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REPORT

on

EXCHANGE CONTROL

**submitted by a Committee composed of Members
of the Economic and the Financial Committees**

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General Observations.

This report has a definite and limited object, viz. : to examine the technical aspects of exchange control in its bearing on national economy. It shows that the system of exchange control affords no remedy in itself for the difficulties of the countries that practise it, but results in perpetuating those difficulties and, in certain respects, in accentuating them. In particular, controls of exchange, by stopping free exchange movements, tend to create price disparities between the exchange-control countries and the free-currency countries, which react on the economic position of the former group. Various suggestions are put forward of methods by which it might be possible to attenuate these effects and to make the functioning of the system more elastic, and thus to create a basis for a closer approximation between the economic systems of the exchange-control countries and of the free-currency countries.

But the Committee desires to make clear that the technical aspects of the question reviewed in this report do not by any means cover the whole field of enquiry. The various systems of exchange control adopted by different countries are symptoms of deeper troubles, and, while technical measures to improve their operation and to counteract some of their effects will undoubtedly be useful, such measures will not be sufficient to secure the restoration of free exchanges which is generally admitted to be desirable. It is only by remedying the troubles that led to the imposition of exchange controls that the system, as a whole, can be swept away.

Exchange control was adopted by the countries which practise it as the best defence available to meet the very real difficulties with which they were confronted. These difficulties

were partly financial—for example, the withdrawal of capital, the excessive burden of foreign debts, the shortage of exchange reserves, the lack of confidence in the currency both at home and abroad—and partly economic—*e.g.*, the reduction of export markets, the collapse of prices, the imposition of quotas and other restrictions abroad, leading to an adverse balance of payments and a general disequilibrium of the economic situation. These various causes interacted; but the economic difficulties are probably the more fundamental, and the need for exchange controls would be most quickly removed if the general economic situation could be restored.

There is no magic formula by which this can be secured; and the task is all the more difficult in present circumstances, when every country has to sustain the enormous burdens imposed by the needs of national defence. Indeed, the political tension which unfortunately prevails in Europe to-day makes it impossible, for the time being, to achieve any far-reaching solution of the problem. This could only be attempted with any hope of success, as M. van Zeeland observed in his report, in an atmosphere of international appeasement and co-operation between at least all the principal economic Powers. It may be hoped that the spirit of co-operation, which is essential to the prosperity of all the countries in Europe, may before long be restored; but, at the moment, certain of the most important countries of Europe are insulating their economies from the rest of the world by a policy of self-sufficiency. The ultimate consequences of this policy on the economy of the countries concerned remains to be seen; but, so long as this policy is in fact maintained, the prospects of a general revival of international trade must remain limited.

In these circumstances, all that can be done is to attempt to alleviate the situation of those countries which have been forced to maintain a system of exchange control, but which are anxious to find means of restoring their relationship to the free-currency countries and the system of international trade. The difficulties are great, but not insurmountable. The object in view cannot be achieved at a stroke, but requires a gradual effort to modify each of the factors which have led the countries concerned to their present situation.

The difficulties of each country vary considerably, and no general programme could be laid down that meets all cases without exception. But, first and foremost, it rests with these countries themselves to steer their internal policies in the proper direction. They can do much by improving their efficiency as producers, by adjusting production to demand and by changing, if necessary, the type of product raised, in order to secure a profitable market. They should also adopt policies, both in financial and in commercial administration, which facilitate economic development and encourage efficient production. If the countries concerned take action on these lines, they will maintain the purchasing power of their people, which is the first essential of national policy. But, in doing so, they cannot afford to disregard the delicate relationship between internal prices and world prices, on which the possibilities of international trade depend, and they must take appropriate action to secure that internal purchasing power is adjusted to an appropriate level, in terms of foreign exchange, with prices ruling in the free exchange markets. For this purpose, it has in some cases been necessary to allow some realignment of the exchange, in order to secure an equilibrium with other currencies and afford a basis for *de facto* stabilisation. It rests with each Government to take the necessary measures to this end, but, until they have succeeded in establishing equilibrium, it will not be possible to restore that confidence in their currency which will enable exchange control to be removed.

Internal action by each of the countries concerned on such lines is an essential prerequisite to the restoration of a sound economic system; but it may not be sufficient to bring the balance of payments into equilibrium, except after a long period of difficulty. The transition to a system of free exchanges would be greatly facilitated if other countries realised that it was in their own interest to expand their imports from the countries at present in difficulties.

The restrictions on trade imposed since the crisis have fallen with special severity on the agricultural countries of Eastern and South-Eastern Europe, which have found some of the most important markets for their products greatly restricted, if not practically closed. The result has been a drastic decline in world

market prices, which has accentuated their difficulties. So long as the industrial countries of Europe consider it necessary to pursue a policy approaching self-sufficiency in agricultural products and to maintain high tariffs and rigid quota restrictions, the agricultural countries of Europe will remain impoverished and be unable to contribute to the general revival of European trade and prosperity. The industrial countries—with their more varied economies and larger resources—have therefore a responsibility in this matter, and the possibilities of a wide relaxation of exchange controls in South-Eastern Europe depend largely on the extent to which those countries can take the initiative in expanding the markets for the produce of the agricultural countries, and in providing them with greater resources in free exchange.

There remain the financial difficulties. The restoration of the normal movement of capital from country to country is an integral part of the restoration of a system of free exchanges. Much has already been done to clear up the entanglements of excessive indebtedness which existed ten years ago, by means of compromise arrangements agreed between debtor and creditor; and it may be hoped that the remaining cases will be the subject of appropriate settlements before long. Such settlements, however, should be devised in such a way as to do as little harm as possible to the credit of the debtor countries concerned. For this purpose, respect must be maintained for contractual engagements, and the debtor countries must convince their creditors that the arrangements proposed represent a genuine effort to meet their obligations to the fullest extent possible. Otherwise it will be very difficult for them in future to raise the new capital which is so necessary for the improvement of their methods of production and for the general development of their economy.

Until the general international atmosphere is more favourable, progress can be made only on such lines, modest though they may seem; but every effort should be made to pursue remedial action in all these fields. It is as a contribution to the study of the question in this framework that the Committee submits its present report for consideration.

Introductory.

1. The 1937 Assembly approved a suggestion made by the Economic Committee, at its forty-sixth session, that the existing systems of quotas and exchange control should be relaxed, with a view to their abolition at the earliest possible moment, and requested the Economic and Financial Committees to pursue the study of methods to this end. The Financial and Economic Committees considered this suggestion and came to the conclusion that the first subject which should be taken up was exchange control, the question of quotas being reserved for the time being. As regards exchange control, they decided to examine the question from the limited aspect of the practical technical measures that could be devised to alleviate the system.

2. Members of the Committees from countries which practise exchange control were requested to state (1) whether they considered the continuation of such control desirable, and (2) if not, what were the principal obstacles to abrogation, and what steps would enable them to take such action. It was agreed that, if there appeared to be a practical basis of action, a mixed committee should be set up to work out a programme.

3. It has unfortunately not appeared feasible to take any joint action to relax controls along the lines envisaged when the Assembly referred this question to the Economic and Financial Committees. For this, two main causes are responsible. In the first place, the international political situation has worsened. The growing sense of insecurity in many of the States applying exchange control has increased the desire of their citizens to export capital, and the Governments have naturally been unwilling to allow this to happen. Secondly, there has been a deterioration in the general economic situation. The prices

of the agricultural products and raw materials exported by many of the European States applying exchange control have fallen sharply; in many cases there have been signs of unfavourable development of their balances of payments. Indeed, in another part of the world, where exports are more dependent upon industrial demand, the exchange controls applied by certain States have recently been tightened.

4. In these circumstances, the Economic and Financial Committees felt that they could, at the present stage, best discharge the duty laid upon them by the 1937 Assembly by setting out and analysing some of the technical aspects of the problem. They entrusted this task to a Joint Sub-Committee,¹ which submitted the present report, which has been approved by the Financial Committee.

I. Origin.

5. In one form or another, State intervention in the exchange market has no doubt been practised since trade has moved across frontiers. Discount policy, open-market policy, recent exchange-fund policy and trade policy may all be regarded as forms of intervention. But, unlike exchange control, they operate indirectly, through their effects on the volume of the monetary circulation, and not directly on individual transactions. There have been long periods during which gold has been permitted to fulfil regulating functions by passing freely from one country to another. Before the world war, for many years, gold movements had been free, broadly speaking. There was little interference with the flow of labour across frontiers. Goods, though in most countries subject to Customs duties, were not normally limited by import prohibitions or quotas.

¹The Joint Sub-Committee met under the chairmanship of Sir Frederick LEITH-ROSS (United Kingdom). The following members of the Financial Committee sat on the Joint Sub-Committee: Dr. POSPISIL (Czechoslovakia), M. JANSSEN (Belgium), Dr. CRENA DE JONGH (Netherlands), M. NEDELKOVITCH (Yugoslavia), M. NOWAK (Poland). The following members of the Economic Committee, in addition to the Chairman, sat on the Joint Sub-Committee: M. ELBEL (France), M. DE NICKL (Hungary), M. BADULESCO (Roumania), M. RYTI (Finland).

6. This system was overthrown by the war, and the attempts made to restore it in the 1920's had only a brief season of success. All the European countries that had taken part in the war suspended the convertibility of their bank-notes into gold ; all had, for a time, to allow their currencies to depreciate. In some cases, the value of the currency sank almost to nothing. As there was no discernible prospect of creating a basis for recovery by restoring freedom of movement to gold, and as there was, at the time, a widespread fear of gold shortage, the attempt was made to get international business going again on as near an approach to the gold system as seemed practicable in the circumstances—*i.e.*, a gold exchange standard, under which cover for the note circulation could take the form of currencies stabilised in terms of gold, and the regulating functions formerly performed by gold devolve upon those currencies. This experiment, aided by international loans to the countries which had suffered most, financially, was so far successful that countries whose currencies had sunk out of sight made a fresh start with a new unit, whilst others, where depreciation had not gone so far, were able to stabilise. Ten years after the war almost all countries, the U.S.S.R. excepted, were once more in possession of currencies that were being freely exchanged against each other. Freedom of gold movements had been widely restored, though in many cases with restrictions which gave the central bank a practical monopoly of such transactions. But neither labour nor goods recovered the freedom they had had before the war. The gold exchange standard, in these circumstances, turned out to be unequal to the test imposed upon it by the depression that began with the collapse of the New York stock market in the autumn of 1929.

