

C O N T E N T S .

1. Commercial Policy in the Interwar Period: International Proposals and National Policies. Part I: Historical Survey. Part II: An Analysis of the Reasons for the success or Failure of International Proposals. (1942.II.A.6.) 1-82 pp.
2. Economic Fluctuations in the United States and the United Kingdom, 1918-1922. (1942.II.A.7.) 83-129pp.
3. Relief Deliveries and Relief Loans, 1919-1923. (1943.II.A.1.) 130-161pp.
4. Report to the Council on the Work of the Joint Session of the Economic and Financial Committees, London, April 27th-May 1st, 1942. Princeton, August 7th-8th, 1942. (C.52.M.52. 1942.II.A.4.) 162-173pp.
5. Report to the Council on the Work of the 1943 Joint Session of the Financial Committees, Princeton, N.J., December, 1943. (C.1.M.1.1944.II.A.1) 174-215pp.

**COMMERCIAL POLICY IN THE
INTERWAR PERIOD:
INTERNATIONAL PROPOSALS
AND NATIONAL POLICIES**

Printed in the U. S. A.
By the TRENTON PRINTING CO., Trenton, N. J.

**ECONOMIC, FINANCIAL AND TRANSIT
DEPARTMENT**

**COMMERCIAL POLICY IN THE
INTERWAR PERIOD:
INTERNATIONAL PROPOSALS
AND NATIONAL POLICIES**

**PART I
AN HISTORICAL SURVEY**

**PART II
AN ANALYSIS OF THE REASONS
FOR THE SUCCESS OR FAILURE
OF INTERNATIONAL PROPOSALS**

**LEAGUE OF NATIONS
GENEVA**

1942

**Publications of the Economic, Financial, and Transit
Department of the League of Nations**

MONTHLY BULLETIN OF STATISTICS

STATISTICAL YEAR-BOOK OF THE LEAGUE OF NATIONS

MONEY AND BANKING, 1940-42

WORLD ECONOMIC SURVEY, 1939-41 AND 1941-42

EUROPE'S TRADE

THE NETWORK OF WORLD TRADE

WARTIME RATIONING AND CONSUMPTION

PROSPERITY AND DEPRESSION (Revised and Enlarged Edition)

ECONOMIC FLUCTUATIONS IN THE UNITED STATES
AND THE UNITED KINGDOM, 1918-1922

A summary description of the contents of the above publications
is given in the back pages of this volume

Series of League of Nations Publications

II. ECONOMIC AND FINANCIAL

• 1942. II.A. 6

PREFACE

This volume on commercial policy constitutes a part of a general programme of studies devoted to problems likely to prove important in connection with the formulation, now or later, of economic policies for the post-war world.

In his *Report on the Work of the League, 1941/42*,¹ the Acting Secretary-General explains the principles on which this undertaking is being conducted. "If the objectives of the 'Atlantic Charter' that 'all the men in all the lands may live out their lives in freedom from fear and want' are to be realized, post-war policies must be thought out in advance and the lessons to be learnt from past experience must be learnt." In the execution of the programme of studies relating to post-war economic and financial problems, "three guiding principles are being kept constantly in mind. These principles may be briefly summarized as follows:

"(a) Every day is creating its to-morrow; the future must inevitably be built on the past. But before that building is planned and projected, we should ascertain what were the causes that led to failure—or success—in the recent past, learn and apply the lessons that may be deduced from the past. It is not sufficient to know the facts; we must know their causal relationships and be able to indicate, from the evidence of the past, not the final objectives that must be the expression of collective human will, but the roads by which this or that objective may or may not be reached.

"(b) Such evidence as to the past must itself be supported by an adequate basis of fact, and the essential information should be so collated and analysed as to allow those responsible for the formulation of policy to frame their own judgment on them.

¹ League of Nations publication: General 1942. 1.

“(c) While the future that lies before us is veiled, the core of the social and economic issues of that future is likely to be the problem of social security; we know, too, that inherent in the organization of modern society are dynamic forces conducive to instability. Two groups of such forces may be distinguished: those that lead to fluctuations in economic activity with their train of depressions, stagnation and unemployment, and those that have their origin in demographic pressure or the demographic pattern of society. The continued existence of these forces may be postulated and no social stability can be assured until we have learnt to deal with them. The means by which such control may be rendered effective must therefore constitute the central thread of all constructive thinking for the future and all policies must be considered in the light of their probable effect on economic stability; on demographic conditions, on social security.”

c The League Economic and Financial Committees,¹ to whom a number of draft studies were submitted, recommended that when feasible, “the results of the Department’s enquiries should be published and made available to all interested with the least possible delay.” It has been thought well to begin with commercial policy and international trade. One volume, on *Europe’s Trade*, has already been published and a companion volume entitled *The Network of World Trade* will be published simultaneously with this pamphlet. The purpose of the analysis of *Europe’s Trade* is “to consider what was the part played by Europe in the trade of the world, how far Europe was dependent upon external markets and external markets dependent upon her, to estimate the importance to her of what, in the absence of a better term, is known as Empire trade, and to illustrate the commercial and general economic interdependence of different parts of the continent.”

The Network of World Trade is wider in scope and, although it deals with similar questions regarding other geographical or political areas, is primarily concerned with the essential unity of world trade, with the specific pattern it had assumed and with the multilateral system by which all classes of international ac-

¹ Economic and Financial Committees: Report to the Council on the work of the Joint Session, London, April 27th-May 1st; Princeton, N. J., August 7th-8th, 1942. League of Nations publication, 1942. II. A. 4.

counts were settled. Both of these volumes therefore fall under the second of the guiding principles explained in the Acting Secretary-General's report quoted above. But, while they are thus factual, statistical studies, from the facts summarized conclusions are drawn.

The purposes of the present study of commercial policy in the inter-war period are indicated in the introduction to Part II. They are to compare the commercial policies pursued by States in the inter-war period with the recommendations made by international conferences and committees, whether official or unofficial, to consider the reasons for the frequent discrepancy between the policies recommended and the policies actually pursued and in general for the success or failure of the recommendations made, and finally to draw from this twenty years experience lessons that it is hoped may be of value for the future.

The study falls into three parts; first, a simple historical record of the policies advocated and the policies pursued; secondly, the analysis of the causes of the success or failure of international action or proposals and, thirdly, a summary of conclusions. The first and second parts are self-contained. Those who have not the time or inclination to study the whole historical record will find the analysis of causes comprehensible without, or with but occasional, reference to it. The conclusions—necessarily tentative in character—on the other hand are based on the analysis contained in Part II and do not extend beyond the area of that analysis. As already stated, further conclusions based on supplementary evidence and relating to other aspects of commercial policy and phenomena will be found in *The Network of World Trade*.

A. LOVEDAY

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and Transit Department*

League of Nations
September, 1942.

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PART I
AN HISTORICAL SURVEY

CHAPTER I

EQUITABLE TREATMENT AND THE REMOVAL OF ECONOMIC BARRIERS, 1918-1921

1. THE FOURTEEN POINTS, 1918.

The third of President Wilson's Fourteen Points was "the removal so far as possible of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the Peace and associating themselves for its maintenance".

The latter of these propositions was explained to mean "no restriction upon the free determination by any nation of its own economic policy, but only that, whatever tariff any nation might deem necessary for its own economic service, be that tariff high or low, it should apply equally to all foreign nations."¹

Discriminating tariffs had been a feature of the commercial policies of France, Germany and other European States prior to 1914 and, during the war, both groups of belligerents had formulated programmes implying the continuation of restrictions and discriminations against enemy countries after hostilities had come to an end (Vienna Declaration 1916: Resolutions of the Allied Economic Conference, Paris, 1916).

2. THE COVENANT OF THE LEAGUE OF NATIONS, 1919.

In the course of drafting the League Covenant, the question of inserting a clause guaranteeing "equality of trade conditions" was long considered. The United States Delegation put forward a draft declaration on the subject, to be adopted by all Members of the League as an annex to the Covenant; the United Kingdom Delegation submitted a draft convention guaranteeing "just treatment for the commerce of all Members of the League."² Agreement was finally reached on a clause weaker than these

¹ President Wilson to Senator Simmons, October 1913. Quoted in *History of the Peace Conference of Paris*, H. W. V. Temperley. London, 1921. Volume V, page 61.

² See D. Hunter Miller, *The Drafting of the Covenant*, New York, 1928, Volume II.

drafts both in form and substance and qualified by a limitation designed to meet the apprehensions of France and certain other European allied countries.¹ This clause, which appears as part of Article 23 of the Covenant, reads as follows:

“Subject to and in accordance with the provisions of international conventions existing or hereafter to be agreed upon, the Members of the League:

- “(e) will make provision to secure and maintain equitable treatment for the commerce of all Members of the League. In this connection, the special necessities of the regions devastated during the war shall be borne in mind.”
- Under another article of the Covenant (Article 22), “equal opportunities for the trade and commerce of other Members of the League” were guaranteed in the principal categories (A and B) of mandated territories. The application of this guarantee, inserted in the various Mandate Charters subsequently drawn up, was placed under the supervision of the Mandates Commission of the League.

The question of securing agreement in regard to the “removal of economic barriers” was never considered at the Paris Conference. In the great majority of countries represented, there was no disposition at that time to limit national freedom of action in regard to trade policy. A high protectionist tendency, moreover, was widespread and strong, not least in the United States.

3. THE PEACE TREATIES, 1919.

The Peace Treaties contained numerous provisions affecting the commercial policy of defeated Powers and certain newly created States. These provisions were mostly of short currency, in no case exceeding five years. The most important were the unilateral undertakings given by Germany, Austria, Hungary and Bulgaria to grant the Allied and Associated Powers, for 5 years in the case of Germany and 3 years in the case of the others, unconditional most-favoured-nation treatment.

In reply to a protest by the German Government, the Allied and Associated Powers expressed their own intention to “bring into application when the world returns to normal conditions”

¹ For the various stages in the fading-out of President Wilson's original proposals, cf. William E. Rappard; *Post-War Efforts for Freer Trade*, 1933.

the principles laid down by President Wilson and embodied in Article 23 e) of the Covenant.¹ (See Chapter V, §3 below on the Most-Favoured-Nation Clause)

Austria and Hungary were permitted (Treaties of St. Germain and Trianon) to enter into a special customs regime with each other and/or Czechoslovakia for a period not exceeding 5 years. This clause remained a dead letter. Between 1922 and 1925 the League Economic Committee endeavoured without success to bring about limited preferential agreements between Austria and some of her neighbours; negotiations for this purpose between Austria and Czechoslovakia in the latter year came to nothing.

The Minorities Treaties concluded with Poland, the Serb-Croat-Slovene Kingdom, Czechoslovakia, Roumania, and Greece contained a clause under which the country concerned undertook to take no action which might "prevent her from joining in any general agreement for the equitable treatment of the commerce of other States that may be concluded under the auspices of the League of Nations within 5 years of the coming into force of the present Treaty" and to "extend to all the Allied and Associated States any favours or privileges in customs matters which she may grant during the same period of 5 years to any State with which since August 1914 the Allies have been at war or to any State which may have concluded with Austria special customs arrangements as provided for in the Treaty of Peace to be concluded with Austria."²

Apart from a prohibition on the raising of certain conventional duties for 3 years, Germany was at liberty to modify her tariff six months after the coming into force of the Treaty of Versailles.

4. THE SUPREME ECONOMIC COUNCIL, 1920.

The first practical step to be taken towards restoring international trade after the War was the demobilisation of war-time controls—exchange controls and prohibitions on imports and exports. Outside Europe and in several European countries, including the United Kingdom, the Netherlands, Belgium and the Scandinavian countries, such controls had been very largely re-

¹ Reply of the Allied and Associated Powers to the Observations of the German Delegation, on the Conditions of Peace, Part X. 1. Misc. No. 4. 1919. pp. 42-3. Cmd. 258.

² Text taken from the Treaty with Poland.

removed by the end of 1919. In other European countries, the return to relatively unrestricted trading conditions was somewhat slower. In Italy and Spain substantial lists remained in force even after the introduction of new and higher tariffs in 1921 and 1922 respectively. In France, quantitative restrictions were in principle abandoned in 1919, but long lists remained; these were added to in 1920 and 1922. Switzerland, after demobilizing most of its war-time measures, re-introduced a permit system for numerous imports in 1921.

But the core of the problem lay in Central and South Eastern Europe, where trade had practically ceased by the end of the war and was only gradually resumed, first on the basis of inter-governmental barter, then on that of general prohibitions modified by licence. Government import and export monopolies, more or less severe currency restrictions and export duties on farm products were also the rule.

