenance of customs tariffs between the six South-Eastern European States would be neither a real financial necessity nor a very useful weapon of protection to home production. The function of customs would then be mainly to check the volume of imports and exports in the individual countries and to help carrying into actual practice the distribution of supplies made by the Regional Office. Considering the matter from the regional angle alone, there does not seem to be any insurmountable obstacle to abolishing tariffs altogether, so far as the exchange of goods between the six countries is concerned.

Simplification of Customs. From the technical point of view, the whole system of export and import licences, permits and other formalities could be considerably simplified, if the controlling activities of customs authorities were merged into a single administration with those of the foreign exchange controls, import and export institutes and other official or semi-official bodies set up in the different countries in recent years for supervising, directing or influencing the course of trade and distribution of supplies. There seems to be ample scope for simplification in this field, and a successful reshaping of the present intricate controls would in many cases mean real benefit to producers, traders and consumers, as well as substantial saving of public money.

Control of Prices. The main reason given by all Governments in South-Eastern Europe for introducing foreign exchange controls was 'safeguarding the value of the national currency'. In this officially proclaimed purpose they failed unmistakably. If by 'value of the national currency' the Governments in question meant their currencies' purchasing power both within and outside their countries, Germany's foreign trade and clearing policy has dealt decisive blows at their expectations long before the outbreak of this war, by gradually forcing all South-Eastern Europe to over-value the Reichsmark out of proportion to its actual purchasing power. The increasing scarcity of supplies due to the preparation for war and, later on, to developments of the military situation all over the world, quickened the pace of

depreciation, in spite of the increasingly strict application of exchange controls.

Exchange Control Restricts but cannot Increase Supplies. The lesson to be drawn is so clear that it may be expected to remain engraved in everybody's memory. Exchange controls can restrict the movement of goods, services and funds between different countries. They *cannot increase* the supply of goods, services and funds to a country if the foreign producers or holders of goods, services and funds are not willing or able to export them to that country. One of the consequences is that, under a regime of exchange restrictions like those practised in South-Eastern Europe, prices for imported goods are bound to move upwards owing to insufficient and costly supplies of foreign raw materials and manufactures, while prices for the home-produced goods must be kept down in order to foster their export and thus to provide means of payment for imports. This makes it necessary to put into operation some sort of price control. Several methods have been tried, but none has proved a definite success, so far. Even Germany, with all her powerful means of action on the Governments in this region, does not seem to have achieved any practical results. As recently as November 1942, in extracts from Dr Wilhelm Grotkopp's new book *Freedom from Gold*, published in the *Deutsche Volkswirtschaft*, one can read the following statement: 'Within this European currency community all countries must endeavour to maintain the stability of the external as well as the internal value of money. But since 1940 any endeavours of this sort have been made considerably more difficult by the price policy and price fluctuations in other countries... they have risen by 60 % in Hungary between the outbreak of war and the end of 1941, by 66 % in Bulgaria and by 145 % in Roumania... And to these increases one must add the increases on the black market which have assumed dangerous proportions in some countries such as Belgium, France and Greece...'

Failure of Price Controls. At any rate, Germany has tried, very hard and on several occasions since 1940, to bring price movements in South-Eastern Europe into some sort of relationship with German prices which, as all the world has been told so often, are 'still at the old level'. As far as the home level of prices in the six countries is concerned, the effects of these German efforts are clearly negative: everywhere price levels are

now considerably higher than the percentages given by Dr Grotkopp. But in their trade exchanges with Germany, several of the countries in the region, more especially Bulgaria, Hungary and Roumania, had to undertake to deliver certain exports at 'stabilized' prices agreed upon for certain periods ahead. In order to make this possible, these countries' Governments had to shoulder the burden of the difference between 'German prices' and the actual prices at which they are paying their producers and exporters. On the import side also Governments are trying to keep prices steadier and at lower levels by paying varying parts of the prices for imports out of what is being rather mildly called 'equalization funds'.