7. Attracted by high interest rates and reassured by currency stabilisation in one country after another, short-term credits had gone from the United States, from the United Kingdom and from Continental investor countries to Central and South-Eastern Europe. The withdrawal of these short-term loans did not set in at once after the New York Stock Exchange crash, but, in May 1931, the failure of the Austrian Creditanstalt gave a warning that it had been taking place on a large scale.

Sterling was subjected to a strain which forced the United Kingdom to suspend convertibility into gold on September 19th, 1931, since when, though dealings in gold have been resumed, sterling has not been formally stabilised. An Exchange Equalisation Account was established in 1932 for the purpose of evening out minor exchange fluctuations and of preventing capital movements from exerting undue influence on the exchange rate. The Scandinavian countries followed the United Kingdom's lead in depreciation, and subsequently a series of other countries the world over—*e.g.*, Japan, Portugal, Greece, Finland, Estonia, Latvia, Bolivia, Egypt, Siam, Iran, Iraq—linked their currencies to sterling, forming what has been known as the sterling *bloc*.

8. When heavy withdrawals of short-term credits, in the spring and summer of 1931, began to shake belief in the new gold standard's ability to see its weaker adherents through the crisis, there emerged in the countries whose currencies had collapsed only a few years before a firm determination not to let it happen again. The destruction of savings and the economic disorganisation produced by the inflations had wrought such havoc that this quite naturally appeared to be the basic evil which must be avoided at all costs. There was, indeed, in many of these countries, a tendency to identify inflation with devaluation. In view of the fact that these countries were heavily indebted abroad, and in view of the state of their public opinion, which was extremely distrustful of monetary changes, a depreciation of their currencies might have given a serious shock. And it must, moreover, be remarked that, if in many countries exchange control was introduced to avoid devaluation, devaluation itself, while facilitating the adjustment to world prices, is not a means of solving all their economic problems. It is for this reason that recent monetary history provides examples of countries which have combined this method with exchange control.

9. On August 1st, 1931, when the withdrawal of short-term loans reached its climax, Germany had introduced exchange control. On August 8th, Hungary did the same, and, by the middle of October, Greece, Yugoslavia, Czechoslovakia, Austria

and Bulgaria had followed suit. Denmark, Estonia, Latvia and Lithuania took similar action in October and November 1931. In May 1932 came Roumania; in July 1932 Japan. In the United States, foreign-exchange transactions were subjected to restrictions in March 1933, and the dollar was subsequently devalued. These restrictions were gradually relaxed and were altogether removed in November 1934. Italy held out until May 1934, and Poland until April 1936. Belgium introduced control measures in March 1935, but shortly afterwards rescinded them.

10. In Latin America, the fall in commodity prices caused by the depression was followed by exchange control and foreign debt-service suspension measures, greatly varying in severity, in almost all the republics. The United States dollar, after its devaluation, provided a mooring to which the currencies of many Latin-American countries were linked.

11. Late in September and early in October 1936, the remaining gold *bloc* countries, which up to that time had maintained both the pre-1931 parity and convertibility into gold—*i.e.*, France, Switzerland, and the Netherlands—departed from their previous policy, but without introducing control. Switzerland devalued to a new level. France and the Netherlands did not adopt any fixed relation to gold. A measure or further measure of devaluation was applied by certain countries which were enforcing control—*e.g.*, Italy, Czechoslovakia and Greece. Several exchange-control countries which were still adhering to the official rate, in theory, were in fact conducting foreign trade at devalued rates. Where the buying and selling of gold and its export were still permitted, these transactions were more or less controlled and restricted.

12. At this juncture—*i.e.*, when the French franc was unpegged—the conclusion of what has been known as the Tripartite Agreement, originally between the United States, the United Kingdom and France, introduced an element of stability into the situation, and supplied a basis of co-operation between the former gold *bloc* and the Anglo-Saxon currencies. Each party to this agreement, which has since been adhered to by Belgium, the Netherlands and Switzerland, undertook

to sell gold to any central bank or treasury willing to sell gold to it, with the result that each exchange "equalisation" fund was enabled to sell against gold, at the day's rate, any balances in the currency of another party to the agreement acquired in the course of the day.

13. The Tripartite Agreement gave support to the elements that were resisting pressure to introduce control in some of the few countries that had refrained from it, and improved the outlook for relaxation in many exchange-control countries which felt unable to dispense altogether with regulation, but were endeavouring to reduce intervention to a minimum. The improvement in trade that had been perceptible for some time had reached impressive proportions in 1936, and gave further inducement to many exchange-control countries to relax their regulations. In the course of 1937, the trend changed again for the worse: commodity prices began to fall, and the problems that had had to be faced in the early '30's began to loom up again. Prospects for the abandonment of exchange control receded in the countries applying it. In several instances, the control mechanism has lately been tightened up again. However, attempts to simplify the procedure of control, to bring it into touch with real market conditions and to make it as little vexatious as possible have achieved notable results, on the whole, in recent years; and it would seem to be in this direction, rather than in the complete liberation of exchanges, that further progress may be expected for the present.

14. A history of exchange control in all the countries, or even in the more important countries that have imposed it, would run into volumes and involve much repetition. The regulations are subject to frequent change. It may suffice for present purposes to describe the main aspects of control as regards the chief items of a country's balance of payments, together with notes on certain significant differences between practice in individual countries and on measures of relaxation, where such have been adopted. In general, the most complete and drastic control systems are to be found in Europe, where Germany's methods have supplied a fully equipped model. The Latin-American republics, with a couple of exceptions,

have imposed control, but in a relatively mild form : retention of an official rate for certain purposes has been accompanied by recognition of transactions involving a discount, for a variety of purposes for which exchange at the official rate is not available. Thus, in certain cases, where there is willingness to pay a sufficient premium, the control permits capital movements, which systems on the European model are primarily devised to prevent. Such a degree of flexibility in the control leaves little room for an illicit exchange market, which always does come into existence under a strict regime. Even where, as in the case of Germany, the system is operated with the greatest competence and severity, it has been impossible to prevent notes from being smuggled out and sold at a heavy discount abroad.

II. Methods.

15. *Merchandise transactions* (outside of clearings). — Export exchange is required to be notified and surrendered to a central controlling agency (the "control"), which also decides on applications for allotments of exchange for imports.

16. As export is the chief source of foreign exchange, and indeed almost the only available source in control countries, the control limits its allotments for imports, and fixes its buying and selling rates, in such a way as to provide itself with the exchange required for its own and the State's purposes (foreign debt payments, expenses of diplomatic representation abroad, allotments to individuals, etc.) In doing this, the control may have to resist pressure :

17. (a) From exporter interests, which tend to demand ever higher premia on the convertible exchange they surrender. Exporters may also want the control to buy, at rates involving a loss to it, non-convertible currency acquired by exporting to other exchange-control countries. Under a complete exchange-control system, the exporter need not worry about the exchange value of the currency for which he sells his goods, provided he can get rid of it to his own central bank at a fixed rate. The control is thus obliged to keep a close watch on its buying

rates; concessions to exporter interests may easily cause internal prices to rise unduly, or divert trade to markets where the currency is non-convertible. Also exchange-control countries may attempt to attract imports, with the aid of a payment-agreement rate that no longer corresponds to real conditions, and then re-export to convertible-currency markets, retaining the sound currency thus acquired.

18. (b) From importer interests, wanting convertible exchange at rates which may not be in the desired relation to the control's buying rates.

19. In many cases, the rigour of control has been relaxed where merchandise transactions are concerned. Exporters have been allowed to sell exchange to importers at rates freely negotiated between the two, subject to supervision devised to prevent the accumulation of exchange balances abroad. In this way, merchandise transactions, in Austria, had virtually been freed from control. Elsewhere, the exporter is required to surrender to the control, at a given rate, a percentage of the exchange received in any transaction, being then free to sell the remainder to an importer at a negotiated rate. Individual compensations have been permitted, here and there, firms being allowed to retain export exchange and to use it, sometimes after abandoning a percentage of it to the control, to purchase imports, subject to the obligation to report all particulars to the control. Any such relaxations are closely watched by the controlling agency, in order to prevent leakages.

20. Wherever exchange has been strictly controlled, it has been found that, even if maintenance of the official rate, in theory and for certain transactions, was judged to be necessary, exports could only be marketed abroad if the exporter received a premium over and above the equivalent at the official rate, for the export exchange surrendered by him to the control, importers being required to pay a surcharge for import exchange allotted to them. On the other hand, where control has been applied in a liberal manner, it has not been necessary to resort to the system of multiple rates or to require surcharges over and above the official rate.

21. Attempts to grade the premium according to prices of various commodities have in many cases been dropped in Europe in favour of a unified premium, the adoption of which means that for trade purposes a currency is devalued ; a devaluation, however, of which the domestic creditor having a claim expressed in a foreign currency does not usually get the benefit. In certain cases, even where a unified premium has been admitted, premia in excess of the normal rate have been granted in order to permit the export of goods which otherwise could not be marketed abroad. A somewhat precarious link has, here and there, been established between the amount of convertible exchange which could thus be acquired by the control without imperilling the internal price-structure, and the extent to which obligations in respect of foreign debt service could be met.

22. In the Latin-American republics, where the regime as regards trade has been, on the whole, more easy-going than in Europe (the service of funded debts, however, being in many cases suspended or drastically reduced by unilateral decision), the essential instrument of control is discrimination between various categories of imports, all imports being normally subject to permit. Those judged to be essential to the importing country benefit by allotments of exchange, at the official rate. Another, or several other, categories can only obtain the requisite licence if the importer is willing to buy the exchange at a premium, exporters being permitted to sell part of their foreign exchange to importers on a free market, the rest having been surrendered to the control at an official rate. In several cases, the free market is also available for remittances of funds abroad —*e.g.*, for debt payment and even for capital movements. The degree of freedom permitted, in any one country, usually depends on the level of world prices of the country's staple commodities, and is subject to sudden restrictions if the supply of foreign exchange runs low. Thus, there has been a general tightening-up of control in Latin America since prices of primary products started falling towards the middle of 1937. In certain cases where foreign debt had been suspended early in the depression and resumed again in 1936 or 1937, there has recently been a fresh stoppage of transfer. The Argentine has agreements

with several of its creditor countries under which a portion of its export proceeds is earmarked for debt service, these countries thus receiving more advantageous treatment than those with whom there is no special agreement. Import requirements and other claims are satisfied as available exchange may permit.