In March 1920, the Supreme Economic Council recommended that

“States which have been created or enlarged as a result of the war should at once re-establish full and friendly co-operation and arrange for the unrestricted interchange of commodities in order that the essential unity of European economic life may not be impaired by the erection of artificial economic barriers.”

5. THE BRUSSELS FINANCIAL CONFERENCE, 1920.

In October of the same year the Brussels Financial Conference, the first international Conference called by the League of Nations, specifically endorsed the above recommendation of the Supreme Economic Council, adding that

“Each country should aim at the progressive restoration of that freedom of commerce which prevailed before the war, including the withdrawal of artificial restrictions on, and discriminations of price against, external trade.”

The Conference considered that “commerce should as soon as possible be freed from control and impediments to international trade removed” and that “attempts to limit fluctuations in ex-

change by imposing artificial control on exchange operations are futile and mischievous.”

- It emphasized that “the first condition for the resumption of international trade is the restoration of real peace, the conclusion of the wars that are still being waged, and the assured maintenance of peace for the future.”

Among the specific reforms toward which the Conference recommended that the League’s activities should be directed were the Assimilation of Laws relating to Bills of Exchange and Bills of Lading and the Suppression of Double Taxation.

The preparation of an international code relating to Bills of Lading was undertaken by the International Chamber of Commerce, the International Maritime Committee and the International Law Association; a draft set of rules, known as the Hague rules, was drawn up at a conference of the latter body in 1921 and formed the basis of an international Convention concluded as a result of two diplomatic conferences which met at Brussels in 1922 and 1923.

Regarding the work on Bills of Exchange and Double Taxation, see Chapter III, § 3 below.

6. THE PORTOROSE CONFERENCE, 1921:

In 1921, the Succession States of the Austro-Hungarian Empire signed a Protocol at Portorose the first article of which read as follows:¹

“The governments . . . shall as soon as possible take the steps necessary to re-establish freedom of imports and exports in the relations between their several countries. In any case, they shall abolish all import prohibitions and restrictions on July 1st 1922 at the latest and shall before that date make arrangements among themselves to fix, by common consent, a date whereon all export prohibitions, controls, or other restrictions affecting the exportation of any merchandise shall be abolished. It is agreed, moreover, to avoid customs legislation which would establish customs duties or other taxes equivalent to actual export or import prohibitions.”

¹ International Conciliation, No. 176. July, 1922.

The Signatories further agreed (Article 2) to enter into negotiations for the purpose of concluding commercial treaties "based, in principle, on commercial freedom," to issue no new prohibitions pending the complete abolition of the system and to grant one another most favored nation treatment in regard to the general conditions under which licences were issued.

It should be noted that, in this part of Europe, the whole pre-war commercial treaty system had been shattered, with the result that 1) the application of maximum duties was the rule rather than—as in pre-war days—the exception, 2) the legal protection against tariff discrimination embodied in the most-favored-nation clause had disappeared and 3) trade was exposed to uncertainties as regards not only tariff rates but also numerous formalities and regulations normally covered by commercial treaties.

The Portorose Protocol was not ratified by any of its Signatories nor can any substantial progress, along the lines that had been agreed upon, be recorded for several years. (See Chapter III, § 1 and IV, § 2 below).

7. THE COUNCIL AND THE ASSEMBLY OF THE LEAGUE OF NATIONS, 1921. (RAW MATERIALS PROBLEM.)

By 1920, the scarcity of raw materials had become an international problem of the first magnitude. Action in one form or another by the League of Nations was widely demanded and specific appeals were made to it by various bodies, including the Governing Body of the International Labour Office, the International Federation of Trade Unions, the International Miners' Congress, and the International Parliamentary Commercial Conference.

At the instance of the Italian representative, the Council of the League (Tenth Session, October 1920), requested the newly-formed Economic Committee of the League to study and report on (1) the extent and nature of the requirements of countries which were experiencing difficulties in obtaining raw materials and (2) the causes of those difficulties.

The Committee, in its report to the Council of September 1921, reached the general conclusion that an international control of the distribution of raw materials (such as had been proposed by

Italy both at the Peace Conference and before the League Council and Assembly) was impracticable; and emphasized that a solution of the difficulties which many countries were experiencing should be sought mainly in greater freedom of world trade.¹ The Council (Fourteenth Session) commended to the consideration of Members of the League the conclusions of the report "especially those calling attention to the effects that may be produced by artificial restrictions and duties on the export of essential raw materials on the economic life of other countries."

A resolution in similar terms was adopted a few days later by the League Assembly (Second Session).

While the above enquiries were in progress, the general situation in regard to raw materials completely changed, scarcity being replaced by glut.

For later recommendations and action, see Chapters II, §1 (Genoa Conference), III, §2 (Prohibitions Conferences), IV (World Economic Conference), VIII, §3 (The Raw Materials Enquiry, 1936-37).

8. THE INTERNATIONAL CHAMBER OF COMMERCE, 1921.

The level of tariffs, to which no direct reference was made by any important official body except the Portoroze Conference in the early post-Armistice period, was the subject of the following resolution of the London Congress of the International Chamber of Commerce, 1921:

"While it is recognized that each nation has the right to protect its industries by means of customs tariffs against the unequal conditions of foreign production and exchange,

"The London Congress specifically draws the attention of the various Governments to the importance of making such tariffs moderate, in order to avoid the erection between peoples of barriers which are obstacles to peace and the progress of civilization."

¹ League of Nations document C. 51. M. 18 1922. II.

CHAPTER II

THE GENOA CONFERENCE AND THE EARLY WORK OF THE LEAGUE OF NATIONS, 1922-1925

1. THE GENOA CONFERENCE, MAY 1922.

This Conference was convened by the Supreme Council under a resolution adopted in January 1922 (Cannes Conference) which contained the following statement:

“A united effort by the stronger Powers is necessary to remedy the paralysis of the European system. This effort must include the removal of all obstacles in the way of trade, and the provision of substantial credits for the weaker countries and co-operation of all nations in the restoration of normal prosperity.”

The recommendations regarding commercial policy may be summarised as follows:

- a) “The removal of obstacles created by instability in administrative and legal measures”;
- b) The publication of tariffs and efforts to render the nomenclature of tariffs as comparable as possible;
- c) Tariffs to be made so far as possible applicable over substantial periods of time; “the practice of frequent modification for the purpose of economic warfare”, the Conference declared, “should be entirely abandoned”;
- d) No duties, except purely fiscal duties, to be levied upon the export of raw materials; such duties, where they continue to exist, to be non-discriminatory;
- e) The progressive suppression of import and export prohibitions, which “constitute at the present time one of the gravest obstacles to international trade”; the limitation of imports, “where desired, to be “effected by the medium of customs duties”;

- f) The resumption of commercial relations on a basis of commercial treaties, "resting, on the one hand, upon a system of reciprocity adapted to special circumstances, and containing, on the other hand, so far as possible, the Most-Favoured-Nation clause."¹

The Conference recorded that the general adoption of most-favoured-nation treatment was the goal aimed at by the majority of the participating States.

These resolutions were, it will be observed, less ambitious and radical than, for instance, the peace treaties as regards Austria, or the Portorose Conference; but like those adopted at Brussels, they were concerned with exactly those problems which were the centre of commercial policy controversy during the next eighteen years. A good deal was accomplished as regards the first point, and as regards the publicity of tariffs and, later, tariff nomenclature. The Economic Committee repeated the Conference's denunciation of tariff instability, urging that "changes in rates and classifications should be effected as seldom as possible and only when they are necessitated by the essential economic needs of the country."² The position in this respect improved somewhat with the restoration of currency stability, but was still serious at the time of the World Economic Conference of 1927. Substantial progress was made up to 1930 in liberating the trade in raw materials, in removing prohibitions, and in extending the operation of the most-favoured-nation clause; commercial treaties were gradually re-established, though on a short-term basis. After 1930 progress in all these directions ceased and there was a general reversal of policy.

In portraying these achievements and failures we can most conveniently begin by sketching the work of the Economic Committee of the League after 1922.

The League was requested by the Genoa Conference (i) to study dumping and differential prices, (ii) to continue its examination of methods of safeguarding the validity of arbitration clauses in commercial contracts, and (iii) to facilitate the execution of the resolutions regarding the publication of tariffs and the unification of customs nomenclature. On dumping and

¹ France and Spain abstaining. France had abandoned M. F. N. under law of 1919.

² League of Nations Official Journal, November 1922, p. 1403.

differential prices, no international action was attempted, but the wider price differentials gradually disappeared as currencies were stabilized. This failure to treat the problem of price adjustments as a general international issue was a fact of the utmost importance in the years that followed.

2. WORK OF THE ECONOMIC COMMITTEE ON "EQUITABLE TREATMENT": CUSTOMS FORMALITIES, UNFAIR COMPETITION, TREATMENT OF FOREIGNERS, UNJUST DISCRIMINATION.

The idea current at the Peace Conference of dealing with the many-sided problems of "equitable treatment" simultaneously by means of a general convention (see especially Chapter I, §3, above) was quickly abandoned. At the Barcelona Conference of March 1921—which made a notable contribution towards securing the first objective of Article 23 e) of the Covenant, namely the freedom of communications and transit—a memorial signed by the representatives of twenty-two States asked that "the attention of the Council and the Assembly of the League of Nations be called to the desirability of defining as soon as possible such principles as would assure equitable treatment of commerce."

The question was considered at the next session of the League Assembly and the Economic Committee was instructed to "consider and report on the meaning and scope of the provision relating to the equitable treatment of commerce contained in Article 23 e) of the Covenant" and to pursue its work in the manner best calculated to facilitate the earliest and most general application" of that principle.

This instruction reflected the view which had been so noticeable at the Peace Conference, that if Commerce were treated with equity, all would be well. International Conferences at this period were strangely reticent about the special economic problems to which the war (and the peace) had given rise, and when reference to such problems was made, it was almost always in terms of abstention from action (abolition of control, etc.), rarely of action.

The Economic Committee reported in March 1922 that "in view of the wide divergencies of opinion between different States, especially as to the conditions which would justify special treat-

ment, they see no reasonable prospect in existing circumstances, particularly in view of the disorder in the currencies and the disorganization of the international exchanges, of arriving at a general international convention covering the subject as a whole. . . .

“The Committee therefore are of opinion that the most hopeful method of making useful progress at present is to explore separately certain branches of the subject which appear to offer the best prospects of securing international agreement.”¹ They considered that while certain matters might form the subject of international agreements, others might better be advanced by bilateral or regional arrangements.

An important gloss was placed on the terms of Article 23 e) to the effect that the reference to the “commerce of Members of the League” gave no countenance, in the opinion of the Committee, to discrimination as between Members and non-Members as such. This position has been consistently maintained.

Practices violating the principle of equitable treatment, in regard to which there seemed to be some prospect of reaching general agreement, were grouped by the Economic Committee under the following headings:

Excessive, arbitrary or unjust custom formalities.

Unjust or oppressive treatment of foreign nationals, firms, and companies.

Unfair competition by means of fraudulent trade practices.

Unjust discrimination against the commerce of any State.

It will be observed that in accordance with its instructions, the Committee at this stage devoted its attention to a narrower field of subjects than the Genoa Conference, but at the same time enlarged greatly on the first of the major questions raised by that Conference. It is both logically and historically convenient to consider these four equity points first.

(a) *Customs Formalities.*

The Committee considered “excessive, arbitrary or unjust customs formalities” as amongst the most serious of the administrative impediments to trade to which the Genoa Conference had referred.

¹ League of Nations, Official Journal, June 1922, p. 625.

A diplomatic conference called by the League in October 1923 resulted in the conclusion of an International Convention, based on a draft worked out by the Economic Committee in consultation with national customs administrations and the International Chamber of Commerce.

This Convention, which came into force in 1924 and was ratified by over 30 States¹ (see Annex), provided:

- (a) for the publication of customs regulations in simple and accessible form and the immediate publication of changes in tariffs or formalities;
- (b) for the simplification of rules and procedure;
- (c) for greater expedition in the application of regulations;
- (d) that formalities should not be used for purposes of discrimination;
- (e) for appropriate redress;

The Parties bound themselves to reduce "as soon as circumstances permit" their export and import prohibitions and restrictions to the smallest possible number (see Chapter III below) and where a licencing system was maintained, to observe the above principles.

Greater facilities for commercial travellers were guaranteed (e. g. the abolition, except in special circumstances, of consular visas) and the formalities regarding "certificates of origin" of goods simplified.