As stated earlier, price control has hitherto failed to achieve its ends in South-Eastern Europe. Methods used so far seem to have been nearer to police and fraud-fighting practices than to economic action, and could hardly be of much avail to the administrations likely to develop if regional solutions were to be tried later on. Some kind of concerted as well as individual Government action will, however, be necessary, in order to bring local rates of exchange into a steadier relation with any joint policy aiming at the resumption of trade and at gradual expansion of production, employment and incomes in South-Eastern Europe. Police methods would not do in the long run. Neither would 'equalization funds' or other forms of subsidy by Government resources achieve much more than electoral or similar results belonging to the field of local politics. It seems that an energetic policy of providing and distributing supplies pursued through the Regional Office and accompanied by coherent monetary and credit policies both in the individual countries and the region as a whole might be the real instruments to be used with any chance of success.

Though the bearing of monetary and credit policy on management of trade cannot be denied, the Governments in South-Eastern Europe do not appear to have made up their minds to try this weapon in any consistent and systematic way. Therefore an examination of this aspect of the problem could hardly be undertaken here at greater length. This survey is confined to Government controls as they were and, as far as possible, to show to what useful purpose the *existing* controls might be put if the time should come for doing so.

Conclusion

For a long time, indeed a very long time past, neither the general public nor the business community in Great Britain and America have felt any real need for concerning themselves with South-Eastern Europe as a possible market for their exports or a source of valuable imports. The region consisted of economically weak, rather turbulent States allowed by the interplay of European high politics to exist and function as sovereign units for reasons which had little in common with economic considerations. Some of these States were separated from the Anglo-Saxon countries by long distances bridged by slow communications and sea routes unprofitable for regular shipping services; all were living surrounded by high and thorny hedges of tariffs, restrictions, formalities and national susceptibilities. Attempts at investment in those parts had only too often proved disappointing. Traders and industrialists had more than once to write off losses, while some of the region's export surpluses, offered for sale by primitive marketing methods, could at times of crisis and congestion become both commercially and politically inconvenient, the more so as everybody could very well do without these goods.

As a rule, the whole trade of the six countries accounted for hardly more than 10 % of Europe's trade. Divided up between so many separate national territories under different (though all complicated) régimes of payments, controls, legislation and restrictions, this 10 % really did not seem worth anybody's painstaking attention.

No reproach is meant by endeavouring to sketch, as soberly as possible, a state of things and of minds which cannot be altered by laying responsibility at anybody's doorsteps. The real point at issue is not to find out 'who did it', but to try and look out for a way leading somewhere.

The I.G. Farbenindustrie, after a good deal of looking around for ways and means in South-Eastern Europe, seem to have found out that 'One billion Marks more goods a year can be sold to the Balkans, if purchasing power for imports is raised to one-half of the German level'. After quoting this statement in his particularly well-informed article in *Foreign Commerce Weekly* (17 October 1942), Mr K. Falk of the U.S.A. Department of

Commerce goes on to say: '...further, an increase of 50 % in agricultural yield per acre in South-Eastern Europe through using German experience, chemicals, machines, and seeds is part of the goal announced by the Reich in trying to make the European continent self-sufficient'.

Before its present bitter experience of self-sufficiency, the European continent used to import much more foodstuffs than the six countries in South-Eastern Europe were ever able to export. According to a statement in one of the best recent surveys of European trade,¹ 'the net export of foodstuffs from Europe's agricultural section did not cover one-fourth of industrial Europe's net import of foodstuffs' (in 1935).

This brings us back to our main contention. In spite of ample potential markets for the whole exportable production of South-Eastern Europe, the six countries of that region cannot, by their individual efforts, get rid of their economic troubles and the resulting social and political consequences. The resources of all kinds available to each of these countries cannot provide sufficient ground for real workable solutions, unless Government action, combined into a joint long-term effort on a regional basis, be set going with the close and active assistance of the Great Powers prepared earnestly to take a hand at engineering and carrying out the rehabilitation of Europe.