23. *Clearings.* — In Europe, the imposition of control has usually been followed by the negotiation of bilateral exchange clearing arrangements, under which the importer pays in his own currency for any purchase made from the other country concerned into an account at his central bank, the exporter receives payment from an account at *his* central bank, and the two accounts are cleared one against the other. Provision may be made for a balance available for certain purposes in favour of one of the two countries. Where the currencies of both parties to the clearing agreement are controlled, it is difficult to determine what rate of exchange really corresponds to market conditions; and if a rate out of line with the relative price-levels is chosen, the development of the trade is likely to be unsatisfactory to at least one of the parties to the agreement.¹ There is a tendency for the country with the weaker currency—*i.e.*, the one which is overvalued at the rate adopted in the clearing—to increase its purchases from the country with the stronger currency, paying for them through the clearing, whilst purchases made by the country with the stronger currency tend to be paid for in part outside the clearing, at a rate more favourable to the stronger currency. There may result a permanent disequilibrium, with uncleared balances between the two clearing accounts. Also, any attempt to influence the ratio of trade between the two countries is likely to lead to the generalisation of quotas and to restrict commerce. The exchange balance, where one has been agreed on, tends to vanish when once the special reason that caused it to be granted has disappeared—*e.g.*, when arrears of merchandise or financial debt have been paid off by means of it. On the other hand, certain clearing agreements between countries one of which maintained a free market in exchange and the other exchange

¹See League of Nations: "Enquiry into Clearing Agreements", Geneva, 1935.

control, and also between countries both of which practised exchange control, but where the rate adopted corresponded tolerably well with market conditions, have worked fairly satisfactorily and have enabled the countries concerned to extend their reciprocal trade.

24. The drawbacks of the clearing system, to which must be added leakages that are bound to occur when substantial profits are to be made at the expense of the system by means of fraudulent invoices which cannot easily be detected (see Clearing Committee's report, I 6 c), have led several countries to go over, where it was considered that exchange control could not be dispensed with, to payment agreements.

25. The Latin-American republics have only had recourse to clearings in a few instances. Their more liberal conception of control has led to less rigid arrangements.

26. *Payment Agreements.* — Here, the exporter is paid direct by the importer, usually in the importers' currency. In some cases, where it is a question of an agreement between a free-exchange country and an exchange-control country, the free-exchange country leaves the exporter from the exchange-control country free to dispose of the proceeds of his export as he will. The exporter, however, is required by regulations in his own country to surrender the exchange to the control. Exchange derived from export to the free-exchange country is apportioned as agreed between the two countries, a part being applied to the payment of imports from the other country concerned, a part to debt service and a part remaining at the free disposal of the control in the exporting country.

27. Where the payment agreement is between two exchange-control countries, the exporter, on receiving payment in the importer's currency, sells it to a bank authorised to act on a commission basis in that capacity. The importer buys the exchange he requires from one of the authorised banks. These exchange transactions take place at a rate agreed between the two Governments concerned. If the rate corresponds to actual market conditions and is adjusted as these conditions alter, this arrangement may work satisfactorily, but the country

whose bargaining position, on general grounds, is the stronger may, as in the case of clearing agreements, succeed in imposing a rate that constitutes a premium in its favour. The weaker country may then try to protect itself by what is known in Central Europe as a *Loro* clearing procedure—*i.e.*, its central bank, through the banks acting for it, limits its purchases of the other country's currency so as to avoid an undesirable accumulation, and thus checks the flow of exports which would otherwise be caused by the use of a forced rate. This method may be supplemented or replaced by imposing special taxes on exports to the country in question, or by restricting quantities of exports by administrative order.

28. On the whole, it would appear that payment agreements involve slightly less disturbance to the normal method of payment for goods than clearings. Under them, the various categories of goods exchanged by the parties are not necessarily subject to quotas. Like clearings, they may be used to assure a free exchange balance to one of the parties.

29. *Foreign Debt Transfers.* — A complete exchange-control system usually entails limitation of debt transfers, though in a few instances—*e.g.* Czechoslovakia, Estonia and Denmark—there has been no interruption of foreign debt service at full contractual rates. In most cases, no payment in respect of foreign indebtedness is permitted without the express consent of the central bank.

30. (a) *Funded Debts.* — The usual procedure has been for the debtor country to make such arrangements as it could regarding State debts, and where other debts are concerned, to instruct its own nationals to make payments in respect of service, calculated at the official rate in its own currency, and in certain cases at an interest rate lower than the contractual rate, into a fund at the central bank, compliance with these instructions protecting the individual debtor from legal prosecution, without affecting, in theory, the bondholder's contractual rights. Foreign bondholders then have a claim, represented by their coupons, on the amounts thus deposited, provided they agree to accept this payment in total satisfaction. The

extent to which the foreign bondholder is permitted to encash his coupons and to dispose of the proceeds in the debtor's currency has varied greatly. In some countries, especially in Latin America, and at the earlier stages in European exchange-control countries, the creditor was allowed to sell coupon proceeds freely, but in Europe his means of getting rid of them have been curtailed, even for investments and other expenditure in the debtor country, and quotations of blocked currency have consequently declined.

31. Treatment of Germany's funded State debts—*i.e.*, the Dawes and Young loans—varies as between the national *tranches*. Service is transferred at contractual rates where Germany has a favourable balance of trade, and at lower rates where (*e.g.*, in the United States) her balance is unfavourable. Austria met the service of her State funded debts and some other public issues. In certain cases, arrangements, accepted by the bondholders, were concluded. Hungary has made an offer in respect of her one State loan contracted since the war, for a permanent settlement on the basis of interest in the appropriate currencies at 60% of the contractual rate, amortisation to begin in 1940, which offer has been accepted by the holders of nearly all the bonds outstanding. Hungary has also concluded three-year agreements, or made offers for such, in respect of her other debts, and these offers have in most cases been accepted by a large majority of the creditors. Certain other countries have offered, year by year, a percentage of the contractual interest rate, in the appropriate currencies, in some cases with the support of organisations formed for the protection of bondholders, in others without it.

32. The restrictions on debt-service transfers that have been imposed in a majority of exchange-control countries have resulted in a heavy decline in foreign quotations of the loans of those countries. Residents have normally been forbidden to purchase and repatriate securities, where full service had been suspended, but the profits to be made by so doing were in many cases great and, in spite of heavy penalties for detection, the amount of many an exchange-control country's debt actually held abroad has been considerably reduced by these purchases.

It has been argued on behalf of the exchange-control countries that the demand for its securities involved by these illicit transactions has kept up prices at times when they might otherwise have sunk still lower, and that the foreign bondholder's losses have thereby been limited. .

33. (b) *Short-term Banking Debts.* — In several cases where there was a relatively large volume of such debts outstanding when exchange control was introduced (*e.g.*, Germany, Austria, Hungary) standstill arrangements have been concluded between debtor and creditor organisations, under the auspices of the central banks, providing for some payment in respect of interest and commission, as well as a measure of capital repayment. These agreements have not been adhered to by all banking creditors, some creditors having preferred to remain outside and to make such special arrangements as they could, subject to the assent of the central bank. Special arrangements, under the terms of the standstill, are not permitted to be more advantageous to the creditor than those available to adherents. In the absence of standstill agreements, banking creditors desiring to withdraw have had to endeavour to obtain the consent of the control, from case to case.

34. At the outset, standstill payments were in the debtor's currency, the creditor having to make such arrangements as he could with the central bank for their utilisation.

35. Austria succeeded in liquidating her standstill in 1935. Hungary, in 1937, concluded a three-year arrangement with the standstill creditors based on payments in the creditor's currency, calculated to repay these debts over a period of twenty years. The total amount had already been reduced to less than half what it was in 1931. Germany has reduced the volume of her standstill debts substantially. In the case of Poland, foreign banking loans had already been withdrawn, broadly speaking, long before the introduction of exchange control in 1936.

36. The necessity for preserving a mechanism for financing international trade has found general recognition in the granting of preferential treatment to short-term banking debts.

Under several standstill arrangements, the creditors have the right to require payments to be made into a blocked account which can be used for tourist requirements, and have thus been saleable at a better rate than other blocked balances, such as coupon or finance balances. In the case of Germany, the proportion of register-marks that may enter into any one sale for tourist-mark purposes has recently been limited to 75%, the remaining 25% having to be paid for with convertible currency at the register-mark rate.

37. Acceptance and reimbursement credits, where in actual use, have in many cases been maintained under the standstill procedure, so that banking facilities are preserved for merchandise transactions, though on a much reduced scale. Where a claim is based, not on a merchandise transaction, but on a financial one, the terms available to the creditor have usually been less advantageous.

38. *Other Factors: Foreign Holdings and Claims.* — When a country has introduced exchange control, it has usually required all persons resident in it to report holdings of foreign securities, bank balances abroad, claims and liquid foreign assets in general, and in certain cases even real estate. Surrender of all or part of these assets has been demanded; sometimes the owner, on surrendering a certain proportion, is permitted to retain the rest, subject to the obligation to hand over any income such assets may produce in exchange for the equivalent in his national currency. A close supervision is often exercised on all nationals and residents going abroad, with a view to discovering what assets they may possess outside the country. On return, they are required to make a sworn statement of their expenditure while abroad and of how they covered it.

39. In like manner, the rights of non-residents to dispose of assets in the exchange-control country have been severely limited. Here, again, the control was relatively lax at the outset, and it was possible in many cases for foreign creditors and even for residents to elude it. For instance, a bank might give its signature to a loan (real or fictitious) from a non-resident to a resident. The resident would then make a payment in the

national currency to the bank, the bank applying to the control for permission, by means of some "additional" export or similar transaction, to transfer the sum in question, of course on less favourable terms than the official rate. Gradually, the control has worked out means for detecting such methods, and severe penalties aiding, they have been made increasingly difficult.

40. *Export and Import of Currency.* — The export of the national currency, in all exchange-control countries, is forbidden except in trifling amounts. Foreigners in transit and tourists (but not resident foreigners) are permitted to declare on entering, and to retain, foreign currency in their possession, and on leaving to take with them amounts not exceeding those declared. Several exchange-control countries do not permit the import of their own currency, in however small sums. Others allow each traveller to import a small amount. Others place no restriction on imports of currency, national or other, while forbidding its export.