The simplification of formalities relating to the passage of goods through the Customs, the examination of travellers' luggage and the regime of goods in bond was recommended.

Reporting in 1927, the Economic Committee referred to the "striking progress which has been made under the influence of the Convention both as regards the clauses which have a binding character and those which are merely in the nature of recommendations. . . . The Geneva Convention has been attended with the most fortunate results."

¹ But by the Danubian and Eastern European States (except Austria and Roumania which ratified in 1924 and 1925 respectively) only after several years. For technical reasons, no American State except Brazil has ratified the Convention. Many of its provisions, however, were embodied in the Recommendations of the Pan-American Commission on Customs Procedure and Port Formalities, November 1929, and found their way into the Laws and Regulations of several of the American Republics.

On the other hand, the second recommendation made by the Genoa Conference (Tariff nomenclature) was not given serious study until after the World Economic Conference of 1927 (see Chapter V, §2, C.)

(b) *Treatment of Foreign Nationals and Enterprises.*

In 1923, the Economic Committee drew up a series of recommendations,¹ for adoption through autonomous action or bilateral agreements, regarding the principles on which the treatment of foreign persons and companies should be based, with a view to removing legal disabilities and obviating fiscal discrimination. A second series of recommendations² in 1925 dealt with the conditions under which foreigners legally domiciled in a country should be admitted to carry on a profession or occupation.

Both series of recommendations and a draft international agreement drawn up by the International Chamber of Commerce were considered by the World Economic Conference of 1927, which recommended the summoning of a diplomatic conference with a view to concluding an international convention on the subject.

The Conference, held in 1929, failed to reach agreement, the majority of States represented being unwilling substantially to liberalize their existing legislation, while States practising a liberal regime refused to sign any instrument that would constitute a retrogression. That the conclusion of a Convention on the subject would constitute a vital element in the movement towards greater freedom of trade was emphasized by the 1930 Assembly and the Tariff Truce Conference (see Chapter VI below). The 1929 draft was used as a basis in various bilateral and regional agreements (Ouchy, 1932, the Hague, 1937); but no general Convention was ever concluded.

(c) *Unfair Competition.*

The Committee took the view that the existing international agreements relating to unfair competition³ (i. e., the improper,

¹ League of Nations document A. 11. 1923. II.

² League of Nations document C. 309 (1) M. 114. 1925. II.

³ a) Industrial Property Convention, Paris 1883, amended Brussels 1901, Washington 1911.

b) The Madrid Arrangement for the Prevention of False Indication of Origin on Goods, amended Washington 1911.

use of trade-marks or indications of geographical or commercial origin, or the false description of goods) were inadequate because:

a) many important States were not Parties;

b) the specific practices constituting "unfair competition" were not clearly defined;

c) the procedures for obtaining redress were defective. A draft worked out by the Committee formed the basis of a revised International Convention for the Protection of Industrial Property which was adopted at the Hague in 1925 under the auspices of the Industrial Property Union and brought into force in some 25 States and territories. The international regime for the Protection of Industrial Property was further extended as a result of a diplomatic conference held in 1934.

(d) *Unjust Discrimination.*

The Economic Committee reported to the 1922 Assembly¹ that "in view of the wide divergencies of opinion between different States as to the fundamental principles of tariff and Commercial policy, and the importance which many of these States attach to preserving their full autonomy in such matters, and also in view of the present instability of economic conditions in the world and the disorganization of the exchanges, they have so far been unable to arrive at any generally acceptable body of detached doctrine on the subject. . . ." In the circumstances, the Committee confined itself to expressing the hope that the principles embodied in the Genoa resolutions would receive the widest possible application. (See discussion of M.F.N. below, Chapters IV, §3d and V, §3).

The question of discrimination against a particular State was raised by the U.S.S.R. in an abortive proposal for a "Pact of Economic Non-Agression" submitted to the Commission of Enquiry for European Union in 1932 and the Monetary and Economic Conference of 1933.

¹ Report to the Assembly from the Economic and Financial Organisation, League of Nations document A. 59. 1922. II.

OTHER WORK AIMED AT IMPROVING THE BASES OF TRADE:
COMMERCIAL ARBITRATION, BILLS OF EXCHANGE, DOUBLE
TAXATION.

While the instability of exchanges and other factors made any substantial progress with tariff policy difficult and delayed the removal of quantitative restrictions on trade, League Committees were engaged in preparing the ground for an improvement in the legal and fiscal bases of trade.

(a) *Commercial Arbitration.*

One of the first tasks undertaken by the International Chamber of Commerce, and one of its most striking early achievements, was the creation of an International Court of Commercial Arbitration, which provided for conciliation and various forms of arbitration to suit the needs and traditions of traders from all countries. It was essential to the efficient functioning of this system that the validity of arbitration clauses in commercial contracts between parties in different countries should be recognized by national courts and in 1922 the Economic Committee was urged to attempt to bring about an inter-Governmental Agreement for this purpose. A Protocol, worked out by the Committee, was approved by the League Assembly in 1923 and opened to signature.

This Protocol was completed by a Convention, opened for signature in 1927, binding the Parties to ensure the execution of arbitral awards given outside their own territory.

The Protocol on arbitration clauses entered into force in July 1924, and has been ratified by some 30 States as well as colonies, protectorates, etc.; the Convention on the Execution of Foreign Arbitral Awards entered into force in July 1929 and has secured some 25 ratifications. (See Annex).

(b) *Bills of Exchange*

The Brussels Conference and The International Chamber of Commerce (1921) pressed for the resumption of work on the unification of laws relating to bills of exchange, which had been the subject of a still-born international convention concluded at the Hague in 1912.

The Economic Committee came to the conclusion that the deep-lying difference between "Anglo-Saxon Law" and "Continental Law", and the varieties of systems within the latter, made the establishment of a common system impossible. Further efforts were made from 1925 onwards along the lines of a progressive assimilation of national legislations, particularly of those of the Continental type; these efforts led to the convening by the League of a diplomatic conference in 1930, at which a Convention providing a Uniform Law for Bills of Exchange and Promissory Notes, a Convention providing for the Settlement of Conflicts of Laws, and a Convention on Stamp Laws were concluded. A further Conference in 1931 led to the conclusion of three similar Conventions relating to Cheques. All these instruments have been brought into force. (See Annex).

(c) *Double Taxation*

Mention must be made, lastly, of the effect given to recommendations by the Brussels Conference and successive Conferences of the International Chamber of Commerce regarding the elimination of double taxation—a question which, if not within the competence of Ministries of Commerce, is nevertheless of the first importance for international commercial relationships. Investigations begun in 1921 led, in 1927, to the drafting of a series of model conventions, each dealing with a distinct group of taxes. After consideration by a general meeting of Government representatives in Geneva in 1928, these models were submitted to Governments, who were invited to use them when conducting bilateral negotiations with other countries. This procedure was deliberately adopted in preference to an attempt to secure the adoption of the League models by multilateral convention and the decision proved a wise one. Between 1929 and 1939 some hundred bilateral agreements for the elimination of double taxation, based very largely on these League models, were concluded.

* * *

On all these questions, customs formalities, protection of industrial property, commercial arbitration, bills of exchange, double taxation, and later customs nomenclature, questions which related to the administrative and legal basis of trade, it proved

relatively easy to make progress once an international machinery under the League had been established. But the Brussels Conference, the Conference of Portorose, the Genoa Conference, and the Assembly of the League itself were primarily concerned with government policies directly affecting the free passage of goods from one country to another, with prohibitions and quantitative regulations, with tariff policy, with the M.F.N. Clause.

With varying emphasis but striking unanimity,¹ those bodies, whose views were shared by the International Chamber of Commerce, insisted on a few simple principles of policy, the most important of which were:

- (a) In general, the restoration of that freedom of commerce that had existed before the war;
- (b) Specifically, the abolition of prohibitions and quantitative restrictions on trade;
- (c) The suppression of commercial warfare;
- (d) The stabilization of tariff rates and classifications;
- (e) The conclusion of long term commercial treaties;
- (f) The incorporation in them of full M.F.N. conditions.

Clearly the first step towards carrying out these recommendations was to remove quantitative controls.

¹ See, however, footnote on page 23.

CHAPTER III
INTERNATIONAL EFFORTS TO SECURE THE
REMOVAL OF PROHIBITIONS AND RESTRICTIONS,
1924-1930

I. THE PARTIAL RESTORATION OF "LIBERTY OF TRADING" IN THE EARLY TWENTIES.

The maintenance of abnormal restrictions on trade in the early post-war years had been primarily due to the scarcity of food-stuffs and raw materials and the more protracted currency disorganization. Dumping—especially exchange-dumping—had been responsible for the quantitative restrictions on imports in several countries; exchange control was the natural defense of countries with fluctuating currencies and in a weak financial position.

With the passing of such conditions and as governments were able to evolve a commercial policy, exchange controls were abandoned¹ and prohibitions and restrictions tended to be gradually replaced by higher tariffs.

In two countries whose economic and financial position had been especially precarious—Austria and Hungary—the restoration of "liberty of trading" was due in no small measure to the direct influence of League organs. In accordance with a recommendation of the Financial Committee, Hungary abolished her whole system of export and import prohibitions in the course of 1924. Austria re-established free dealings in foreign exchanges in March 1925 under the terms of an Agreement approved by the League Council six months earlier.

The year 1925 brought the abolition of the licencing system in Germany, with the recovery of full tariff autonomy, but it also brought the re-introduction of import prohibitions in Poland, owing, it was stated, to the necessity of combating currency instability and to the absence of a spirit of reciprocity in other

¹ Even in 1927, however, certain measures of foreign exchange control remained in force in Poland, Greece, Spain, France, Bulgaria, Yugoslavia, Czechoslovakia and Italy.

countries.¹ The decontrol movement was accordingly uneven; there remained, moreover, in many countries a hard core of prohibitions and quantitative restrictions which it was extremely difficult to eradicate. It was against this central core that the efforts of the International Conferences of 1927-29 were mainly directed.

2. THE PROHIBITIONS CONFERENCES OF 1927-1929 AND THE FAILURE OF THE INTERNATIONAL CONVENTION OF 1927.

The Economic Committee was instructed by the Assembly in 1924 to "consider the possibility and expediency" of an international agreement with a view to the final suppression of prohibitions and restrictions. The Assembly added that "provisions relating to the vital interests of States shall not be affected."

Prolonged study by the Economic Committee, which consulted both Governments and private expert bodies (more particularly the International Chamber)² led to the summoning of a diplomatic conference at Geneva in October 1927.

Twenty-nine States, including the United States, the United Kingdom, France, Germany, Italy and Japan, adopted an International Convention, based on a draft worked out by the Economic Committee, the main provisions of which were as follows:

The Parties undertook, subject to certain exceptions, "to abolish within a period of six months all import and export prohibitions or restrictions and not thereafter to impose any such prohibitions or restrictions" (Article 2).

Regulations regarding the manner, form or place of importation or exportation, or other formalities or conditions "shall not be made a means of disguised prohibition or arbitrary restriction" (Article 3).

The following prohibitions and restrictions were excepted, "on condition, however, that they are not applied in such a manner as to constitute a means of arbitrary discrimination . . . or a disguised restriction on international trade": those relating to public services and traffic in arms and munitions; those imposed

¹ Proceedings of the International Conference for the Abolition of Prohibitions and Restrictions, League of Nations, Geneva, 1928. Statement by the Polish representative, p. 65.

² Note also the recommendations by the World Economic Conference (see Chapter IV, § 3).

on moral or humanitarian grounds, for the protection of public health or protection of animals and plants, for the protection of national treasures; those applicable to gold, silver coins, notes or securities; those which extend to foreign products the regime applicable to domestic products and those which apply to products under State or State controlled monopoly (Article 4).

The Parties reserved the right to adopt prohibitions or restrictions "for the purpose of protecting, in extraordinary and abnormal circumstances, the vital interests of the country." Should such measures be adopted "they shall be applied in such a manner as not to lead to any arbitrary discrimination" (Article 5).

With a view to eliminating a disguised form of protection, the Conference recommended (Final Act) the League Council to take up the question of restrictions imposed for the prevention of diseases of animals and plants. (See Chapter VIII, §2 below.) It also observed that prohibitions and restrictions ought not to be replaced by excessive duties.

Various temporary exceptions and the submission of claims for further exceptions within a given period (Article 6) were allowed.

A second conference should deal with these supplementary claims and settle the conditions for the coming into force of the Convention (Article 17).