Should such a thing happen in reality, ten years of Government control of trade and exchanges in South-Eastern Europe might provide all concerned with useful instruments tested by hard work in a long series of attempts at dealing with some of the main economic troubles of our time.

¹ League of Nations *Europe's Trade*, Geneva, 1941.

Appendix I. Production and Export to Germany of South-Eastern European Cereals, Tobacco, Cotton and Hemp

(In metric tons.)

Country	Year	WHEAT		BARLEY		MAIZE		RYE		TOBACCO		COTTON		HEMP		
		Pro-duction	To Ger-many	Pro-duction	To Ger-many	Pro-duction	To Ger-many	Pro-duction	To Ger-many	Pro-duction	To Ger-many	Pro-duction	To Ger-many	Pro-duction	To Ger-many	
HUNGARY	1930-34	2,082,200	—	636,300	—	1,859,800	—	723,500	—	30,400	—	—	—	7,100	—	
	1935	2,292,000	157,000	550,000	—	1,433,000	—	728,000	—	21,400	—	—	—	6,700	—	
	1936	2,389,200	124,000	658,300	—	2,010,000	—	714,100	—	22,800	—	—	—	11,500	7,010	
	1937	1,963,800	114,000	550,900	—	2,770,000	—	82,000	—	20,400	1,200	—	—	12,900	—	
	1938	2,688,300	—	724,000	—	2,678,000	—	804,600	—	19,500	1,300	—	—	13,700	—	
	1939	3,078,200	215,000 ¹	789,600	—	2,350,000	—	863,700	—	19,800	—	—	—	14,400	—	
YUGOSLAVIA	1930-34	2,163,500	—	412,200	—	4,038,600	—	208,900	—	11,900	—	—	—	28,400	—	
	1935	1,990,000	21,190	376,000	—	3,028,000	69,444	196,000	—	9,200	—	200	—	37,500	7,020	
	1936	2,923,600	—	422,800	—	5,180,500	4,000	203,300	—	16,600	400	—	—	52,000	11,840	
	1937	2,347,000	173,100	383,100	—	5,335,900	105,700	209,400	—	20,800	500	—	—	49,900	16,010	
	1938	3,030,000	53,000	421,300	—	4,755,900	69,000	227,100	—	14,700	200	1,200	—	55,400	—	
	1939	2,875,600	—	424,200	—	4,045,600	—	243,500	—	15,400	—	—	—	53,500	—	
ROUMANIA	1930-34	2,815,400	—	1,601,700	—	5,195,400	—	348,600	—	10,900	—	—	—	24,100	—	
	1935	2,625,000	—	924,000	6,462	5,379,000	—	323,000	—	13,000	—	100	—	22,700	—	