III. Effects.

41. A detailed analysis of the effects of exchange-control would require special consideration to be given to each individual country, for the exact policy pursued has in no two countries been identical, and these differences, as well as the differences in local conditions, have naturally been reflected in the results achieved. Moreover, though the systems may originally have been imposed for similar reasons, they have developed subsequently on very different lines. In all cases, the origin of the control was a deterioration of the balance of payments. In some countries, where the control has been of a type which might be characterised as "passive", the defence of the national economy through the regulation of certain items of the balance of payments has remained the primary object of the control. In others, the control is now applied as an active instrument of commercial policy and for the further purpose of placing a barrier between world and domestic prices, so that monetary and general economic policies could be chosen and executed without regard to their effects on the balance of payments.

The countries of the latter group generally welcome the increased measure of State control resulting from the restriction and centralisation of exchange transactions, as such centralisation is in line with their general policy, while those of the former group look forward to a more liberal system and have (until the recent deterioration of the economic situation) relaxed their controls here and there as circumstances have permitted. The extent to which such relaxation has been possible has naturally depended, *inter alia*, on the importance of their trade connections with the exchange-control countries of the other group.

42. Exchange-control countries might also be classified according to those predominantly industrial in character and those predominantly agricultural. The different evolution of the world demand for, and prices of, various types of product has naturally resulted in differences in the course of events in the countries applying exchange control. Moreover, the different degrees to which the economies of these countries are dependent on foreign trade must clearly determine in part the effects of similar measures adopted in each of them.

43. The list of differences between exchange-control countries could be extended still further, but enough has been said to make it clear that it does not represent a uniform system, but one of almost unlimited variety both in its application and in its purposes. Accordingly, any general analysis of "effects of exchange control" runs the risk of excessive simplification. Nevertheless, after seven years of recent experience, certain general tendencies can be discerned, and it is to the elucidation of these general tendencies that the rest of this analysis is addressed. It will therefore be clear that the analysis is not applicable *in toto* to any one country applying exchange control, but represents rather what might be considered the highest common factor of the experience of them all.

44. No useful purpose would be served by reopening old controversies regarding the justification of the measures discussed. The imposition of control was the outcome of special circumstances—such, for example, as the commercial policy of other countries, the movement of world prices, the fear of

capital export and of the withdrawal of foreign balances, etc. Governments subjected to the sudden and severe pressure of exceptional circumstances were not always able to give full consideration to all the secondary effects of the measures they adopted, and indeed it is only in the light of recent experience that the nature of these effects has become fully apparent. Moreover, account must also be taken of the fact that, for the reasons given in paragraph 8 above, many of the countries applying exchange-control had, in the circumstances of the moment, no real liberty of choice in the matter.

45. It will be convenient to consider separately two broad classes of effects of exchange-control—the effects on the foreign balances of payments of the countries applying the control, and the effects on the domestic economic structure of those countries.

Before proceeding to this analysis, it is perhaps worth stressing that if it is shown below that the restriction of foreign exchange operations has had undesirable consequences in certain countries, it by no means follows that the freeing of the exchanges (were that possible) would result in a marked immediate improvement in economic conditions. Where the control reflects some fundamental economic disequilibrium, the abolition of exchange restrictions can no more be expected to remedy this situation than could their imposition. Consider, for example, the case of agricultural countries severely injured as a result of the slump in world prices and contraction of world markets. These countries have suffered an exceptionally severe decline in national income; their consuming power has been reduced; they have been able to afford fewer imports, and in certain cases have applied exchange-control. Whatever may have been the justification or wisdom of this choice, it is pertinent to observe that the basic economic problem of such countries is to increase and improve their production.

Effects on Balance of Payments.

46. In considering the effects on the balance of payments, it will be sufficient to confine the analysis to capital movements and merchandise trade. As mentioned above (see paragraph 8),

one of the main reasons which first led countries to impose control was the anticipated or immediate danger of capital export or repatriation abroad. There is no reason to doubt that the imposition of control enables countries with a co-ordinated banking system and an efficient administrative machinery to restrict very greatly the outward movement of capital, if not to prevent it altogether. They are thus able to reduce the risks of a run on deposits and capital flight. They are therefore able to conserve, to some extent, their gold and foreign exchange reserve—at least for a time.

47. The value, from this point of view, of imposing exchange control in order to prevent capital flight naturally depends to a considerable extent on the moment chosen for its imposition. If control is imposed to prevent a large-scale exodus of capital, it may, as indicated above, have the effect of conserving—at least for the time being—the national stock of gold and foreign exchange. The position is obviously quite different if it is imposed after large amounts of foreign—and, more particularly, domestic—capital have been withdrawn. To impose restrictions in such circumstances would clearly be illogical, for there is no more effective means of preventing capital that has already left the country from returning. Where the liquid capital resources of countries have been transferred abroad on a large scale and the domestic economy has suffered from financial anæmia, the obvious desideratum is to restore those conditions of confidence and profitability which will attract the capital back home for investment. Where confidence has been impaired by fears of an international political nature, it clearly lies beyond the power of each State acting singly to restore them. But where the basis of lack of confidence lies at home—in uncertainty regarding the future of the currency, or in the existence of avoidable hindrances to private investment—the first aim must clearly be to take such action as will restore confidence. Nothing could be worse designed to accomplish this end than the imposition of exchange restrictions. The whole coercive power of the State would have to be used to bring the capital back to the prison constructed for it; private domestic investment in these circumstances could not but be

discouraged, and the State would be pushed further and further along the lines of public investment and the direct control of private industry.

48. The effect of exchange restrictions is of course to prevent new capital movements, both inwards and outwards, from taking place. Obviously, no foreign capitalist is likely to be willing to lend capital to such a country when he knows that he will not be allowed to withdraw it again freely. The balance between the demand and the supply of foreign exchange will thus be rendered less favourable to a country which normally enjoyed a net import of capital. It is not, however, necessarily rendered so unfavourable as would have been the case had capital flight not been checked by the control. Indeed, were it possible to confine the control to inward and outward capital movements, the only disadvantage that the country would necessarily suffer would be the shortage of foreign capital supplies. How grave this disadvantage is likely to prove in any particular case naturally depends on local conditions. To a country that is poor in capital and has been in the habit of looking to foreign capital markets for commercial credit, the most serious obstruction to enterprise may be caused. But to richer countries, the advantage of checking the export of domestic capital may outweigh the disadvantage of damming foreign supplies. The imposition of exchange control might therefore present a net advantage to such countries in certain cases, were it possible to confine it to capital movements only.

49. There appears, however, to be no single case of exchange control's being confined to capital movements throughout the period of its imposition. Indeed, it was in no case introduced with the sole object of preventing capital flight. Countries which resorted to this measure had in all cases suffered a worsening of their balance of trade, and controlled exchange with the deliberate intention of checking imports and thus, they hoped, of protecting their foreign-exchange reserve by reducing payments abroad on account of imports, while allowing commodity exports to continue as freely as before.

50. Moreover, it is doubtful whether any country amongst whose population there was a strong desire to export capital

could effectively check that export without applying its control to commodity trade. When confidence is not seriously shaken, a control on capital movements alone may prove adequate ; but it is not often that this is the case. One of the main criticisms of the system of exchange controls is that it cannot in itself remedy the difficulties that have led to its adoption. On the contrary, it perpetuates these difficulties and reinforces the lack of confidence thereby created both among the nationals of the country concerned and abroad. Wherever possible, the private citizen will find ways and means of circumventing the control, and gradually, if it is to be made relatively effective, it must be extended to all transactions, whether financial or commercial.

51. From the foregoing, two facts are clear. In the first place, whatever may be the original purpose of exchange-control, it tends rapidly to be applied to the whole gamut of foreign-exchange transactions, from tourist traffic to merchandise trade. Secondly, the volume of gold and foreign exchange currently becoming available to States applying exchange control tends, as a result of the restrictive effect of the control on new capital movements, to become increasingly dependent on their balance of merchandise trade. It is accordingly necessary to analyse at some length the effect of exchange-control on the balance of merchandise trade.

52. It has been suggested above that one of the objects of exchange-control has been to improve the balance of merchandise trade by restricting imports. Another, as mentioned in an earlier section, has been to protect the currency—*i.e.*, prevent its depreciation. Now, the improvement in the trade balance which exchange-control seeks to bring about will only be accomplished if the export trade is not adversely affected by the measures adopted, or at any rate not more adversely than imports. There are, however, several reasons why the export trade is adversely affected.

53. At the time that most of the exchange controls were imposed, the world was suffering from an intense and painful fall in prices. Naturally, the extent to which such deflation is

possible is limited by social considerations ; and whether or not an exchange-control is imposed, currency and prices cannot be contracted indefinitely. But there is no doubt that the introduction of exchange-control relieved the pressure on internal prices and tended to make the export goods of the countries in question relatively dear.

54. Indeed, as has already been indicated, certain countries have seen in this freeing of their domestic price-level from external influences an outstanding merit of the system of exchange-control. Under the protection afforded by exchange regulation, they have been able to carry out a policy of internal credit expansion which raises internal prices much above the world level. Exchange regulation makes it possible to carry out such a policy owing to the strict supervision of all the items of the balance of payments, including the claims of foreign creditors. Whatever the apparent immediate advantages may be for the country thus expanding credit, it is clear that relatively high domestic prices must reduce their export capacity.

55. Their export capacity will be reduced, not because of the expansionist monetary policy, but because of the fact that it is combined with the maintenance of the exchange rate, through the control, at a level higher than would have been the case if the exchanges had been free. In other words, the control renders export goods dear for two reasons : first, because prices in terms of domestic currency are relatively high and, secondly, because the domestic currency is over-valued.

56. The influence of the latter factor is important, for, even if the domestic monetary policy is unchanged after the imposition of exchange-control, it is likely to have an unfavourable repercussion on the export trade. The restriction of imports will tend to lead to a rise in their price, and this rise will spread through the domestic market and affect the costs and prices of goods manufactured for export. Moreover, the fact that exporters are not allowed to dispose freely of the proceeds of their sales abroad, but are required to sell them to the control, naturally reduces the attractiveness of this trade.

57. When costs rise in terms of domestic currency, and the exporter is forced to sell at world prices and can only convert his foreign-exchange receipts at the official rate, the exchange control is equivalent to a tax on exports. The obverse is true with regard to imports, but the losses in the export industries are not, in aggregate, offset by gains to the import industries, because the volume of imports is reduced.

58. Thus, the general tendency of exchange control is to restrict exports as well as imports. For this reason, the Governments imposing exchange control have frequently found it necessary to supplement it with measures designed to subsidise exports, or have ultimately had to give up one of the principal objects of the control—namely, the protection of the parity—and to permit or acknowledge some measure of exchange depreciation.