A second Conference met in June 1928: certain reservations were withdrawn and additional reservations accepted and embodied in a Supplementary Agreement. It was decided that the Convention thus amended would come into force, if ratified by 18 States before September 30th, 1929.

By that date, however, only 17 ratifications had been deposited,¹ some of which were made conditional on those of Poland and Czechoslovakia, which had not adhered. At a third Conference, in December 1929, the contingent accession of Czechoslovakia was secured; but Poland finally refused to ratify owing to reservations made by Germany regarding trade in certain commodities which Poland considered essential to her economic life, and the majority of ratifications consequently lapsed. By special arrangement, the Convention was brought into force on a short-term basis from January 1st, 1930, by a few States in which,

¹ This figure was subsequently raised to 21.

in fact, only exceptional prohibitions existed—Denmark, the United Kingdom, Japan, the Netherlands, Norway, Portugal and the United States. By the middle of 1934 it had been denounced by them all.

Unsuccessful efforts were made to revive the Convention in the course of the Tariff Truce Conferences of 1930/31 (Chapter VI, §2b below) and at the Montevideo Conference of December 1933, which resolved:

“that the Governments of the American Republics at the earliest possible date will simultaneously initiate between themselves negotiations for the conclusion of bilateral or multilateral agreements for the removal of prohibitions and restrictions. As part of this undertaking, they will revive and revise the Convention of 1927, or agree on a new Convention. . .”

For some years after 1927, the process of reducing lists of prohibited articles was continued. But from 1931 onwards, the problem of quantitative trade restrictions reappeared in a new and alarming form. (See Chapter VI, §1 below.)

3. INTERNATIONAL AGREEMENTS ON THE EXPORT OF HIDES, SKINS AND BONES, 1928 AND 1929.

Reservations regarding the export of hides and skins and bones, put forward by several countries, led to a series of conferences in 1928 and 1929, at which a joint renunciation of prohibitions and limitation of export duties on these articles was achieved. The agreements, signed by 18 States, entered into force in October 1929. (See Annex.)

CHAPTER IV

THE WORLD ECONOMIC CONFERENCE, MAY 1927

1. THE ECONOMIC AND POLITICAL BACKGROUND.

The failure to obtain common agreement about the abolition of prohibitions meant that the ground was never completely cleared for tariff discussions. But this failure could not be foreseen when these discussions were initiated. Indeed when the League Assembly, in September 1925, decided to convene a World Economic Conference, real peace seemed at last in sight in Europe and a real chance of carrying out the policies which had been advocated. The Dawes Plan had assuaged the long-drawn-out reparations conflict; Franco-German cooperation was shortly to be consolidated by the Locarno Treaties and the entry of Germany into the League of Nations.

The national financial difficulties of the post-war years had been largely overcome. The restoration of German economic life with the help of foreign loans was rapidly progressing and the financial reconstruction schemes in Austria and Hungary were apparently working out according to plan. The gold or gold-exchange standard was operating over the greater part of Europe (although Italy, France and Belgium were still suffering from currency disorder); the United Kingdom, after years of deflationary effort, had, in the spring of 1925, restored the gold standard at the old parity.

In economic activity, too, a substantial, if uneven, recovery had been made. The quantum of international trade had been rising rapidly and the restrictions of the war and post-war period had been considerably relaxed.

By the time the Conference met in May 1927, further and extensive improvement in the political, financial and economic situation of Europe had been registered and further progress made towards "equality of treatment" and the re-establishment of pre-war trading conditions.

2. THE TARIFF PROBLEM.

• The improvement in the non-tariff aspects of international commercial relations threw into sharp relief the increase in the level,¹ complication, instability and number of post-war tariffs, and their obstructive effect on international trade and economic development. In spite of the reiterated recommendations of previous conferences, this conference was faced by a position in Europe which it described as follows:

“Europe remains to-day with its tariffs higher and more complicated, less stable and more numerous than in 1913. Moreover, Europe has failed to restore its former system of commercial treaties, and the habit has developed of putting tariffs designed for purposes of negotiation into force before those negotiations take place. If, as has often happened, these tariffs have failed to result in agreement, the obstruction remains higher than before. The tendency of the last three years has continued to be in an upward direction. . . .”

The effects of “tarifs de combat” were aggravated by the widespread practice of increasing the margin allowed for bargaining in the new tariffs. In the French tariff of 1910, for example, the normal margin between maximum and minimum rates had been 50%; after the war, the margin was raised, on many items, to 400%.

The tariff position was most critical in Central and Eastern Europe. The nationalist policies pursued in this region—especially in the new States—had on several occasions been criticised by international bodies.² The neighbours of Austria—the principal sufferer—had been invited by the League Council in 1923 and again in 1925 to negotiate commercial treaties with her and each other, the object being to achieve a limited preferential régime in that region such as had been contemplated at the Peace Conference (See Chapter I, §3 above). These proposals met with but a limited response. Negotiations for a preferential agreement between Austria and Czechoslovakia were opened under the auspices of the Economic Committee in 1925, but broke down

¹ cf. Memorandum on Tariff Level Indices. League of Nations, 1927.

² e.g. the Central European Economic Conference, Vienna, 1925. cf. also Report of the Financial Committee of the League, December 1923; Minutes of the 27th Session of the Council, Annex 601; the Layton-Rist Report on The Economic Situation of Austria (L. of N. doct. C.440(1), M.162(1), 1925. II).

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owing largely to the insistence of Italy—which was itself attempting to negotiate a preferential arrangement with Austria—on being a party to any agreement that might emerge. Following this failure, Austria's tariff was sharply raised (1926).¹

Outside Europe, many of the worst features of these tariff developments had been avoided but, with some exceptions (e. g. Latin America), tariff rates had been raised substantially above the pre-war level. In the U. S. A., the Emergency duties of 1921, mainly on agricultural products had been followed by the formidable general tariff of 1922. In Australasia, India, Japan and elsewhere, tariff rates had been sharply increased.

3. THE RECOMMENDATIONS OF THE CONFERENCE.²

a) *The form of Customs tariffs.*

The instability of tariffs was again condemned as being "one of the most formidable obstacles in the way of establishing and developing permanent and secure trade relations" and the simplification of tariffs and the unification of Customs nomenclature recommended. The Council was requested to arrange for the preparation of a systematic Customs nomenclature.

b) *Tariff levels.*

The most notable declarations of the Conference related to tariff levels:

"In view of the fact that harmful effects upon production and trade result from the high and constantly changing tariffs which are applied in many countries;

And since substantial improvement in the economic conditions can be obtained by increased facilities for international trade and commerce;

And in view of the fact that tariffs, though within the sovereign jurisdiction of the separate States, are not a matter of purely domestic interest but greatly influence the trade of the world;

¹ cf. Leo Pasvolksy: *Economic Nationalism of the Danubian States*. New York, 1928; Chapters IV, IX and XIV.

² League of Nations document C.E.I. 44(1), 1927. The following chapter (V) is devoted to the application of these recommendations.

And in view of the fact that some of the causes which have resulted in the increase of tariffs and in other trade barriers since the war have largely disappeared and others are diminishing;

The Conference declares that the time has come to put an end to the increase in tariffs and to move in the opposite direction."

To achieve this result, three methods were foreseen:

- (i) individual action by States "to remove or diminish those tariff barriers that gravely hamper trade",
- (ii) bilateral action through commercial treaties,
- (iii) collective action, to be promoted by the Economic Organisation of the League.

These resolutions and proposals, which elaborated the principles laid down at earlier international meetings, formed the basis of the attempts made in the following several years to achieve a general reduction in tariff barriers.

c) *Internal taxes and Export duties.*

The Conference condemned the practice of penalising imported goods by means of differential internal taxes and declared that export taxes, if they could not be altogether abolished, should be low and non-discriminatory. (See Chapters I, §8, and II, §1).

d) *Commercial Treaties, Treaty-making methods and the M.F.N. clause.*

The Conference declared that:

"A decisive step on the road to world reconstruction would undoubtedly be taken if the system of long-term treaties securing equality of treatment were restored. For this purpose, it is highly desirable that the widest and most unconditional interpretation should be given to the most-favoured-nation clause".

It desired the Economic Organisation of the League to examine the measures best calculated to secure

- i) "identical tariff systems in the various European countries or at least a common basis for commercial treaties;"
- ii) "the establishment . . . of clearly defined and uniform principles as to the interpretation and scope of the most-favoured-nation clause in regard to customs duties and other charges".

e) *Indirect protection.*

The Conference condemned:

- i) the direct or indirect subsidisation of exports,
- ii) dumping, which was "facilitated by the existence of high import duties in the countries practising it". It recommended that importing countries should not resort to excessive measures by way of defence.
- iii) discrimination arising from conditions of transport.

f) *Non-tariff measures.*

The Conference recommended that the principles contained in the draft Prohibitions Convention should be generally applied and "not be indirectly defeated by such means as export duties, the fixing of quotas, health regulations or . . . by restrictions on the free circulation of capital". (See Chapter III, §2 above).

It "condemned the system of import and export prohibitions and the privileges sometimes granted to State enterprises".

It approved the Economic Committee's work on legal provisions or regulations affecting trade—e. g., the simplification of customs formalities, the assimilation of laws on bills of exchange, the international development of commercial arbitration, the suppression of unfair commercial practices—and urged that this work should be completed.

The Council was requested to open for signature a Protocol providing for the execution of foreign arbitral awards and to convene a diplomatic Conference for the purpose of concluding a Convention on the treatment of foreigners. (See Chapter II, *passim*).

CHAPTER V
ENDORSEMENT AND APPLICATION OF THE
RECOMMENDATIONS OF THE WORLD
ECONOMIC CONFERENCE OF 1927.

1. ENDORSEMENT.

The recommendations of the Economic Conference—and more particularly those relating to commercial policy—were immediately acclaimed by business opinion the world over, and the International Chamber of Commerce, at its Stockholm Congress in July 1927, recommended that they

“should receive the support not merely of the international world of business as represented at this Congress, but also of the Governments of all nations”.

They were unanimously adopted by the League Assembly and separately approved by specific declarations¹ of twenty-nine Governments, including twenty European Governments. Most of these Governments expressed their intention to apply the principles of the Conference and many announced their willingness to co-operate in any collective action that might be undertaken.

Thus the German Government declared that it

“approves the general report of the World Economic Conference and concurs in its conclusions. It is ready to co-operate energetically in giving effect to the recommendations . . . of the Conference” and stated that it had also asked the Reich Council to

“report whether and under what conditions it might be possible to lower, in the immediate future, those duties in the present German Customs tariff which have not yet been reduced.”

The Czechoslovak Government stated that it
“could at once adhere to the resolutions of the Conference

¹ League of Nations document C.E.I. 45, Geneva, 1927. •

and . . . that it intended to develop its policy in conformity with the principles which they embodied.”

The Belgian Government likewise expressed its approval of the recommendations of the Conference and declared that it was “willing to come to an immediate understanding with other Governments on the bases laid down by the Conference.”

2. APPLICATION.

(a) *Tariff stability: commercial treaties, 1927-29. (Chapters II, §1 and IV, §3 above).*

The Conference was in fact followed by a certain stabilisation of the European tariff position, evidenced by:

(1) a decline in the number of tariff revisions (1925: 16; 1926: 16; 1927: 10; 1928: 5; 1929: 2);

(2) the extension of the system of tariff treaties (1927:30; 1928:42).

The pillar of this treaty system—a pillar which remained standing many years after the edifice it supported had begun to crumble—was the Franco-German Agreement of August, 1927. The two Governments concerned placed it on record that this treaty would have been much more difficult to conclude “if the Parties had not been able to rely upon the principles laid down by the World Economic Conference and to benefit by the atmosphere created by its discussions”¹

Of the treaties concluded in 1927, 16 contained tariff provisions, involving in several cases a consolidation or reduction of duties. Only 6 of the 1928 treaties included tariff clauses and the tendency towards consolidation was arrested, freedom of action being sought by several countries in regard to agricultural duties. In 1929 the beginning of a more general deconsolidation movement was clearly discernable.

(b) *Tariff levels 1927-1929 (Chapter IV, §3b above).*

(1) Autonomous and Bilateral Action.