	1936	3,593,100	—	1,611,900	—	5,612,000	1,000	453,200	—	15,100	—	—	—	29,200	—	
	1937	3,760,100	39,570	917,200	34,200	4,751,900	372,660	451,300	60,430	19,300	—	—	—	37,000	—	
	1938	4,821,400	—	832,200	—	5,117,300	15,000	517,200	—	12,300	—	600	—	30,300	—	
	1939	4,452,800	—	816,400	—	6,051,200	—	431,500	—	14,400	—	—	—	38,900	—	
BULGARIA	1930-34	1,418,700	—	322,500	—	789,800	—	246,000	—	24,300	—	2,300	—	1,900	—	
	1935	1,304,000	—	282,000	—	1,009,000	—	197,000	—	27,500	11,820	8,400	—	3,400	—	
	1936	1,642,500	—	322,400	—	871,500	—	208,000	—	42,200	11,200	10,700	—	3,300	—	
	1937	1,766,600	19,300	329,000	34,200	859,300	—	238,400	—	35,400	11,810	10,000	—	4,600	—	
	1938	2,148,700	210,000	354,800	—	532,300	—	187,900	—	25,900	14,900	6,900	—	4,100	—	
	1939	1,936,500	—	333,800	—	—	—	245,700	—	35,300	—	16,300	—	6,600	—	
GREECE	1930-34	501,100	—	188,900	—	205,700	—	55,800	—	47,000	—	5,200	—	—	—	
	1935	740,000	—	192,000	—	192,000	—	55,000	—	46,100	18,110	10,600	853	—	—	
	1936	531,700	—	153,700	—	287,000	—	42,000	—	81,000	19,300	12,600	—	—	—	
	1937	817,800	—	219,100	—	322,600	—	65,300	—	69,300	20,990	16,400	—	—	—	
	1938	980,300	—	221,100	—	217,400	—	57,700	—	48,100	24,000	14,600	—	—	—	
	1939	1,042,100	—	221,200	—	261,500	—	62,400	—	55,000	—	13,600	—	—	—	
TURKEY	1930-34	2,534,600	—	1,520,700	—	482,100	—	All cereals Turkey to Germany	—	282,900	—	38,400	unknown	24,300	7,100	—
	1935	2,521,000	34,179	1,372,000	20,493	456,000	50,187	—	—	216,000	—	36,000	9,965	52,200	15,405	5,800
	1936	3,853,300	6,000	2,153,600	—	684,700	93,884	—	—	448,900	—	74,100	10,581	51,100	16,167	10,900
	1937	3,619,300	66,660	2,195,700	41,666	558,000	151,757	—	—	361,800	—	63,900	10,840	64,700	8,420	9,700
	1938	4,248,300	—	2,408,500	61,130	603,500	155,000	—	—	448,500	—	53,200	10,500	66,300	3,600	7,900
	1939	4,607,900	—	2,295,200	—	714,100	(est.)	—	—	426,300	—	56,500	(est.)	—	—	—