59. Statistics of export and of general wholesale prices of various countries are established on such different bases and are affected by such a wide variety of factors that strict statistical proof of the tendency of prices to rule higher in exchange-control countries than in those with free currencies cannot be adduced. Certain interesting indications in this respect are, however, given in Annexes I and II to this report. The currency depreciation which most countries imposing exchange-control have been forced to allow is illustrated in Annex III.

But, even with exchange depreciation, it seems clear that these countries have, as a group, not been able to retain their share of world exports—a result which would be expected in view of their higher prices. Table I, below, shows the percentage share in world exports, excluding exports from the United States, of sixteen European exchange-control countries,¹ the countries of the former gold block² and the rest of the world, in 1929, 1931, 1935 and 1937. The United States is excluded from this table because this country accounts for so large a share of

¹ Austria, Bulgaria, Czechoslovakia, Denmark, Estonia, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Poland, Portugal, Roumania, Turkey, Yugoslavia.

² France, Belgium, Netherlands, Switzerland.

world trade that the charges in her exports, which have been influenced by many factors other than her competitive power in world markets, such as the cessation of capital exports after 1929, tends to distort the picture so far as the relative share of world trade of other groups of countries is concerned. Moreover, there is a serious difficulty of classification, as the United States belonged to the gold *bloc* in 1931, but not in 1935 or 1937.

Table I.

PERCENTAGE SHARE OF CERTAIN GROUPS OF COUNTRIES IN GOLD VALUE OF WORLD EXPORTS, EXCLUDING THE UNITED STATES.

	1929	1931	1935	1937
European exchange-control countries	23.48	27.19	21.68	22.53
Gold <i>bloc</i>	14.53	15.86	13.41	12.08
Other countries	61.99	56.95	64.91	65.39
	100	100	100	100

The European exchange-control countries increased their share in world exports considerably between 1929 and 1931, but after the imposition of control in 1931 it fell very sharply, and though there was some subsequent recovery it remained below the 1929 level, and far below the 1931 level, in 1937.

Table II, below, shows, in absolute figures, the imports and exports of the European countries applying exchange-control along with their combined trade balances.

Table II.

GOLD VALUE OF FOREIGN TRADE OF SIXTEEN EUROPEAN COUNTRIES APPLYING EXCHANGE-CONTROL.

(In millions of old gold dollars.)

	1929	1931	1935	1937
Exports	6,347	4,497	2,217	3,023
Imports	7,299	4,010	2,339	3,005
Balance	—952	+487	—122	+18

The deterioration in the trade balance which took place after 1931 was followed by special measures to stimulate exports, including, in many countries, the abandonment of the old parity

which it was the object of the control to protect. If these countries had maintained the share in world exports which they enjoyed in 1929, their exports in 1937 would have been about 130 million old gold dollars (i.e., 220 million dollars of present gold content) higher than they actually were. Had exports been maintained at their relative 1931 level, they would have been \$(old)625 million (\$(new)1,050 million) higher.

60. The figures given in the above tables understate the real decline in the exports of exchange-control countries, and this for two reasons: (a) the use of the artificially maintained official rates of exchange to convert their trade into "gold" values unquestionably exaggerates the importance of their trade when compared with the value of the trade of countries with free exchanges, the more so as a large part of their trade does in fact take place at rates of exchange lower than the official rates; (b) as will be shown below, the exchange-control countries tend to trade at relatively high prices, which fact also tends to exaggerate the importance of their trade when only values are considered.¹ Detailed data on the quantum of exports given in Annex IV do, indeed (in spite of the qualifications to which such figures are subject), suggest that the countries applying control have been able, in most cases, to export less than competing countries with free exchanges. The relatively low level of German exports, particularly as compared with those of the United Kingdom and the United States, is especially striking when account is taken of the various methods of export-subsidy applied in Germany.

61. Exchange-control, by restricting exports, therefore tends to affect adversely the balance of trade and to stimulate the creation of one of the very conditions that it was imposed to counteract. As exports contract, the current supply of foreign exchange is reduced likewise, and the country in question finds it increasingly difficult to pay for its imports and may be

¹ On the other hand, some exporters in countries whose control system requires them to surrender a fixed percentage of their export proceeds at the official rate and leaves them free disposal of the balance may deliberately understate the value of their exports in the official returns.

forced still further to restrict purchases or, as has been indicated above, to supplement this control by export subsidies, or to allow the currency to depreciate. The difficulty applies equally to all classes of imports, *inter alia* to raw materials. An artificial shortage is thus created in the domestic market and if raw materials are necessary for the manufacture of export commodities, the competitive power of this country on foreign markets is still further weakened.

62. When the exports of a country imposing exchange control are mainly agricultural produce, it is the farmer, in the first instance, who suffers from the tendency of exchange-control to reduce exports and to twist the price structure in a manner unfavourable to the exporter. In a country exporting industrial products, the pressure will make itself felt on wages and profits. The workmen will suffer a loss of wages, and with the reduced prospects of profits, enterprise in export industries will slacken.

63. If an adjustment of the exchange rate is not permitted, the price-level of the exchange-control country tends to be raised to a point where it can with difficulty conduct trade, except with other countries in an analogous position; and, naturally, while each one of these countries may find in the others a market at which it can sell at a remunerative price, they are no more inclined than are countries with free currencies to buy where goods are relatively dear.

64. Four possibilities present themselves to such countries. One has already been mentioned: it is to force certain classes of prices—prices of export goods—well below the general level, compensating the producer of these classes of goods as best may be. Another is to endeavour by measures of internal deflation to counteract the influence of exchange-control in restricting the flow of exports. This policy has been attempted in certain countries with some measure of success, but the social pressure of deflation has proved so intolerable that it has not been persisted in. The third possibility is that trade will gradually develop between certain of these countries and contract elsewhere. The fourth is that, in the face of these difficulties, the level of the currency will by one means or another gradually be lowered.

65. The first policy indicated above—that of export subsidy—is being applied in several countries. The second is now only of historical importance. As regards the third, there is some evidence that the play of economic forces has tended towards an increase of inter-exchange-control-country trade, but that this tendency has been checked, in certain cases, by special measures adopted by Governments, or simply by the control lowering its prices for the exchange of other controlled currencies. Countries with exchange-control are, indeed, as a general rule, no less loth than are other countries to export to destinations in which they cannot make free use of the foreign monies obtained. As exporters, they are fully aware of the impediment to trade that exchange-control involves. On the one hand, therefore, the price situation has tended to develop the trade of exchange-control countries with each other relatively to their trade with free-currency systems, while, on the other hand, deliberate policy aimed at securing free devisen from exports has, except in the case of Germany (and, to a less extent, Italy) tended to curtail it.

66. Figures are given in Annex V showing the recent changes in the share of total exports of sixteen European countries applying exchange-control consigned to Germany, to other European countries applying exchange-control, and to the rest of the world. The most striking and significant feature of this Annex is the large increase in the relative importance of the German market for most of these countries. That country is geographically well situated to carry out an active trade policy in many of the countries applying exchange-control. Through the mechanism of clearing agreements described above, she has been able to offer high prices in the domestic currencies of the countries concerned for the raw materials and agricultural produce she needs. These countries, having no easy access to other markets, were willing to let these purchases continue, even though they resulted in large uncleared balances which could finally be liquidated only through the import of German manufactures. As many of the exchange-control countries of Eastern and South-Eastern Europe have wished to dispose of free exchange for the import of raw materials necessary for their industrialisation, they have attempted where possible to divert exports to countries with free exchange. Their possibilities

have, however, been restricted, *inter alia* by the fact that so much of their requirements of manufactured goods—which the free-exchange countries expect to give in exchange—have been supplied by Germany through the operation of the clearing system.

67. By way of recapitulation, it is worth mentioning two facts connected with clearing agreements, particularly between countries both of whose currencies are controlled, which appear to be of special importance.

68. The first is that a country which is compelled to expend the whole of any given sum of money (in this case the proceeds of its exports) in one single country ceases to have a free choice of markets and therefore often tends to buy on the average at higher prices than it would, had it a free choice. This restriction of choice is all the more important when, as has just been indicated, an increased share of the exports of a country with exchange-control goes to another country or other countries similarly situated. The same tendency can also frequently be discerned in the exports of exchange-control countries—*i.e.*, they tend to sell to other exchange-control countries at higher prices, in terms of their own currencies, than to countries with free exchanges. In Table III below, some figures are given showing the average export prices of certain articles from Hungary in 1936, according to whether the articles were consigned to exchange-control countries or elsewhere.

Table III.

HUNGARY: AVERAGE EXPORT PRICES OF CERTAIN ARTICLES, 1936.

(In pengö per quintal.)

	Exports to:		
	Exchange-control countries	Other countries	All countries
Wheat	16.01	11.15	14.09
Wheat flour	22.70	12.96	18.53
Chickens, etc.	132	87	118
Fresh butter	108	115	158
Eggs	89	70	87.5
Malt	23.49	13.68	19.68
Rye	12.69	8.51	12.63

Where trade with other exchange-control countries increases, this means, not only that exports fail in large measure to give rise to free devisen, but also that the possibility of buying imports at world-market prices must to some extent be foregone and higher prices paid in order to work off clearing balances and equalise bilateral trade. Where exchange-control has been applied as a deliberate policy and system of trade, the payment of relatively high prices for imports which do not require the expenditure of devisen has been chosen as representing the lesser evil. Cases have even been reported of an exchange-control country purchasing a raw material produced in a second exchange-control country at a relatively high price, transporting the commodity several hundred kilometres by rail and offering the commodity for sale in a third free-exchange country (one of the traditional customers of the producer) at a price so low, in the free currency, that the producer of the commodity could not compete without loss. In this case, the intermediary exchange-control country found it worth while to take a loss on the commodity and on the transport in order to acquire some foreign exchange. Obviously, such methods require a very high degree of centralisation and State control. These tendencies render it little surprising that certain countries applying exchange-control have recently attempted to resist the embrace of similar countries—particularly in the case of countries which have made satisfactory arrangements with their foreign creditors—and to further their trade with countries maintaining free exchange systems.