In May 1928, the newly-formed Economic Consultative Committee of the League reported that “the effect of the Conference

¹ Application of the Recommendations of the World Economic Conference, League of Nations document, C. C. E. 7, 1928.

has already substantially checked the upward movement of tariffs which was in full swing in May 1927.”¹ Proposed increases in certain tariffs (France, Norway) in preparation in May 1927 had been moderated; reductions in duties, generalised through the most-favoured-nation clause had been effected as a result of several bilateral treaties and in a few countries by autonomous action (Czechoslovakia, Canada); elsewhere (e. g. Denmark, the Netherlands, Australia) insistent demands for increased protection had been refused. But numerous increases had been introduced (e.g. France, Germany—agricultural products, Poland), and the general level of tariffs appears to have risen on balance.²

During the following year (1929) the general level of duties was raised in a few countries (Bulgaria, Chile, China, Persia) and in others, where new tariffs or revisions were in preparation, there were signs of a tendency towards increased protectionism. Some partial reductions were recorded (e. g. the German industrial tariff) but none, through either autonomous or bilateral action, having any real bearing on international trade as a whole.³

Nevertheless, the Consultative Committee was able in May 1929⁴ to report that while the prospects of policy were uncertain and lay under the shadow of the proposals under consideration in the United States of America, the existing tariff situation was “on the whole very much where it was a year ago”. The Committee recommended Governments to emulate those States which had abolished duties constituting “heavy and permanent burdens upon the general industrial and agricultural productivity” or had ceased to serve any protective or fiscal purpose. Occasional autonomous reductions of this kind continued to be made by many countries. But the one fact of importance in this year was that discussions were going on in the United States of America for a formidable general increase in tariff rates at a moment in history when unprecedented economic activity re-

¹ League of Nations document C.217.M.73, 1928. II.

² Application of the Recommendations of the International Economic Conference, report on the period May 1927 to May 1928. Geneva, 1928. League of Nations document C.C.E.7

³ Application of the Recommendations of the International Economic Conference, report on the period May 1928 to May 1929. League of Nations Document C.C.E.53.

⁴ League of Nations document, C.192.M.73, 1929. II

removed all semblance of economic justification (though not of political pressure) for enhanced protectionism and when the creditor position of that country pointed to the imperative need for exactly the opposite policy if world economic stability was to be maintained. Other countries, afraid of this clouding of the western horizon, decided to wait and see whether the storm dispersed or broke. As is shown in Chapter VI below it broke with the great depression.

• (2) Collective Action.

The Economic Committee was instructed by the Council to prepare a programme to give effect to the Conference recommendations regarding collective action. It should be observed that the Committee had hitherto been careful to avoid taking up any question directly affecting the customs and tariff policy of States, which had generally been regarded as falling exclusively within the sphere of national sovereignty.

• Two methods of achieving collective reduction in tariffs were first considered—that of “maximum limits”, i. e. the fixing of maximum limits to the duties imposable by any country on each category of merchandise, and that of “percentage reduction”, i. e. maintaining existing duties in each country as the basis and arranging for simultaneous and gradual percentage reductions in those duties. Both these methods, however, raised such difficulties as to make them appear entirely unrealisable. The Committee, on the other hand, was encouraged by the progress of the work on removing restrictions on hides, skins and bones (see Chapter III, §3 above) and accordingly decided, in March 1928, to attempt—as a first step—to bring about collective agreement for tariff reduction on particular groups of products.

It decided to begin with semi-manufactures, in regard to which resistance to tariff reduction seemed likely to be least strong, and with certain products subject to a considerable measure of national and international cartel control. Aluminium was considered, at the instance of Germany, but owing to opposition from other countries, enquiries had to be abandoned. Governments and experts (producers' representatives) were consulted in regard to the concerted reduction of cement duties, but here again results were negative, the proposal being favoured by the

no- or low-duty exporting countries but opposed by those which were building up a domestic industry behind high tariffs. The co-operation of overseas countries was not, in general, forthcoming.

(c) *The Unification and Simplification of Customs Nomenclature* (Chapter IV, §3a above; also Chapter II, §1).

An assimilation of Tariff nomenclature was considered a necessary preliminary to collective tariff agreements and an Expert Committee was appointed. In 1931 it completed the first draft of a standard classification of goods entering into international trade adaptable to the requirements of any country. The time was not considered opportune for convening a conference for its adoption and the Assembly of that year confined itself to expressing the hope that Governments would use it as far as possible when revising their tariffs. The draft—revised in 1937 in the light of observations from national administrations—has, in fact, already been applied in part by France, Italy, Czechoslovakia, Denmark, Finland, Egypt, the Baltic States, Poland, Sweden, Uruguay and certain Asiatic countries and is at present under study in other countries.

(d) *Tariff systems and contractual methods.* (Chapter IV, §3d above).

The most-favoured-nation clause had proved valuable in the past as a means at once for spreading the effects of tariff reductions resulting from bilateral treaties and for overcoming some of the difficulties which resulted from the coexistence of quite different tariff systems. Its success was really dependent on countries with intangible tariffs not imposing exaggerated rates. When such countries did impose high protective duties, the whole problem of the coexistence of different systems became acute.

However, the Economic Committee reported in 1929¹ that it was impracticable to attempt to remove the existing disparity of tariff systems, whatever difficulty the existence of intangible tariffs might present to concerted action for tariff reduction. The policy of countries with non-negotiable but moderate tariffs (e. g., the Netherlands and the United Kingdom) was, it held, clearly unobjectionable but not so that of "States which, having

¹ League of Nations document C.138.M.53. 1929.

established tariffs intolerable for other countries, refuse to contemplate their reduction. . . . or impose repeated variations of duty". Assurances, the Committee held, should be sought from such countries (e. g., the United States). It should be remembered that the United States was not at that time disposed to co-operate in the tariff programme of the World Economic Conference; after 1934, however, that country took the lead in a policy designed to lower tariffs by treaty.

In respect of contractual tariffs, (single column tariffs reducible by agreement or double column tariffs permitting of contractual adaptation), the Committee recommended:

- 1) that exaggerated margins for negotiations should be reduced;
- 2) that tariffs increased with a view to negotiation should not, as a general rule, be applied until the negotiation had been completed;
- 3) that tariffs should be widely consolidated;
- 4) "that the practice of negotiable tariffs should not exclude the adoption of long-period tariffs".

(e) *Miscellaneous questions.*

- (i) The Treatment of Foreigners and Foreign Enterprises. (Chapter IV, §3f). See Chapter II, §2.
- (ii) Import and Export Prohibitions and Restrictions. (Chapter IV, §3f). See Chapter III above.
- (iii) The Assimilation of Laws on Bills of Exchange. (Chapter IV, §3f). See Chapter II, §3b above.
- (iv) The Execution of Foreign Arbitral Awards and International Commercial Arbitration. (Chapter IV, §3f). See Chapter II, §3a above.
- (v) Subsidies, dumping, administrative discrimination, etc. (Chapter IV, §3e). See Chapter VI, §4 below.

3. WORK OF THE ECONOMIC COMMITTEE ON THE MOST FAVORED NATION CLAUSE. (CHAPTERS I, §1 AND §3; II, §1; AND IV, §3D).

(a) *Gradual re-establishment of the Clause, 1921-1929.*

Before considering the fate of the policies advocated at the Conference, it is necessary to trace the action taken by the Economic Committee with respect to one of the most important recommendations of the Conference, namely, the re-establishment of the M.F.N. clause.

The re-establishment of the Clause as the basis of the commercial relationships between States was one of the few real successes of the first post-war decade in the sphere of commercial policy proper. The United States adopted the unconditional form of the Clause in 1922; Italy became its advocate in 1921, joining forces with the United Kingdom and other traditional upholders of the Clause, together with Germany and her ex-allies, to break down the opposition of France and Spain. France returned to her pre-war practice in concluding her agreement with Germany in 1927 and Spain adopted the Clause by a law of 1928.

There was a serious need, however, for a standardised drafting and an authoritative interpretation of the Clause whose obligations—even in its post-war hey-day (1927-1929) were systematically evaded in many countries by means of an excessive specialisation of tariffs, administrative discriminations and the licencing systems that still remained.

(b) *Attempt at codification 1927-31.*

In compliance with the recommendation of the Economic Conference (Chapter IV, §3d) the Economic Committee undertook to codify most-favored-nation treatment in 1927.

In 1929 it elaborated a general doctrine¹ regarding the drafting, interpretation and application of the clause. One of the central issues of which it had to take account was the deeplying divergence of views regarding the conditions of application (and in existing circumstances² the value) of the clause between countries with non-negotiable and those with negotiable tariffs. The former demanded most-favoured-nation treatment as of

¹ Contained in League of Nations document—C.138.M.53. 1929. II.

² Especially the prospect of a still higher tariff in the U. S. A.

right, irrespective of their own tariff policy, the latter desired to grant most-favoured-nation treatment either only as part of reciprocal tariff agreements or to countries practising a liberal tariff regime. The Committee concluded that "the grant of most-favoured-nation treatment ought to be normal and the refusal of this guarantee or a preferential regime ought not to arise unless in the case of states which refuse an equitable tariff policy or have recourse to discriminating practices."

It likewise considered the question of the relations between bilateral agreements based on the clause and multilateral agreements, i. e., whether states not parties to a multilateral tariff agreement should be entitled to claim the benefits under the most-favoured-nation clause without making reciprocal concessions. The Committee accepted the principle that the position of the parties should be safeguarded, but only in the case of agreements "of a general character and aiming at the improvement of economic relations between peoples"; states not parties which practised a liberal regime should, moreover, not be penalised.

A resolution of the 1930 Assembly, based on a joint demand by the delegations of Denmark, Estonia, Finland, Latvia, the Netherlands, Norway, Sweden and Switzerland, led to further studies by the Committee on certain controversial questions concerning the application of the clause, including its bearing on quotas. On the latter point, the Committee, in a detailed report, published in 1933,¹ declared that

"Any country desiring to adopt Customs quotas must bear in mind that the most-favoured-nation treatment which it has conceded to other countries impose on it the obligation not to impair the equality of conditions in international commercial competition".

(c) *Partial Eclipse of the clause after 1930.*

The post-1930 period was characterised:

(i) by a rapid growth, especially in Europe, of non-tariff measures of restriction which tended to neutralize the effect of the clause;

¹ Recommendations of the Economic Committee relating to Tariff Policy and the Most-Favored-Nation Clause. League of Nations document E.805.

(ii) by a movement towards "reciprocity", particularly in Europe, achieved in some cases by measures not affecting tariffs (e. g. the quota policy adopted in 1931 by France and many other European countries), in others by the open withdrawal of most-favoured-nation treatment from "non-reciprocating" countries (e. g. in Spain, whose 1930 tariff and subsequent agreements with France and Italy, constituted an effective discrimination against the United States;

(iii) by an extension of imperial and regional preferences (e.g. the Ottawa Agreements 1932 and the parallel development in the French Empire: preferential agreements—some tariff, but principally non-tariff—in Central and Eastern Europe from 1931 onwards).

The scope of the Clause and its range of application were thus greatly restricted. It continued nevertheless to be 1) the legal basis of tariff policy and the avowed basis of general trade policy in almost all countries and 2) despite certain limitations, the actual basis of policy in the greater part of the world.

(d) *Doctrinal developments after 1930.*

With the developments set out above, and under the combined influence of the post-1922 United States tariff policy and later the economic depression, the conflict of national attitudes regarding the scope and application of the Clause became increasingly marked and the Clause itself increasingly discredited in the European continent.

The opinion was widely expressed that if countries with non-negotiable and high tariffs, especially such countries as the United States whose competitive power was very great, demanded the automatic application of the clause to themselves while maintaining their own tariff rates, the effect of the clause was to prevent the conclusion of commercial treaties and restrict trade.

The agenda of the Monetary and Economic Conference of 1933 included a proposal for the conclusion of a general interpretative agreement and the waiving of the clause when multilateral agreements were reached between groups of countries. (See Chapter VII, §1 below). The right to waive the clause by way of exception was indeed one of the most crucial problems. The European Commission (1931) and the Stresa Conference (1932) admitted the desirability of such exceptions in recommending

limited and temporary preferences for the cereal exports of Central and Eastern European countries, provided third parties with most-favoured-nation rights consented. The required consent was, however, not forthcoming (See Chapter VI, §3 below). The Sub-Committee of Economic Experts appointed by the European Commission in 1931 recommended that permanent *rapprochements* between groups of European states for the purpose of removing obstacles to trade and stabilising and reducing tariffs should be facilitated by a waiver of most-favoured-nation rights, and, as stated, the Preparatory Committee of Experts for the 1933 Conference made a similar proposal. In the test case (Ouchy Convention 1932), however, the opposition of the United Kingdom was decisive.