1930-34. Figures are an average of these 5 years.

— means either no or negligible exports.

¹ Ungarn's *Volkswirtschaft*, 1939.

Appendix 2. Production and Export to Germany of Certain Metal Ores by Six South-Eastern European Countries

(In metric tons.)

Country	Year	ANTIMONY ¹		BAUKITE		CHROME ORE		COPPER ¹		IRON ORE		LEAD ORE		MANGANESE ORE		PYRITES (Crude ore)	
		Production	To Germany	Production	To Germany	Production	To Germany	Production	To Germany	Production	To Germany	Production	To Germany	Production	To Germany	Production	To Germany
HUNGARY	1935	—	—	211,100	—	—	—	—	—	131,000	—	—	—	6,000	—	—	—
	1936	—	—	360,717	328,378	—	—	—	—	202,000	—	—	—	26,798	—	—	—
	1937	—	—	444,444	472,313	—	—	—	—	202,000	—	—	—	24,601	—	—	—
	1938	—	—	534,177	363,255	—	—	—	—	245,000 ²	—	—	—	21,870	—	—	—
	1939	—	—	570,170	159,862 ³	—	—	—	—	450,000 ²	—	—	—	20,200	—	—	—
YUGOSLAVIA	1935	200	45	190,000	—	59,453	—	39,000	11,681	240,000	4,671	130,000	—	1,000	—	83,000	—
	1936	1,600	—	287,560	217,641	53,100	—	39,400	11,200 ⁴	457,000	—	132,000	21,800	3,000	—	78,404	—
	1937	1,780	—	352,167	405,825	58,918	10,400 ⁴	39,400	11,530	625,000	—	142,000	35,390	4,800	—	131,922	—
	1938	3,370	208	398,180	348,068	49,401	14,894 ⁴	42,300	—	610,000	—	155,400	—	3,500	—	148,027	—
	1939	4,220	240 ⁵	314,489	175,320 ³	44,007	5,567 ⁴	41,700	—	670,000	—	138,000	—	5,000	—	127,000	—
ROUMANIA	1935	—	—	6,200	—	—	—	900	—	95,000	—	10,000	—	19,482	—	9,800	—
	1936	—	—	10,800	—	—	—	600	—	106,000	—	12,200	—	33,321	—	9,841	—
	1937	—	—	10,700	—	—	—	600	—	129,059	—	14,800	—	49,997	—	10,548	—
	1938	—	—	11,800	—	—	—	600	—	138,942	—	—	—	59,222	—	11,028	—
	1939	—	—	—	—	—	—	—	—	131,922	—	—	—	41,546	—	5,869	—
BULGARIA	1935	—	—	1,600	—	—	—	—	—	5	—	1,000	—	—	—	—	—
	1936	—	—	3,100	—	—	—	—	—	9	—	200	—	3,300	—	—	—
	1937	—	—	—	—	—	—	—	—	22	—	400	—	13,500	—	—	—
	1938	—	—	—	—	—	—	—	—	—	—	600	—	2,400	—	—	—
	1939	—	—	—	—	—	—	—	—	24	—	—	—	—	—	—	—
GREECE	1935	—	—	9,500	—	31,479	—	—	—	205,000	198,784	4,400	—	400	—	132,000	—
	1936	—	—	129,900	—	41,452	—	—	—	275,845	182,280	12,200	—	1,653	—	158,790	—
	1937	—	—	137,400	80,670	55,061	—	—	—	300,498	21,911	17,000	—	6,842	—	203,386	31,510
	1938	—	—	179,900	67,964	42,464	18,160	—	—	348,613	—	—	—	7,075	—	244,000	24,891
	1939	—	—	—	89,622	55,000	22,278	—	—	—	—	—	—	—	—	—	—
TURKEY	1935	122	121	—	—	148,096	54,154	—	—	—	—	7,800	—	22,500	—	—	—
	1936	564	748	—	—	161,202	70,567	—	—	—	—	9,400	1,035	5,100	—	—	—
	1937	643	206	—	—	189,468	65,070	700	—	—	—	9,600	8	522	—	—	—
	1938	580	50	—	—	210,256	68,463	2,200	—	—	—	9,800	—	3,000	—	—	—
	1939	660	(est.)	—	—	210,000	104,156	5,900	—	—	—	—	—	600	—	—	—

¹ Metal content. ² 1939: 6 months. ³ Hungary: including added Northern Territory. ⁴ Incl. Austria. ⁵ Estimate. — means no exports.

Sources: *Quin's Metal Handbook* (2 vols.); *Imperial Institute, Mineral Industry* (2 vols.); *League of Nations Publications* (2 vols.).