69. The second aspect of clearing agreements to which it is worth directing special attention is that, whenever the rate of exchange employed diverges from the free market rate, it becomes extremely difficult—indeed, impossible except by deliberate restriction of trade—to maintain a balance between exports and imports. The reason for this fact is obvious. For, if the currency of one country is given an artificially high value in the clearing agreement, it will pay to import from the other country, but it will not pay to export to it. But when both currencies are controlled it is impossible, without relaxing the control, to ascertain their relative values. In consequence,

uncleared foreign-exchange balances tend to accumulate; money is left idle; and the balances are only liquidated by purchases of goods at high prices.

70. Thus, trade between two exchange-control countries may be maintained on a basis which has little relation to world prices. For example, a great industrial country, practising exchange control, may be ready to purchase very large quantities of agricultural produce at very high prices, provided they can be obtained under a clearing system against payment in blocked currency. This blocked currency may then be drawn upon by the agricultural country for the purchase of industrial goods, but these goods in their turn are sold at equally high prices. Moreover, the industrial country may not be willing to sell any but fully manufactured goods. Thus the agricultural country, if it needs raw materials, is forced to seek them by selling part of its produce to a free-exchange control. But it is hampered by the high level to which its internal prices have been forced by the clearing trade as compared with the competitive prices ruling in the non-clearing markets. And if it seeks to acquire foreign exchange for the purchase of raw materials and not for the purchase of the manufactures offered by the non-clearing country, that country will be little interested in encouraging the trade: indeed, its nationals may press their Government to institute a clearing so as to secure that the proceeds are used either for the settlement of debts or for the purchase of their domestic manufactures. The clearing system therefore tends to spread, and the trade of the world becomes more and more sharply divided between two different systems: (a) one in which transactions, on both sides, are carried out at world prices; and (b) the other, when they are carried out under clearing arrangements between countries restricting exchange transactions and at controlled prices.

The latter system, while affording an outlet for the produce of agricultural countries, tends in the long run to hamper their economic development by making it more and more difficult for them to enter into competitive markets or to acquire the raw materials they need.

If world trade is to be revived, means require to be found to bridge the gap by a realignment of prices between the controlled

clearing system and the free system, which in particular cases might involve an alignment of currencies and a revision of budgetary policies. Failing this, countries practising exchange control who wish to free themselves from the entanglement of the clearing system could find some relief : (1) by reducing their sales to other exchange-control countries which still wish to maintain clearings ; (2) by insisting that part at least of their sales to such countries should be paid for in free currencies ; or (3) by granting special terms (*e.g.*, in connection with the disposal of the proceeds of exports) to persons who engage in trade with free-currency countries.

Some General Effects.

71. The preceding paragraphs of this section have been concerned with the effects of exchange-control on the foreign trade and balance of payments of the countries applying it. It has been shown that exchange-control not only limits international lending and world trade in general, but also twists and raises the price structure of the country applying it in such a way as to reduce its export capacity on world markets ; that countries applying control tend to trade more among themselves and less with countries having free exchanges ; and that these countries tend to trade at higher prices than those prevailing on world markets. No analysis of the effects of exchange-control, however, would be complete without a reference—albeit brief—to some of the more general aspects of this particular mechanism.

72. Perhaps the most important general aspect of exchange-control to which it is worth directing special attention is the fact that the successful operation of this system requires an extremely high degree of State interference with, and control of, all branches of economic life. It has been suggested above that an attempt to control capital movements can hardly be successful unless the control is extended to all foreign-exchange transactions. This means that the State not only prevents exporters from disposing freely of the proceeds of their sales abroad, but also allots the available supply of devisen according

to criteria which the State sets up and which the State alone can alter. In some countries, this increased State control has fitted in with general policy, but in others—notably those where exchange-control was adopted and retained as a measure of defence against the unfavourable state of the balance of payments—increased administrative control has not been welcomed as an end in itself and attempts have been made, where possible, to relax it.

73. There are at least four different stages at which the State or the control authority is required to take decisions regarding the allotment of devisa which may affect profoundly the whole economic structure. In the first place, it must decide how much to allot for different *purposes*—how much for commodity imports, how much for the service of foreign debt, how much for tourist traffic, etc. Having once decided how much to allot for imports, the State must next decide how to distribute this amount among different *countries*. Objections are frequently raised to exchange-control on the ground that it constitutes a form of commercial protection not subject to the commercial treaties in force, applied in contravention of the most-favoured-nation clause and such as to facilitate preferential treatment. These objections are no doubt well founded, but, on the other hand, there have been cases where the control has been applied in a liberal spirit and so as to constitute a minimum of interference with the normal channels of trade. In Denmark, for example, the import of certain goods is quantitatively restricted, but once an import licence is obtained, foreign exchange is freely placed at the disposal of the importer without administrative complications. To some extent, those charged with the administration of the control can avoid injustice by determining their allotment of exchange on the basis of the distribution of imports in the past according to country of origin. But economic progress is of course not achieved by confining trade to the channels dug in the past. Thirdly, the control authority must decide how to distribute the devisa available for imports among different *commodities*. In taking this decision, it is in a position to influence profoundly the whole economic structure. Certain branches of industry

must be favoured at the expense of others ; a stimulus can be given to development along certain lines, while for others it becomes impossible to carry on. If industrialisation is pushed through exchange-control, its immediate effect is to secure a re-distribution of income away from those engaged in agriculture and in favour of those who are fortunate enough to be engaged in the favoured lines. Finally, the authority must allot exchange among competing *firms* : the opportunities for abuses in this connection are too patent to require elaboration.

74. The full significance of this allotment of foreign exchange by arbitrary administrative decision is perhaps best realised when it is compared with what happens under a system of free exchange. In the latter case, price—a completely impartial factor—serves as the mechanism of allotment. If the total demand for foreign exchange for all purposes is greater than the total supply, its price rises until the two are equated, so that there is no problem of discriminating among demands for different purposes. The less urgent needs are excluded by price, and there is no direct interference in the process of production and trade. Vested interests do not grow up which are dependent on the continuance of an artificial system of control and allocation and which accordingly resist any attempt to change that system.

75. Closely allied to the tendency described above for exchange control to lead to the regimentation of the economic system is its tendency to lead to progressive *étatisation*—an increase in the complexity of the administrative machinery, an increase in the number of State officials, a decrease in the sphere of activities which citizens are able to undertake without securing the permission of a State organ. One example will be sufficient to illustrate this tendency : the foreign-exchange department of a European central bank whose business was in 1930 conducted efficiently by thirty persons, to-day employs over 700. The system, if it is to be successful, requires an extremely large and efficient staff to administer the necessarily complicated regulations, to scrutinise and decide on each individual request for foreign exchange, to check the repatriation of export proceeds, to guard against attempts to circumvent

the exchange regulations, and so on. In this connection, too, it must be observed that the development has by no means been uniform in different countries: in some, *étatisation* has been desired on general grounds, and exchange control has been used as one of its instruments; in other States, based on more liberal concepts, the tendency towards *étatisation* had been more restricted.

76. Finally, it is clear that exchange control involves the expenditure of time and money; the exporter is uncertain of obtaining payment; the importer is uncertain of obtaining exchange allotments. Business-men are naturally reluctant to plan for the future when they are uncertain, for example, whether they will be able to obtain some essential raw material or machine at a given price, or whether, indeed, they will be able to obtain it at all. The discouragement of private business enterprise through the introduction of arbitrary and unpredictable elements into economic life must accordingly be counted as one of the most important indirect effects of exchange control.

IV. Measures of Relaxation.

77. The following notes, which summarise the measures that various national authorities have adopted to relax control in recent years and the conditions of further relaxation, are mainly based upon the replies received to the enquiries conducted by the Economic and Financial Committees.

78. *Denmark.* After having suspended convertibility and introduced exchange control in the autumn of 1931 (including the obligation to deliver foreign exchange and the licensing of imports), Denmark gradually freed transactions with foreign countries. At present, about a third of the country's imports require no licence. Where restrictions subsist, they relate to the volume of trade and not to its value; if an import licence is granted, foreign exchange is made available without restriction. There are no arrears of merchandise debts. The exporter is free to sell his foreign exchange at the bank of his choice.

Monetary restrictions have not interfered with the punctual discharge of all foreign obligations. The transfer of the yield of foreign investments in Denmark has been subject to licence, but there are now practically no frozen assets on this account. Some restrictions have in the past had to be imposed upon the repatriation of foreign capital, but the position has since been reversed, and Denmark now restricts the influx of short-term money.

It is considered impossible to dispense altogether with control so long as other countries preserve their systems of high tariffs and quotas. Denmark would be able to abolish the remaining restrictions on capital movements if the money and capital markets in Europe were further stabilised.

79. *Bulgaria.* Exchange control has been applied since the war with a brief interruption in 1929, when far-going measures of relaxation were attempted, only to be abandoned shortly afterwards.

A very rigid regime introduced late in 1931 limited imports to 50% of the quantities, in each category, imported in 1931 and required the surrender to the National Bank at the official rate of all export exchange. At the end of 1934, the severity of this regime was tempered by the authorisation of private compensations, the exchange derived from export of certain articles (chiefly luxury articles) being sold to importers at a premium subject to the approval of the National Bank and imports paid for in this manner being freed from quota. This system was complicated: there were several lists of commodities according to which the premia varied, but it was an alleviation of what had gone before, and its application was attended by a 30% increase in foreign trade (1935 over 1934). After the currency devaluations of the autumn of 1936, further simplifications were introduced. Since November 1st, 1936, exporters, after delivery to the National Bank of a certain percentage of the free exchange acquired by them, are free to sell the remainder for compensation purposes to importers at a premium not exceeding 35% and approved by the National Bank. It has thus been possible to drop import quotas.

Control in this form is not considered seriously to inconvenience Bulgaria's economy. The system as at present practised

is held to be appropriate to Bulgaria's needs as a small agricultural country.

80. *Czechoslovakia* has greatly relaxed control. There has been no interruption of her foreign debt service ; there is no black market, no discount abroad on Prague bills. Control is virtually limited to capital movements and to the licensing of certain categories of imports. This system, without going quite as far as Denmark's towards liberty, is working in that direction. Czechoslovakia's difficulty in proceeding further is illustrated by the facts that merchandise debts owing to her from exchange-control countries are not decreasing, and that she has to buy essential raw materials from free-exchange countries which do not take her exports in corresponding values. Her problem is : how to replace a surplus on clearing accounts by a free-exchange surplus ?