At the Montevideo Conference (December 1933) the American states affirmed their adherence to the most-favoured-nation system but contemplated (a), the recognition of exceptions in respect of tariff reductions arising out of multilateral agreements and (b), the evolution of an inter-American preferential system. The resolutions of the Conference were embodied in a Convention opened to signature in Washington the following year (which was ratified by Cuba and the United States only) and were reaffirmed by the Pan-American Commercial Conference held in Buenos Aires in 1935.

In a report issued in 1936,¹ the Economic Committee restated its opinion that “the most-favoured-nation Clause and the system of equality of treatment which it is designed to establish constitute an essential guarantee for the maintenance and development of world trade” and that, in the long run, abnormal measures of trade regulation “are incompatible with a developing and prosperous trade”. The Committee pointed out that “the principal obstacle to the formation of (larger trade) areas lies not in the existence of the most-favoured-nation clause—which is a contractual provision and therefore subject to denunciation—but in the absence of a movement of opinion strong enough to overcome the opposition to the realisation of such projects and still more in the fundamental objections which have been raised against the recognition of undefined exceptions to the general application of the Clause”.

¹ *Equality of Treatment in the Present State of International Commercial Relations*, League of Nations document C.379.M.250. 1936. II. B.

A partial rehabilitation of of the most-favoured-nation clause and a moderation of the regime of exceptions that had grown up resulted from the programme of reciprocal tariff agreements on which the United States embarked in 1934. (See Chapter VIII, §1, g below).

CHAPTER VI

THE GREAT DEPRESSION AND THE EUROPEAN CONFERENCES, 1929-32

1. THE COURSE OF COMMERCIAL POLICY, 1929-32.

The state of apparent, if precarious, economic equilibrium broke down in the summer of 1929. Before the end of the year measures of intensified agricultural protectionism had been introduced in Germany, France and Italy; upward tariff revisions had occurred in Roumania, Norway, Hungary and Finland and in many other countries higher schedules were in preparation. The movement, which was accompanied by deconsolidation of duties and denunciations of existing treaties, was accelerated and extended as the economic depression spread and deepened. The final adoption of the Hawley-Smoot tariff in the United States in June 1930 was shortly followed by higher tariffs in Canada, Cuba, France, Mexico, Italy, Spain, Australia, and New Zealand. The United Kingdom abandoned her traditional free-trade policy with the imposition of emergency duties in the autumn of 1931 and the first general tariff in February 1932.

A new and far more critical phase in the development of restrictions on trade opened with the financial crises in Austria and Germany in the early summer of 1931, followed by the widespread abandonment of the gold standard some months later. The upward trend of duties was accelerated and affected almost all countries. Moreover, tariffs were supplemented—and before long overshadowed—by direct quantitative restrictions and the control of foreign exchange transactions. At the close of 1931, foreign exchange controls were in force in Austria, Bulgaria, Czechoslovakia, Denmark, Estonia, Germany, Greece, Hungary, Latvia, Portugal, Spain, Yugoslavia, Argentine, Brazil, Bolivia, Columbia, Chile, Uruguay, Turkey, Iran; customs quotas in Czechoslovakia, France, Italy, Latvia, the Netherlands, Turkey.

The principal characteristic of the early stages of the depression in Europe was the collapse of agricultural prices. The agri-

cultural exporting countries were subjected to an increasingly severe strain while the principal industrial countries hastened to afford additional protection to their farmers. At the instance of the Economic Consultative Committee, a meeting of agricultural experts from 20 countries, together with representatives of the International Institute of Agriculture, was convened by the Economic Organisation of the League in January 1930. No precise recommendations were issued, but it may be noted that the Economic Committee, in reporting this meeting to the Council,¹ expressed the view that "the League's economic work can only attain effective results if it satisfies, in the first place, the needs of agriculture and provides agriculture with the means to secure the place which is due to it in the preparation of economic policy and in the commercial relations between States".

2. THE TARIFF TRUCE CONFERENCES OF 1930 AND 1931.

(a) *The First Conference with a view to Concerted Economic Action.*

The ominous tendencies of commercial policy, and the general failure of the tariff programme of the 1927 Conference, led the 1929 Assembly to convene an intergovernmental Conference and propose that that Conference should conclude a two or three-year Tariff Truce (an undertaking not to increase or introduce new restrictions on trade) in order to facilitate concerted action for the reduction of tariffs.

The Conference—which assumed an almost exclusively European character—met in February 1930. The idea of a Tariff Truce broke down, owing to opposition both from the Central and Eastern European agricultural States and from countries (e. g., France) which had embarked on a policy of intense agricultural protectionism; but a *Commercial Convention* was signed on March 24th, 1930 by which the 18 signatories—among them Germany, France, Italy and the United Kingdom—undertook to prolong all existing commercial agreements until April 1st, 1931, and only to raise duties after interested Parties had been given an opportunity of submitting objections. Countries with non-negotiable tariffs (e.g., the United Kingdom) bound themselves not to raise statutory duties during the same period.

¹ League of Nations Official Journal, February 1930, p. 161.

• At the same time, the delegates of twenty-three States represented at the Conference adopted a *Protocol regarding the Programme of Future Negotiations*, with the aim of “ensuring the effective application of the resolutions of the World Economic Conference of 1927”. Under this Protocol, negotiations were to be opened with a view to bringing about tariff reductions and “all other practical measures aiming at better organisation of production and a more rational distribution of products”. It was agreed that a second conference should be held in November to decide on the ways and means of bringing the Convention into force and to review the progress of negotiations.¹

(b) *The Second Conference and the failure of Collective Action on Tariffs.*

The agenda of the November Conference, drawn up by the Economic Committee on the basis of desiderata expressed by the Governments concerned, consisted of three principal items:

- (1) that certain work already begun by the Economic Organisation of the League (e. g., Customs nomenclature) should be quickly completed and the *Commercial Convention*, the *Prohibitions Convention* and the *Draft Convention on the Treatment of Foreigners* brought into force.

When it came to the point, no progress was made with any of these Conventions. By November, 10 States had ratified the Commercial Convention but were unwilling in the absence of France, Germany and all the Eastern and Danubian States, to bring it into force between themselves. A further meeting of the Conference in March 1931, when general economic and political conditions had become still more unfavorable to agreement, left the position substantially unchanged. No further attempt towards collective action in regard to tariffs was made until 1933. (See Chapter VII below).

- (2) that bilateral negotiations for the general improvement of trade should be opened.

Only two proposals of special importance were made as to method. The first (United Kingdom)—a revival of the method unsuccessfully attempted by the Economic Committee in 1928/

¹ League of Nations document C.222.M.109. 1930. II.

29—aimed at, an all-round reduction of duties by multilateral agreements, proceeding by groups of products and by stages. Under the second proposed (the Netherlands), States with non-negotiable tariffs and a liberal tariff regime should undertake to maintain a liberal policy in return for concessions—the benefits of which would be generalised through M.F.N.—by States with conventional tariffs and more or less protectionist regimes.

The Conference considered that the first proposal was impracticable; the second resulted in a suggestion that the low-tariff countries should present their demands to the others. The United Kingdom opened negotiations with several countries in the early part of 1931 for the reduction of particularly onerous duties, but met with negligible success. (For U.K. tariff policy after 1932, see Chapter VIII, §2).

(3) that steps should be taken to deal with the special trade problems of the agricultural countries of Central and Eastern Europe.

These problems were considered at a series of conferences of Danubian and Eastern European States in the summer of 1930. The International Agricultural Conference held at Warsaw in August 1930, at which the Governments of Bulgaria, Czechoslovakia, Estonia, Hungary, Latvia, Poland, Roumania and Yugoslavia were represented, put forward, on behalf of these countries, a demand for (a) financial assistance and (b) preferential customs treatment for their cereals. The Warsaw Conference further proposed that in regard to European agricultural products, duties should be consolidated, freedom of trade from non-tariff restrictions assured and internal measures limiting imports (e.g. milling regulations) abolished in other European countries.

No decision on these proposals—that regarding preferential treatment having been strongly opposed at the League Assembly by overseas agricultural countries—was taken by the November Conference.

3. THE COMMISSION OF ENQUIRY FOR EUROPEAN UNION.

Commercial policy was discussed by this Commission in 1931 and 1932 in connection mainly with

- (a) The cereals problem of Central and Eastern Europe;
- (b) The wider problem of the economic 'viability' of that area (Stresa Conference);
- (c) The still wider question of European regional agreements or *rapprochements* of a permanent character;
- (d) International Industrial Agreements.

(a) *The Cereals problem and proposals for temporary preferential tariff arrangements, 1931. (See Chapter VI, §2b 3 above).*

A meeting of the principal cereal exporting and importing countries, called by the Commission in January 1931, resulted in an undertaking by the latter to reserve a proportion of their wheat imports in 1931 to European grain and to consider similar action in respect of other cereals. In May, the Commission itself reported in favour of a preferential regime in respect of imports of European agricultural products "as an exceptional and temporary measure and subject to the interests of third States". It made it clear that compensatory concessions by agricultural countries should not be preferential.

In the course of 1931 and 1932, various preferential tariff agreements on these lines were negotiated. The most important were those between France and Yugoslavia, Hungary and Roumania, providing for a refund by France to the Governments concerned of a percentage of the minimum tariff on certain contingents of wheat in return for reductions of duties on various exports. Germany likewise offered Hungary and Roumania tariff preferences on certain cereals against reductions in duties which were to be generalised by M.F.N. These proposals had to be abandoned because of opposition from some of Germany's M.F.N. countries.

It should be noted that the United States Government, when intimating its inability to accept bilateral arrangements of this kind, stated that a general plan for the whole of Europe, aiming at the improvement of economic and financial conditions, would be sympathetically examined "even if it were to necessitate the application of measures which were likely to infringe existing treaties or acquired rights".

(b) *The Danubian problem and the Stresa Conference of 1932.*

- In 1931 and 1932, the economic plight of the Danubian countries was one of the central problems of European statesmanship. The project for an Austro-German Customs Union (March 1931), was countered by the Benes and Tardieu Plans, both proposing the recognition of a permanent exception to M.F.N. in order to allow the formation of a preferential Customs regime within the Danubian group.

In June 1932, the Lausanne Reparations Conference appointed a special intergovernmental committee to submit to the European Commission "proposals as to measures required for the restoration of the countries of Central and Eastern Europe", and in particular, measures (a) to overcome transfer difficulties and to make possible the progressive suppression of exchange control; (b) to revive international trade and remove the difficulties caused by the low price of cereals.

This Committee, known as the Stresa Conference, met in September 1932. It put forward a general scheme of which the trade relationship aspects were as follows:

(i) the gradual removal of exchange restrictions, to be made possible by debt settlement and stabilisation, which in turn would be facilitated by the operation of a "Currency Normalisation Fund" constituted by the larger European Powers;

(ii) the return to a "liberal commercial policy and a moderate tariff policy", to be made possible by means of a scheme of revalorisation of cereals, involving the grant of limited preferential tariff rebates by cereal-importing countries and/or financial contributions to a revalorisation fund. The beneficiary States should grant reciprocal concessions on a non-preferential basis. The hope was expressed that countries with M.F.N. rights would not obstruct the realisation of the plan.

The Stresa programme was approved in principle by the European Commission in spite of opposition by certain Western countries, the States Members declaring that "each for its own part . . . they are ready to apply, as far as may be possible and without delay, the general guiding principles which result therefrom" (Resolution adopted October 1st, 1932).

The whole scheme, however, came to nothing, the financial arrangements, on which the hoped-for modifications in commercial

policy were dependent, encountering insuperable difficulties. Danubian trade policy became increasingly restrictive and discriminatory through the application of exchange-control (with its correlative, the clearing system) and a variety of other non-tariff measures, e.g. quotas, export premia, special credit facilities, preferential freight rates, artificial exchange rates for clearing purposes.

(c) *Regional Agreements.*

Faced with the impracticability of concerted European action for the reduction or stabilization of trade barriers and the tendency towards purely bilateral trade arrangements on a more or less discriminatory basis, the Commission in 1931 was led to recommend "permanent economic *rapprochements*", or limited group agreements, provided the interests of third parties were safeguarded and the agreements open to accession by any State.

Between 1930 and 1938 there was, indeed, a strong movement towards closer economic relationships between groups of smaller European countries.¹ The joint action by the Eastern agricultural countries has already been noted. This was followed by discussions which led to the adoption of the Little Entente Economic Agreement (1933), the economic provisions of the Balkan Entente (1934) and a programme of close economic collaboration between the Baltic countries (1934). Austria and Hungary were brought within the Italian economic orbit by the Rome Protocols and the Three-Power Pact (1934).