Tools and agricultural appliances	1936	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1937	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1935	8,080	3.4	6,076	3.4	2,395	2.1	3,540	4.2	14,965	6.4	3,635	2.3	39,600	21.8	554,468	288.8	288.8	—	
1936	3,180	2.2	7,090	4.0	6,680	4.8	3,360	4.4	14,600	7.5	950	3.4	35,860	26.3	525,040	306.8	306.8	—	
1937	5,260	15.7	14,320	18.0	6,900	6.2	4,620	6.2	18,470	14.8	2,830	18.6	52,400	79.5	612,650	422.0	422.0	—	
Copper and brass manufactures	1935	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1936	—	—	1,747	1.7	1,805	1.9	884	1.4	1,932	1.9	—	—	—	—	6,358	6.9	94,916	122.0	
1937	—	—	—	—	230	1.2	290	1.7	270	1.3	—	—	—	—	510	2.1	19,370	77.4	
Machine tools (including rolling mills)	1935	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1936	—	—	730	1.3	760	1.2	1,170	2.0	580	1.8	1,880	4.4	5,120	10.7	17,690	26.4	89,590	148.2	
1937	—	—	760	1.8	9,240	8.4	4,660	10.5	670	1.1	2,360	4.6	17,690	26.4	123,480	200.1	200.1	—	
Machines for spinning and leather industry	1935	706	1.2	700	1.2	719	1.2	1,324	2.2	541	0.8	712	1.7	4,792	8.3	36,260	76.9	76.9	—
1936	1,240	2.0	1,090	1.6	2,720	4.2	2,540	4.5	2,620	2.9	1,260	3.2	10,870	18.4	59,430	123.4	123.4	—	
1937	2,490	3.9	1,130	2.3	2,890	5.2	2,250	4.6	1,740	3.6	1,260	3.2	11,760	22.8	64,820	136.0	136.0	—	
Motors and engines (not electrical)	1935	(a)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1936	—	—	960	1.3	—	—	—	—	—	—	—	—	—	—	1,650	2.4	37,150	51.8	
1937	—	—	1,210	1.7	1,770	2.4	790	1.3	590	1.0	—	—	—	—	4,380	6.4	49,010	66.4	
Pumps and compressors	1935	(a)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1936	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1937	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Paper making and printing machinery	1935	(a)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1936	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1937	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Other machinery	1935	1,516	1.8	2,527	3.4	1,973	2.7	2,090	3.5	890	1.2	2,422	2.8	11,427	15.4	118,387	188.2	188.2	—
1936	530	1.2	1,140	1.3	1,820	1.7	1,950	3.0	1,360	1.5	1,400	1.8	8,200	10.5	71,890	98.4	98.4	—	
1937	—	—	1,170	1.4	3,560	3.6	3,150	4.4	1,310	1.5	1,420	1.7	10,610	12.6	89,360	119.8	119.8	—	
Motor cars and aircraft	1935	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1936	1,290	5.0	950	1.5	1,660	3.2	1,590	3.8	370	1.8	1,850	4.8	7,710	20.1	57,470	122.7	122.7	—	
1937	1,710	3.6	980	1.6	4,180	8.6	3,480	7.6	1,300	8.5	3,240	8.7	14,890	38.6	109,590	266.1	266.1	—	
Bicycles	1935	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1936	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1937	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Other vehicles	1935	(a)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1936	1,680	2.3	—	—	1,200	1.2	—	—	—	—	—	—	—	—	—	—	—	—	
1937	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Electro-technical goods (including electrical machines)	1935	990	3.3	1,182	3.1	755	2.0	1,024	2.8	1,460	2.8	138	1.4	6,478	15.4	63,678	176.8	176.8	—
1936	1,360	3.3	2,530	4.8	2,280	4.2	5,310	8.2	2,070	3.5	1,100	3.3	14,610	27.3	131,750	258.3	258.3	—	
1937	1,900	5.4	3,750	7.8	5,190	9.1	5,620	10.7	2,930	6.2	1,000	4.2	20,390	43.4	157,080	312.3	312.3	—	
Precision and optical instruments (typewriters, etc.)	1935	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1936	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1937	150	2.3	190	2.6	130	1.8	127	1.3	—	—	—	—	—	—	—	—	—	—	
Photo-chemical products	1935	(a)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1936	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1937	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Pharmaceuticals	1935	(a)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1936	90	1.5	110	1.8	110	2.3	220	4.8	90	1.8	130	1.6	750	13.8	7,240	111.0	111.0	—	
1937	90	1.7	120	2.0	130	2.7	190	5.1	140	2.6	140	1.8	810	16.8	8,640	139.8	139.8	—	

(a) 1935: for items marked (a) no separate figures are given in the *Statistisches Jahrbuch für das Deutsche Reich*.

Source: *Statistisches Jahrbuch für das Deutsche Reich* (3 vols.).

Appendix 4. South-Eastern Europe's Chief Imports of Manufactures, 1937

\$ = million U.S. dollars; T = '000 metric tons.