81. *Estonia* has, where possible, abandoned clearings and negotiated payment agreements. She is now able to meet most foreign currency demands. She would proceed further on these lines if she had not to reckon, in many quarters, with either frozen merchandise debts or a system of quotas which can only be met by the adoption of similar methods. Finally, relaxation might deprive her of means for checking a flight of capital were one to ensue.

82. *Hungary* has substituted for most of her clearings payment arrangements of a more elastic character. She has unified the premia and surcharges applied in normal transactions. It is not considered possible to go over to a free system unless four conditions can be fulfilled :

- (1) A permanent favourable trade balance ;
- (2) Abolition of exchange restrictions in the countries with which the bulk of Hungary's trade is transacted ;
- (3) Reinforcement of the gold and foreign-exchange stocks of the National Bank, in order to be able to face disturbances that might occur in the period of transition ;
- (4) A permanent and total settlement of foreign indebtedness, which in its turn depends upon the attainment of a lasting favourable trade balance.

83. *Poland's* adoption of control (only in April 1936) is held to have been forced upon her by hindrances to movements of labour and goods set up by other countries. Abandonment of control in the Polish view cannot be encompassed unless Poland is enabled, by a more liberal policy in other countries, especially where labour movements are concerned, to restore equilibrium in her balance of payments. However, there has been some relaxation of the system introduced in April 1936. A decree issued in November 1937 permitted the transfer abroad of the service of new loans, without obtaining the consent of the control, provided that the interest does not exceed the Bank of Poland's discount rate, that the proceeds of the loans are transferred through a Polish bank, and that borrowers declare to the exchange authorities the conditions of each loan. The liberal application of exchange control in foreign trade is illustrated by the fact that, since its establishment, imports into Poland have risen considerably. In spite of this rise in imports, there has been no accumulation of commercial debts, as in practice import licences, as a general rule, entail the grant of foreign exchange to meet invoices when due. Producers' associations are, so far as possible, used to determine the sources of raw materials.

Control was imposed after several years of deflation and in a period when world prices were rising, and does not appear to have exercised an unfavourable influence on the relation between domestic and world prices.

84. *Roumania* had to contend with an accumulation of merchandise debts, following the introduction of control. She settled the bulk of those debts and of coupon arrears, and a considerable part of private debts. The application of different rates for the conversion of exchanges in exchange and clearing agreements, and the institution of payments in free exchange, in variable proportions, provided for in certain agreements, have increased the elasticity of the working of the control.

Moreover, the contingent system has been relaxed or altogether suppressed for an important part of Roumanian imports. But importers frequently tend to draw their imports precisely from those free-exchange countries to which Roumanian exports

have been most reduced. Thus, the old difficulties tend to reappear, and the quotas that had been dispensed with may have to be reintroduced.

Further attempts to move towards freedom are considered premature as long as Roumania's active trade balance fails to cover her passive balance of accounts. Progress depends on the willingness of the great creditor nations to admit a sufficient excess of imports in their trade with Roumania. Further, an atmosphere of international appeasement and confidence is regarded as an indispensable condition.

85. *Yugoslavia*, as a result of the increased imports and better agricultural prices, has notably relaxed exchange-control, decreasing the proportion of export exchange which must be surrendered to the National Bank until at present the exporter is permitted to sell freely, to importers, 75% of the proceeds of his sales of goods abroad.

With free-exchange countries, Yugoslavia's transactions are now free. But she considers it impossible to revert to complete freedom, so long as countries taking most (at present 70%) of her exports continue to apply exchange control. Complete abolition could only be brought about as the result of a new international monetary system, with guarantees against arbitrary procedure.

Further steps towards liberty might be facilitated by: (1) international action to raise agricultural prices in relation to industrial prices; (2) freedom of international capital to find employment in Yugoslavia; (3) foreign debt settlement on a basis adapted to present capacity of payment.

86. It may be recalled that *Austria*, before her incorporation with Germany, had done much to relax exchange regulations, which in their recent form were held to constitute no obstacle to trade with free-exchange countries. Where exchange-control countries were concerned, Austria found it necessary to regulate her trade with them by means of clearings or compensation agreements. In 1937, a year of trade expansion in Austria, her transactions with free-exchange countries increased by 50%, with control countries by only 16%.

Given the number of European countries practising exchange-control, it was suggested in the Austrian reply that the adoption of a free system would be facilitated if several countries were to undertake it simultaneously, and if the risks of the transition period could be guarded against by means of an international equalisation fund.

87. Finally, it may be of interest to note the case of *Portugal*, where control was introduced in 1914, and complete liberty was restored in October 1937, save for the obligation to transact exchange dealings through an official agency. Clearings exist between Portugal and certain exchange-control countries.

A series of relaxation measures, taken over several years, led up to the abrogation of control. The delivery to the control of export exchange was gradually done away with, the percentage freely retainable by the exporter being increased in November 1932 to 75%, and in December 1933 to 95%. The maximum amount of currency that might be purchased in a single transaction without special authorisation was fixed at £5 in 1924, and was subsequently increased, reaching £100 in November 1932. At present, there are no restrictions on capital movements, of whatever amount, nor are exporters obliged to surrender any part of the proceeds of their sales abroad.

Some General Considerations regarding Relaxation.

85. It will be observed from the foregoing summary of replies that, in most countries, the authorities have been able to effect some measures of relaxation of exchange-control, and that in all the countries covered by the replies the value of the currency has been adapted (to a greater or less degree) to price conditions on world markets.

89. An important factor which enabled this measure of relaxation to come about was the rise in commodity prices and in the value of world trade which took place after 1935. With the reversal of these tendencies which took place in connection with the recent industrial recession, the movement towards relaxation of exchange-control appears to have stopped and in many cases to have been reversed. Many

countries, particularly those exporting raw materials or primary foodstuffs, have found that, with the sharp decline in world prices for their products which has taken place since the first quarter of 1937, it is difficult for them to maintain a balance of payments adequate to pay for essential imports and at the same time to provide for the service of their foreign debts; in the case of the Argentine, the position has been further complicated by partial crop failures.

90. A general factor to which many of the replies drew attention is the difficulty encountered by smaller countries in relaxing exchange-control by unilateral measures so long as control is maintained by countries which take a large share of their exports. In such circumstances, the exports of the smaller countries applying exchange control do not provide free devisen, and these countries are compelled to take measures to stimulate imports from the exchange-control countries which provide their principal markets, both in order to prevent the accumulation of arrears and also because insufficient exchange from other sources is available to meet their requirements. They are consequently compelled to ration the exchange obtained from countries with free currencies, in order to obtain essential imports which cannot be furnished by the exchange-control countries. At the same time, the stimulation of imports from other exchange-control countries through clearings limits the possibility of acquiring free exchange for the purchase of raw materials through increasing exports to free-currency countries, as the latter wish to supply manufactured goods which have already been imported in large quantities to liquidate clearing balances.

91. The measures of relaxation and adaptation of exchange control which have been effected in the countries mentioned above may be conveniently classified as follows :

(a) Permission to exporters to sell an increasing proportion of their foreign exchange freely on the domestic market ;

(b) Permission to exporters to sell an increasing proportion of their foreign exchange on the market at (or above) some predetermined price which is below the "official rate" ;

(c) Employment in clearing agreements of a rate of exchange approximating to what is believed to be the free market rate ;

(d) Granting of premia on exports and imposition of surcharges on imports assumed to be equivalent to the difference between official rates and what free market rates would be ;

(e) Substitution of import licences for exchange control as regards imports and freeing of an increasing proportion of total imports from licence obligation ;

(f) Devaluation while maintaining control.

92. The first of these measures, which was so successfully applied in Portugal and Austria, and has been adopted to a greater or less extent elsewhere, has the great merit that it permits the real rate of exchange to be gauged. That rate can only be accurately gauged when all transactions have been thrown on the private compensation market, and to do that is equivalent to the abolition of exchange control for commodity trade. Even when exporters are compelled to surrender some part of their exchange to the central bank—for instance, to meet the demands of the Government for foreign exchange—so long as that portion is not very large, the market rate so determined is not likely to differ widely from the true market rate.

93. The compulsion to surrender a part of foreign exchange proceeds to the National Bank at an official rate different from the free rate for the purposes of the Governments is equivalent to the imposition of a tax on foreign trade, the incidence of which on exporter and domestic consumer will depend on local conditions. It is a tax maintained for reasons of recent history rather than on account of any intrinsic merit. It tends by its nature to enfeeble its own source, which is the foreign trade of the country.

94. If the market rate is fixed and the transactions take place at that rate and not above it, then the change in the control resulting from the permission to do business at that rate is equivalent to a maintenance of full control plus a partial

devaluation. The absence of a real free-market price continues to involve the consequences set out above : the adjustment of domestic prices to the world level is still prevented, though the degree of maladjustment may be less.

95. Premia on exports plus a surcharge on imports are likewise equivalent to a partial devaluation plus the maintenance of exchange control. If the premia and surcharges are equivalent and equal as regards all countries of origin and destination, they differ from devaluation only in form. If they are not equivalent, and the surcharges exceed the premia, then those surcharges have the same influence as an import tariff ; if the premia exceed the surcharges, they are equivalent to an export subsidy. If the surcharges and premia are not identical for all countries with a free-currency system, then trade is artificially directed from its natural channels in certain predetermined directions. The surcharges and premia, in fact, become preferential duties and preferential export subsidies. But this is by no means necessarily the case if the surcharges and premia vary only as regards other countries with exchange-control. Such variations may be nothing more than an attempt to correct this over-valuation of such currencies. How far such surcharges and premia (simple or multiple) reflect real market values it is impossible to determine in the absence of a free market. Were there a free market, the surcharges and premia would of course no longer be required.

96. Every approximation of the rate of exchange in clearing agreements to the market rate is a step in the right direction and will diminish many of the more serious defects of clearing agreements. But, in the absence of a free market covering a large proportion of trade transactions, the appropriate rate can only be guessed.

97. The replacement of exchange-control by a licensing system as regards imports presents the real advantage that, for those commodities not subject to licences, the normal price economy can play. But it is only to the extent to which (a) goods are exempt from the licence check and (b) the exporter can dispose freely of his foreign-exchange proceeds at rates

corresponding to market conditions that the substitution reduces the general economic disadvantages of exchange control described above. For, if the effect of the substitution of quantitative trade restrictions for exchange-control is to keep the domestic price-level relatively high, then exports will be discouraged. In such circumstances, it is the freedom given to the exporter to sell his exchange and not the replacement of exchange control as regards imports by import licences that constitutes the substantial measure of relaxation.