The Little Entente, the Balkan and the Baltic agreements yielded definite, though strictly limited, results, the chief of which was perhaps the habit of regular consultation and the emergence of at least the broad lines of a common external economic policy. Of far greater practical importance, however, were the attempts by the Northern countries and certain of the smaller countries of Western Europe to expand trade among themselves along the lines recommended by the international conferences.

Denmark, Norway, the Netherlands, Sweden, Belgium and Luxemburg concluded a *Convention for Economic Rapprochement* at Oslo in December 1930. This Convention—to which Fin-

¹ This movement was, in fact, world-wide. cf. the inter-American rapprochement, the Ottawa Agreements and the developments in French colonial economic policy, referred to in Chapter V, § 3.

land subsequently acceded—was designed to form a permanent basis for the economic relations between the contracting parties; it laid down a procedure for notification and appeal in respect of possible tariff increases similar to that provided by the still-born Commercial Convention of March 1930 (Cf. above, Chapter VI, §2). Throughout the thirties there was frequent consultation between members of the 'Oslo Group' on matters of commercial policy. The original agreement was strengthened by the Hague Convention of 1937 (see Chapter IX, §2c below) and by the periodic conferences of the Nordic Powers (including Iceland) initiated in 1934.

Of still greater importance, since it was the first definite and practical move towards tariff reduction made by any group of Governments, was the Ouchy Convention of July 1932 concluded between the Netherlands, Belgium and Luxemburg. The main provision of this Convention, which was open to accession by any state, was the immediate reduction, among the contracting parties, of all existing import duties by 10% and further reductions of 10% year by year to a total of 50% (subject to the maintenance of a small all-round minimum rate). Owing to the refusal of certain States, including the United Kingdom, to forego their rights under the M.F.N. Clause to benefit by the proposed tariff reductions, the Convention never entered into force.

(d) *International Industrial Agreements.*

The Sub-Committee of Economic Experts set up by the European Commission in 1931 endorsed the opinion expressed by the World Economic Conference of 1927 that under certain conditions and guarantees, the extension of international industrial agreements might have a beneficial influence on the organisation of production and trade in Europe. They made it clear, however¹, that "neither the formation nor the operation of combines should be influenced by any Governmental action aimed at using them as an instrument of pressure in the field of commercial policy. Their development should be in harmony with the treaty policy of the various countries so as not to hamper the steps taken to promote international co-operation". This recommendation was specifically referred to the consideration of Governments by the 1931 Assembly.

¹ League of Nations document C.510.M.125, 1931. VII.

The rapid extension of such international industrial agreements in the 'thirties was, it is true, responsible for the regulation of trade, and a parallel stabilisation of trading restrictions, in regard to various groups of products. But there is little evidence to show that the rider to the Experts' recommendation was observed, the general practice of Governments being to boost rates and multiply other forms of restriction on imports of the cartelised products whenever such action would strengthen the position of their own producers in negotiating with their opposite numbers in other countries.

(4) PROCEDURE FOR THE FRIENDLY SETTLEMENT OF INTER-STATE ECONOMIC DISPUTES.

Chiefly in connection with the problem of dumping and anti-dumping and countervailing duties, the French delegation to the Tariff Truce Conference proposed that a permanent organ for conciliation and arbitration, attached to the Council of the League, should be set up "for the settlement of all disputes of an economic nature which may arise between States". A procedure worked out by the Economic Committee was approved by the Council in January 1932 and a panel of fourteen experts appointed for a period of five years as from the beginning of 1933.

This procedure was never utilised. (See M. van Zeeland's proposal, Chapter IX, §2e).

CHAPTER VII
THE LONDON MONETARY AND ECONOMIC
CONFERENCE, 1933

1. THE REPORT AND ANNOTATED AGENDA SUBMITTED BY THE
PREPARATORY COMMITTEE.

The Lausanne Conference of June 1932, invited the League of Nations to convoke a world conference on economic and monetary questions with a view to "facilitating the revival of international trade" and particularly to restoring currencies, "thereby making it possible to abolish measures of exchange control and remove transfer difficulties." A Committee of Experts was set up to prepare the agenda of this conference.

The preparatory Committee decided that it was necessary to abandon piecemeal policies and to attempt to bring about joint action simultaneously in a number of different directions. In its unanimous report published in January 1933¹, the Committee made the point that "an effective and lasting return to greater freedom of trade cannot be looked for unless it is accompanied by a general and durable improvement in financial and monetary conditions" and vice versa. Recommendations regarding financial and monetary policy, including the question of intergovernmental debt settlement, and those regarding commercial policy were thus inter-dependent. Again, the Committee pointed out that a reversal of the prevailing tendencies in commercial policy postulated a solution of the price problem and, among the methods by which equilibrium might be restored, suggested the conclusion of international agreements to regulate the production

The Committee was "unanimous in affirming the necessity that action for the removal of the non-tariff restrictions on international trade (prohibitions, quotas, exchange restrictions etc.) should be taken as soon as possible and continued on progress-

¹ League of Nations document C.48(1). M.19(1). 1933. II.

ively wider lines as the other causes of the present economic disorganisation are mitigated or removed.

In regard to tariff policy, the Committee reported that "the object of the Conference . . . must be to reach a general agreement for the reduction of tariffs and to maintain a more moderate tariff policy in the future." It recommended for this purpose that:

a) a Customs truce—or a more elastic measure along the lines of the Commercial Convention of 1930—should be concluded as a preliminary measure;

b) two methods of achieving reduction might be combined, i.e., percentage reductions (on the Ouchy model) and reduction to a uniform level;

c) if multilateral agreements were impractical, agreements between groups should be attempted and an exception to M.F.N. admitted in respect of such agreements;

d) efforts should be made to reach agreement on the scope and application of M.F.N. and on the exceptions, temporary or permanent, which might henceforth be recognised. (See Chapters V, §3 and VI, §3.c above.)

The Committee—taking up a point made by the Basle Committee on the German financial position in August 1931—emphasised the special responsibility of the great creditor countries in initiating and making possible a general move towards freer trade. It likewise declared that "the prospects of substantial success in the necessarily complex and multilateral conference discussions will be greatly enhanced if, in the intervening months, preliminary negotiations have cleared the way for reciprocal concessions."

Support for the programme submitted by the Preparatory Committee—and more particularly its recommendations on the closely-linked and central problems of international debts, monetary stabilisation and tariff disarmament—was voiced by countless national and international bodies. Among the latter were the International Parliamentary Commercial Conference, (Rome

session, April 1933); the Comité de l'Union douanière Européenne (April 1933); the International Chamber of Commerce (Vienna Congress, May-June 1933); the International Exchange Congress (Paris, 1933); the International Agricultural Commission (Berlin, 1933); the International Co-operative Alliance (June 1933); the International Labour Conference (Geneva, 1933).

In April, 1933, the British Premier, Mr. Ramsay MacDonald, and M. Herriot went to the United States to prepare the ground for the Conference. Mr. MacDonald's conversations with President Roosevelt led to a declaration that the United Kingdom and United States Governments were agreed on the need of an increase of commodity prices and of "constructive work to moderate the network of restrictions of all sorts by which commerce is hampered".¹

A few weeks before, however, the United States had abandoned the gold standard and, as the date of the opening of the Conference approached, it became increasingly clear that the one basis on which any agreement on tariffs and trade restrictions might be reached—namely, the restoration, immediate or progressive, of an international monetary system—had been shattered. The United States Government was unwilling to enter into any undertaking in regard to currency stabilisation which, it thought, might compromise its own recovery programme; while the countries of the "gold bloc"—France, Belgium, Luxemburg, the Netherlands, Poland, Italy, Switzerland and Czechoslovakia—made any consideration of a general tariff agreement dependent on at least *de facto* stabilisation.

On the other hand, before the opening of the Conference in June, a temporary arrangement was reached regarding the service of war debts, and a tariff truce for the period of the Conference, proposed by the United States Government, was accepted, subject to certain reservations, by 61 States representing nearly 90% of the trade of the world.

¹ M. Herriot's conversations were followed by a similar statement which declared that the United States and French Governments were "looking with like purpose at the main problems of the world and the objectives of the World Economic Conference" and specified "the re-establishment of a normal financial and monetary situation" as one of the goals to be attained by the Conference.

2. VIEWS AND RECOMMENDATIONS OF THE CONFERENCE COMMISSIONS.¹

The fundamental aim of the Conference was to reconstruct the machinery of international exchange. It was largely concerned with the measures by which the abolition of exchange-control could be facilitated and expedited. As regards quotas, tariffs and M.F.N., all the delegations were agreed that quantitative restrictions "whether direct or indirect, must disappear as soon as possible"; "the need and urgency of reducing excessive customs tariffs were unanimously admitted"; "there was a general opinion in favour of the maintenance of the most-favoured-nation clause in its unconditional and unrestricted form, naturally with the usually recognised exceptions."²

The basic doctrines of the earlier conferences were impressively re-affirmed in the speeches of the world's leading statesmen; but to each general principle some reservation was attached, and there was a marked difference of opinion as to the methods by which it should be applied. Some delegations made reservations in favour of agricultural quotas, while for others the disappearance of agricultural quotas was the condition of the removal of quotas on industrial products. Some delegations considered that tariff disarmament could only be achieved by a collective convention, providing e.g. for gradual reduction of duties by uniform annual percentages on the Ouchy model; others held that the desired result could only be attained through bilateral treaties and that the Ouchy method would be inequitable and destructive of the balance of national customs systems. Proposals that the Customs Truce should be prolonged and made stricter provoked a similar conflict of view. Several delegations demanded the recognition of new exceptions to M.F.N., but "opinions differed very widely" about what those exceptions should be.

Finally, the hypothesis on which the whole work on commercial policy was based was the stabilisation of currencies. "When events showed that this hypothesis could not be realised . . . several countries . . . deemed it necessary to reserve full liberty of action in the matter either of quantitative restrictions, or foreign

¹ The Conference was never formally completed and—except on questions of procedure—adopted no resolutions as such.

² Quotations from the Report of Sub-Commission I approved by the Conference on July 27th, 1933. League of Nations document C.435.M.220. 1933. II.

exchange control or customs tariffs.’)¹ The Conference was adjourned *sine die*; statesmen returned to their countries, most of them to reinforce their protective systems. The currency issue proved indeed to be crucial. Only in the group of countries which had allowed their currencies to depreciate was there even an approximate correspondence between the policies actually followed and the recommendations discussed at the Conference.

Before summarizing the development of commercial policy in the next three years, three minor results of the London Conference should be mentioned.

i) *Equitable treatment and indirect protectionism.*

The Sub-Commission dealing with indirect protectionism recommended that an “equitable treatment” clause should in future be inserted in commercial treaties providing for negotiations should any new practice (i.e., a practice not covered in treaties in operation) introduced by one party be considered by the other to impair the value of the treaty. A clause of this purport subsequently found its way into the commercial treaty systems of various States.

ii) *Veterinary regulations.*

Both the World Economic Conference and the Prohibitions Conference of 1927 (see Chapter III, §2 above), had called attention to the “indirect protectionism” practiced in certain countries by means of veterinary regulations. Draft agreements laying down standard principles on which regulations relating to certain products should be based were worked out in the intervening years by the Economic Committee and a sub-commission of the London Conference recommended that a diplomatic conference should be called to conclude an international agreement on the basis of these drafts. This Conference met in February 1935 and conventions relating to measures against contagious diseases of animals, the transit of animals, meat and other products of animal origin and the import and export of certain animal products were signed and duly brought into force by a small number of countries. (See Annex).

¹ *Ibidem.*

The Economic Committee was also asked to examine, in conjunction with the International Institute of Agriculture and other bodies, the problem of the regulations in various countries relating to the import and export of meat and live animals, with a view to arriving, if possible, at an international agreement. When these problems were taken up by the Committee in 1935, it decided to forego the procedure of conference and convention and confine itself to recommending standard regulations designed to provide the maximum guarantees which importing countries are justified in requiring from exporters.

iii) *Wheat and Sugar.*

Another Sub-Commission of the Conference recommended that “plans should be adopted for coordinating the production and marketing of certain commodities” and laid down the principles on which agreements for this purpose should be based. Two principal results may be recorded:

a) a Conference of wheat exporting and importing countries called by the League in August 1933 reached a two-year agreement binding the former countries to limit exports to specified contingents and the latter 1) not to extend their home production, 2) to lower their duties on wheat if the world price rose above a given figure and 3) to accompany tariff reductions by appropriate modifications in quota policy. An Advisory Wheat Committee was set up to watch over the execution of the Agreement.