Country	Cotton		Woollen		Silk and Rayon		Other textiles ¹	Chemicals and dyes	Metal manufactures	Machinery	Vehicles	Paper manufactures	Miscellaneous	TOTAL by COUNTRIES
	Yarn	Fabrics	Yarn	Fabrics	Yarn	Fabrics								
HUNGARY	\$ 0.8 T 1.2	0.7 0.7	0.6 0.6	0.8 0.4	1.0 3.0	0.3 0.2	0.0 1.1	5.1 50.0	0.8 4.6	3.9 9.7	1.7 4.5	4.1 84.0	11.8 182.0	22.8 348.9
BULGARIA	\$ 1.8 T 2.0	2.0 1.0	1.7 0.7	— —	— —	— —	0.0 0.7	3.4 33.7	1.0 7.7	8.7 19.0	3.0 5.6	1.0 17.7	1.5 0.7	25.3 88.8
ROUMANIA	\$ 11.2 T 12.4	1.7 1.5	3.3 2.6	0.3 0.2	0.8 1.2	0.3 0.1	2.8 12.8	5.1 17.0	10.0 178.0	17.1 40.6	3.9 10.3	1.5 7.0	0.4 24.3	70.1 308.6
YUGOSLAVIA	\$ 8.0 T 18.3	4.0 4.1	2.2 1.8	3.8 1.6	1.7 2.7	— —	0.8 1.8	5.1 32.9	0.0 30.3	0.3 27.9	3.1 12.2	2.0 51.0	2.3 2.8	48.0 188.0
GREECE	\$ 1.4 T 0.8	5.3 3.5	3.6 1.5	1.0 0.5	— —	— —	6.5 16.3	0.1 134.0	7.4 38.7	0.4 14.9	0.0 0.7	3.0 35.5	10.8 74.0	62.0 321.0
TURKEY	\$ 4.4 T 0.4	13.6 12.0	3.5 1.5	2.1 0.5	0.4 0.2	— —	2.1 8.5	5.0 31.2	10.2 52.5	13.7 22.0	3.3 0.4	2.8 25.2	5.1 114.0	66.8 281.0
TOTAL by COM-MODITIES	\$ 27.3 T 41.1	27.1 22.8	14.0 8.7	8.0 3.2	4.4 7.8	0.6 0.3	13.1 41.2	33.4 305.4	42.0 312.4	50.1 134.7	15.6 39.7	15.0 221.0	43.0 307.8	— —

¹ In addition to this figure, Greek statistics include 5,497 pieces.

Sources: C. I. Lewis's *Nazi Europe and World Trade*; League of Nations Publications on Trade and Statistics; Yugoslav Government in London; *Annuaire statistique du Royaume de Bulgarie*, 1938.

Appendix 5. South-Eastern Europe's Exports, 1937

('000 metric tons.)

	Cereals	Veg. oils	To-bacco	WINE	Fruit	Wine '000 hl.	Meat	Dairy produce	Timber '000 cu. m.	Copper	Lead	Zinc	Petrol	Manganese	Chrome	Magne-site	Bauxite
HUNGARY	730	4.6	7	11.4	6	38.1	4.1	11.3	20	12.0	—	—	280	5.0	—	—	400
BULGARIA	332	1.9	22	17.5	31	—	0.6	1.4	—	0.1	—	—	88	1.0	1.5	—	—
ROUMANIA	2,005	5.1	—	10.4	14	2	2.7	1.0	1,712	8.0	—	7.0	5,101	8.0	—	—	—
YUGOSLAVIA	1,040	2.2	4	12.3	11	10	11.3	1.3	1,504	36.3	71.2	31.4	113	—	24.3	—	388
GREECE	603	0.3	42	—	134	40.1	—	4.6	—	—	2.2	—	323	1.0	15.0	111.5	122
TURKEY	270	3.2	22	3.0	29	—	—	—	24	5.0	4.4	12.0	98	0.5	108.5	0.3	—