98. It is inevitable that exchange control, like other trade restrictions, should tend to raise domestic prices and should in consequence render the exports of countries practising this system abnormally dear. It does not follow, however, that domestic prices will rule higher than they would have ruled had currency alignment been permitted. Under both systems, imports are checked; under exchange control, exports are checked also. It may also check production. In consequence, the total national income in a country resorting to exchange-control is likely to be lower than it would have been had it allowed its currency to fall to an equilibrium level.

99. When a decision to adjust currencies is taken, it is, however, important that the degree of devaluation should be adequate. Any sudden change in values such as that resulting from devaluation inevitably involves a shock to the whole economic system, and it is better to effect the necessary adjustment by a single measure than by a series of steps each one of which may give rise to the expectation of the next and by that very fact weaken confidence and check business enterprise. On the other hand, it is at least equally important that the degree of depreciation should not be excessive, or it will set in train new repercussions affecting other countries. What is required in countries where the internal price-level is, at the prevailing rates of exchange, out of line with world prices, is such minimum readjustments as are necessary to establish equilibrium and to further the considerable progress already made in the alignment of currencies.

ANNEX I.

EXPORT PRICES, IN GOLD. ^a

1930 = 100.

	DENMARK		ESTONIA		IRELAND		NEW ZEALAND	
	Export price in gold	Percentage currency depreciation	Export price in gold	Percentage currency depreciation	Export price in gold	Percentage currency depreciation	Export price in gold	Percentage currency depreciation
1931	<i>73.1</i>	6.5	<i>84.9</i>	0.2	83.6	6.8	68.3	14.7
1932	<i>48.0</i>	29.7	<i>63.4</i>	0	56.6	28.0	47.5	34.2
1933	<i>45.4</i>	44.2	<i>54.0</i>	17.6	43.8	31.9	39.9	45.3
1934	<i>44.8</i>	49.9	<i>49.5</i>	37.9	37.7	38.2	44.4	50.7
1935	<i>47.2</i>	51.5	<i>51.0</i>	39.9	36.9	40.2	42.3	52.3
1936	<i>50.4</i>	51.0	<i>52.1</i>	39.2	40.3	39.5	49.0	51.5
1937	—	51.4	—	39.6	44.9	40.0	55.8	51.8

	URUGUAY		SOUTH AFRICA		AUSTRALIA	
	Export price in gold	Percentage currency depreciation	Export price in gold ^b	Percentage currency depreciation	Export price in gold	Percentage currency depreciation
1931	<i>61.2</i>	46.5	<i>77.9</i>	1.4	<i>61.3</i>	27.8
1932	<i>54.2</i>	54.5	<i>60.5</i>	2.1	<i>44.3</i>	42.5
1933	<i>54.9</i>	54.6	<i>58.6</i>	32.4	<i>39.1</i>	45.8
1934	<i>69.3</i>	53.9	<i>60.2</i>	38.9	<i>48.5</i>	50.9
1935	<i>70.5</i>	53.9	<i>49.7</i>	40.8	<i>35.9</i>	52.6
1936	<i>74.8</i>	54.3	<i>61.3</i>	40.2	<i>46.0</i>	51.8
1937	—	54.8	<i>68.7</i>	40.6	<i>54.9</i>	52.2

	YUGOSLAVIA		ARGENTINE		CANADA		HUNGARY	
	Export price in gold	Percentage currency depreciation	Export price in gold	Percentage currency depreciation ^c	Export price in gold	Percentage currency depreciation	Export price in gold	Percentage currency depreciation
1931	<i>87.8</i>	0	<i>60.1</i>	30.8	<i>74.7</i>	3.7	<i>83.7</i>	0
1932	<i>60.7</i>	6.8	<i>50.6</i>	39.4	<i>61.9</i>	11.9	<i>70.4</i>	0
1933	<i>49.4</i>	22.3	<i>46.7</i>	40.7	<i>55.2</i>	26.8	<i>55.8</i>	0
1934	<i>53.6</i>	23.1	<i>44.3</i>	52.8	<i>51.8</i>	39.8	<i>59.1</i>	1.2
1935	<i>52.9</i>	23.0	<i>43.8</i>	54.3	<i>53.5</i>	40.9	<i>65.2</i>	0
1936	<i>57.1</i>	22.8	<i>52.4</i>	53.8	<i>57.0</i>	40.9	<i>59.7</i>	0
1937	—	22.7	—	54.1	—	40.9	<i>64.7</i>	0

^a Export prices of exchange-control countries are given in italics.

^b Excluding gold.

^c Official rate.

ANNEX II.

GENERAL LEVEL OF WHOLESALE PRICES IN TERMS OF GOLD.

1929 = 100.

Exchange-control countries				Free-currency countries			
	March 1932	March 1935	March 1938		March 1932	March 1935	March 1938
Hungary.....	81.8	70.2	77.7	Netherlands.....	.	60.8	59.9
Germany.....	72.7	73.4	77.1	Norway.....	59.9	44.8	57.4
Austria.....	69.6	65.6	67.8	United Kingdom	57.4	44.2	55.2
Bulgaria.....	64.9	54.9	62.7 ^a	Switzerland.....	60.9	61.2	54.0
Czechoslovakia..	75.4	63.6	55.6	Sweden.....	57.7	44.6	53.4
Yugoslavia.....	67.4	48.0	61.0	Belgium.....	64.4	52.6	54.3
Turkey.....	58.1	52.8	59.8 ^a	Finland.....	59.7	45.5	52.6
Poland.....	70.5	54.1	59.1	United States....	69.3	49.2	49.4
Italy.....	76.0	63.4	58.0	France.....	70.8	53.4	47.6
Latvia.....	73.7	70.5	57.5				
Roumania.....	.	57.6	56.8 ^b				

^a January 1938.

^b December 1937.

ANNEX III.

PERCENTAGE DEPRECIATION OF CURRENCIES, AT OFFICIAL RATES.

Exchange-control countries				Free-currency countries			
	March 1932	March 1935	March 1938		March 1932	March 1935	March 1938
Hungary.....	0	—	0	Netherlands....	0	0	-18.4
Germany.....	0	0	0	Norway.....	-26.9	-47.0	-44.8
Austria.....	0	-22.0	.	United Kingdom	-25.2	-41.9	-39.5
Bulgaria.....	0	0	0	Switzerland.....	0	0	-29.5
Czechoslovakia	0	-16.2	-30.2	Sweden.....	-25.9	-45.6	-43.4
Yugoslavia..	+ 0.8	-23.3	-21.9	Belgium.....	0	- 3.2	-28.3
Turkey.....	- 1.7	- 1.9	- 3.0	Finland.....	-36.4	-50.4	-48.4
Poland.....	0	0	0	United States...	0	-40.8	-40.9
Italy.....	- 1.5	- 6.3	-41.0	France.....	0	0	-52.9
Latvia.....	0	- 1.7	-39.5				
Roumania...	0	0	-27.6				

ANNEX IV.

QUANTUM OF EXPORTS. *

1930 = 100.

	Germany	France	United Kingdom	United States
1931.	91	85	73	82
1932.	63	66	76	64
1933.	59	67	79	63
1934.	53	67	84	69
1935.	57	60	91	71
1936.	62	57	93	76
1937.	72	—	101	97

	Denmark	Estonia	Ireland	New Zealand
1931.	105.8	86.8	89.8	101.2
1932.	104.1	69.6	73.3	113.8
1933.	93.2	66.7	65.3	130.9
1934.	85.9	89.2	65.9	122.4
1935.	81.9	97.9	72.7	121.3
1936.	84.6	100.8	75.4	130.6
1937.	—	119.8	67.8	133.4

	Uruguay	South Africa	Australia
1931.	83.2	84.3	130.3
1932.	57.6	94.0	139.2
1933.	65.0	83.5	146.2
1934.	54.6	73.0	126.9
1935.	73.3	103.8	142.7
1936.	64.9	88.8	134.4
1937.	—	108.4	133.5

	Hungary	Yugoslavia	Argentina	Canada
1931.	74.6	80.7	137.9	93.8
1932.	52.0	67.9	127.0	93.6
1933.	70.2	78.6	115.4	101.3
1934.	74.3	81.9	122.7	109.4
1935.	75.5	86.6	130.9	117.2
1936.	93.1	87.3	117.4	137.7
1937.	99.9	—	—	—

* The quantum of exports of exchange-control countries is given in italics.

ANNEX V.

PERCENTAGE SHARE OF EUROPEAN EXCHANGE-CONTROL COUNTRIES' EXPORTS TO EACH OTHER.

	Percentage of total exports to European exchange-control countries other than Germany			Percentage of total exports to Germany			Percentage of total exports to other countries		
	1929	1934	1937	1929	1934	1937	1929	1934	1937
Austria	51.6	49.8	49.5	16.5	15.9	14.8	31.9	34.3	35.7
Bulgaria	49.9	25.5	23.4	29.9	42.8	43.1	20.2	31.7	33.5
Czechoslovakia ..	42.5	30.2	28.3	19.3	21.5	13.7	38.2	48.3	58.0
Denmark	2.5	2.9	3.2	19.9	15.3	18.6	77.6	81.8	78.2
Estonia	13.6	11.1	6.6	26.6	22.5	30.5	59.8	66.4	62.9
Germany	26.1	24.1	28.4	—	—	—	73.9	75.9	71.6
Greece	25.4	20.3	21.6	23.2	22.5	31.0	51.4	57.2	47.4
Hungary	69.0	48.4	44.8	11.7	22.2	24.1	19.3	29.4	31.1
Italy	12.8	15.3	14.4	11.9	15.9	14.4	75.3	68.8	71.2
Latvia	7.8	9.5	3.5	26.4	29.5	35.3	65.8	61.0	61.2
Lithuania	10.8	11.8	7.9	59.4	21.6	16.6	29.8	66.6	75.5
Poland	35.8	22.8	19.2 ^a	31.2	16.6	14.5 ^a	33.0	60.6	66.3 ^a
Portugal	4.8	5.1	6.7	11.0	11.7	10.8	84.2	83.2	82.5
Roumania	45.4	35.8	35.6 ^b	27.6	16.6	17.8 ^b	27.0	47.6	46.6 ^b
Yugoslavia	75.5	59.3	41.7	8.5	15.4	21.7	16.0	25.3	36.6
Turkey	34.5	19.0	12.4 ^b	13.3	37.4	51.0 ^b	52.2	43.6	36.6 ^b

^a 1935 figures.

^b 1936 figures.