In the absence of the hoped-for price rise, the provision regarding duties and quotas did not operate, and the net effect of the Agreement on the central problem of artificially expanded production and high agricultural protectionism in many of the normally wheat-importing countries, was negligible. Great difficulties were, moreover, encountered—owing to harvest vagaries—in applying the limitations on the exports from certain great producing countries.

Negotiations for a new agreement in 1939, interrupted by the war, were taken up later between representatives of the Argentine, Australia, Canada, the United Kingdom and the United States and a Memorandum of Agreement between these countries was announced in Washington in July 1942. Pending the

conclusion of a comprehensive international agreement after the war, provision was made for the control of production, stocks and exports, co-operation between the signatories in stabilising prices and the constitution of a wheat pool for inter-governmental relief in war-stricken and other necessitous areas.

b) After much preliminary negotiation, an International Sugar Conference was called by the League in 1937 and led to a 5-year agreement providing for an elastic system of export quotas in exporting countries, a stabilisation of import quotas, and/or of domestic production in importing countries, and the creation of an International Sugar Council to administer the scheme. An interesting point in the agreement was the provision that a prohibition of imports from a country infringing this Agreement was not to be considered a breach of M.F.N. obligations *vis-a-vis* that country.

This Agreement—which represented a further stage in the international regulation of the sugar industry—has contributed towards stabilising and giving some support to the international sugar market. It expired this year, but steps are being taken to keep it informally in being between the United Nations.

CHAPTER VIII

THE NEW PROTECTIONISM: POLICY AND PROPOSALS, 1933-36.

1. EVOLUTION OF TRADE RELATIONSHIPS AND POLICY.

(a) *The course of world trade.*

The lowest point in the world economic depression was reached in the course of 1932 and the following years were a period of slow and uneven recovery. The recovery was to be observed in most primary producing countries and in industrial countries pursuing expansionist credit and/or work-creation policies behind a depreciated or controlled exchange. It was in general not shared by the members of the "gold bloc" in which the painful process of deflation was pursued right up to 1936.

Nor, as the following indices show, was it accompanied for several years by an equivalent increase in world trade, the rapid expansion of which, under the stimulus of foreign lending, had been characteristic of the post-war recovery period.

Industrial production ¹	1929	1932	1933	1934	1935	1936	1937
World	100	70	78	86	96	111	119
United States	100	53	63	68	79	94	103
United Kingdom	100	84	88	99	106	116	124
Sweden	100	89	91	110	123	135	149
France	100	72	81	75	73	78	82
Netherlands	100	84	91	93	90	91	103
Trade in raw materials ²							
Value in gold	100	36	35	35	36	40	51
Value in U. S. \$	100	36	35	35	45	67	86
Value in £	100	50	51	57	60	66	85
Quantum of world trade ²	100	75	76	78	82	86	97

¹ Taken from "World Production and Prices 1938/9", League of Nations, Geneva.

² Taken from "Review of World Trade, 1938", League of Nations, Geneva.

Trade in raw materials and trade between countries enjoying relative currency stability and freedom from extraordinary restrictions (e.g. the sterling area) expanded considerably; elsewhere, there was an almost general stagnation.

The failure of trade to respond to rising production must be ascribed to a combination of two factors: first, the concentration, in national recovery programmes everywhere, on the development of the home market; secondly, the new restrictions on trade. In the following sections, the causes and character of the new customs, currency, and other official restrictions will be briefly reviewed; the parallel growth of unofficial limitations on international competition must, however, not be forgotten. The limitation of competition between domestic producers as a result of the rationalisation and cartellisation of industries, which often formed part of national recovery programmes, was accompanied by a rapid extension of international industrial agreements, many of which, *inter alia*, allocated the foreign markets in which each national industry might sell its products and fixed prices and export quotas.

(b) *The currency factor and the growth of quotas, exchange control and clearings.*

If the new protectionism was primarily the result of national reactions to the effects of the economic depression on domestic prices and production and employment, it was increasingly conditioned by currency factors. By 1933, four groups of currency systems were operating: i) the 'gold bloc'—France, Switzerland, the Netherlands, Italy (until 1934), Belgium and Luxemburg (until 1935), ii) countries maintaining an 'artificial' parity or checking depreciation by means of exchange control and other restrictions (Germany, Italy after 1934, in varying degrees certain of the primary producing countries of Europe and many Latin-American countries), iii) countries with depreciated and controlled exchanges (most Latin-American and some European countries such as Greece and Czechoslovakia); iv) countries with depreciated and free exchanges (altogether some 20 countries by 1933, including the United States, the United Kingdom, the British Dominions, Sweden and Norway).

The first and second groups—countries with over-valued currencies and consequently high price-levels—resorted to increas-

ingly stringent measures aimed at restricting imports and encouraging exports. In the 'gold bloc' recourse was mainly had to an extensive system of import quotas and export bounties¹; in exchange control countries such measures were first supplemented by the rationing of foreign exchange and later overshadowed by a rapidly developing technique designed to minimize the need for and maximize the acquisition of free foreign exchange (see (d) below). One of the principal instruments of this technique was the clearing agreement; the growth of a network of these agreements over the European continent and between certain European and Latin-American and Asiatic countries was perhaps the outstanding feature of trade relationships in the period. By 1937 about 12% of world trade, and more than 50% of the trade of Bulgaria, Germany, Greece, Hungary, Yugoslavia, Roumania and Turkey passed through clearings.

Countries of the fourth—and some of the Latin-American countries of the third—group were in a position to pursue policies of domestic deflation without recourse to extreme measures of trade restriction. The fair degree of currency stability within the sterling area facilitated an expansion of trade between the members of that group.

(c) *Characteristics of the new Trading Relationships: regionalism, discrimination, bilateralism, instability.*

The system of multilateral trade, already seriously affected, broke down with the collapse of the world monetary system. There ensued a general movement towards bilateralism—the endeavour by each country to achieve reciprocity in trade by reducing imports from countries with which its trade balance was passive.

The same general factor provoked attempts on the part of many countries to develop their exchanges of goods and realize a system of settlements within restricted areas. Thus, the United Kingdom and France expanded their imperial trade. Germany sought new outlets and sources of supply in Central and South Eastern Europe and in Latin-America. The mem-

¹ Among countries maintaining freedom of exchange dealings, the proportion of total imports (value) in 1937 subject to licence or quota restrictions was approximately as follows: France, 58%; Switzerland 52%; the Netherlands 26%; Belgium 24%; Ireland 17%; Norway 12%; United Kingdom 8%; Sweden 3%.

bers of the "gold bloc" endeavoured to expand their mutual trade (Brussels Protocol, 1934), while several of the smaller European countries concluded—or adumbrated—regional trade agreements for the same purpose.

With certain notable exceptions (for example, the efforts of the 'Oslo Group', the above developments were accompanied by the creation of new or the extension of existing preferential systems and the emergence of new forms of commercial discrimination. By the Ottawa Agreements of 1932 and the Import Duties Act introduced in the United Kingdom the same year, a general preferential system within the British Commonwealth and the Colonial Empire was established. The German trading methods were frankly and flagrantly discriminatory. Through the use of exchange control and quantitative restrictions, the M.F.N. clause lost much of its value in European commercial relationships.

Those relationships were as complex and disparate as they were unstable. Each bilateral agreement was *sui generis*, designed to meet the special trade requirements of, and to afford effective reciprocal advantages to, the signatories. Commercial agreements, in truth, became instruments of commercial warfare. The degree of instability in commercial relationships may be illustrated by the fact that the Economic Committee, when requested by the League Council in 1935 to examine the feasibility of an international agreement providing for notification one month in advance of proposed changes in tariffs and other restrictions, reported that there was "no chance at present of achieving such an agreement"¹.

(d) *The consolidation of restrictions; the growth of State control; the pursuit of autarky.*

After the post-war period of economic and monetary dislocation, emergency trade restrictions had been gradually relaxed and the old pattern of commercial relations largely restored. When the halting recovery from the depths of the Great Depression began in 1933, the course of policy was in general fundamentally different. The "planning" of foreign trade came to be more and more widely accepted as a normal function of the State, and the weapons which had been forged as an emergency

¹ Report to the Council, League of Nations document C.377.M.248. 1936. II. B.

defence of prices, production or currency were not discarded, but tended to be pressed into service as permanent elements of trade regulation, dovetailed into programmes of national economic development.

The evolution was accomplished gradually, often involuntarily, often reluctantly. It was most rapid and complete in the totalitarian countries; but even countries where the tradition of open competition and free trade was strongest (e.g., the United Kingdom—see below) were not immune.

In this development, three events stand out—the adoption of quotas as an integral part of the French bargaining apparatus in the autumn of 1933; the adoption of agricultural quotas in England in 1933; and the New Plan introduced in Germany in the autumn of 1934, by which every foreign trade transaction was brought under centralized control and exchange control became the instrument of an intensely nationalistic economic policy. Under a fully planned national economy, like that of the U.S.S.R., tariffs are irrelevant; they became increasingly so in Germany and Italy.

The years following 1933 witnessed not merely the consolidation of measures running counter to the recommendations of all post-war economic conferences, but also the evolution and spread of a conception of foreign trade repudiating the fundamental postulates of the liberal doctrine which underlay those recommendations. In one country after another, the decisions of individual traders tended to give place to the decisions of control boards, consumers' choices to a centrally conceived "national interest", often far removed from the maximization of social welfare. Among these national ends, the achievement of autarky held a prominent place. Autarky, which found its most complete expression in the German Four Year Plan of 1936, came to be pursued in varying measures and for varying motives over the greater part of Continental Europe.

(e) *Exchange control and the influence of Germany.*

This new conception of trade was closely associated with, and its institutional expression was indeed dependent upon, the development of exchange control. Many of the weak-currency debtor countries which had been obliged to impose control were anxious to carry out an orderly currency devaluation and re-enter

the orbit of free exchanges, but very few—notably Austria, Portugal and one or two Latin-American countries, such as Ecuador, succeeded in doing so. (See Chapter IX, §3 below).

For the majority, and more particularly for the Central and Eastern European countries, abolition of exchange control demanded, or was held to demand, financial assistance, the scaling-down or consolidation of short-term debts, the assurance of adequate markets and sound internal finance. Such conditions were increasingly difficult to realize.

Germany, seconded by Italy, was the driving force and the exemplar in the new technique of trade regulation. Having embarked on a great programme of rearmament and public works, her trade policy was determined first and foremost by her need of raw materials. So far as possible, imports were diverted from countries demanding payment in free foreign exchange to those which would accept payment directly in the form of German exports—principally South Eastern Europe and parts of Latin America. Exports were also promoted by other measures—adapted to the circumstances of each market—including direct subsidies and indirect subsidisation by means of complicated systems of differential exchange rates and the use of blocked mark accounts. All imports not required for national purposes and requiring payment in free foreign exchange were as far as possible eliminated.

Empirical and opportunist in their origins, new trading methods based on the German model were gradually entrenched in other exchange control countries through the development of new administrative routines and the emergence of new objectives of policy; they spread as a result of retaliation or the adoption of complementary measures in other countries; the methods themselves and the objectives at which they were directed were more and more a source of political friction. Many of the new trading connections, born of misfortune, were cemented by new political groupings.

2. THE MONTEVIDEO CONFERENCE, 1933; THE TARIFF AGREEMENTS PROGRAMME OF THE U.S.A.; BRITISH COMMERCIAL POLICY.

The excesses of the new protectionism in Europe and the new philosophy of international trade provoked a vigorous reaction.

The resistance of the Oslo Group, supported by several of the smaller European countries such as Switzerland, Estonia and Latvia, has already been noted. But in the efforts to prevent further disintegration of world markets and to restore multilateral trade on the basis of relatively equal opportunity the lead was taken by the United States.

On its initiative, the "Seventh International Conference of American States (Montevideo, December 1933) resolved:

"that the Governments of the American Republics will promptly undertake to reduce the high trade barriers through the negotiation of comprehensive bilateral reciprocity treaties based on mutual concessions

"Agreements entered into shall include the most-favoured-nation clause"

6 This resolution was a precursor of the programme of reciprocal trade agreements on which the United States Government was authorized to embark by the Reciprocal Tariff Agreements Act of May 1934. The Act marked a turning point in United States commercial policy, for it involved the abandonment of the hitherto jealously guarded tariff autonomy. It granted the President, for the period of three years, the power to lower existing Customs duties up to 50% in return for concessions from other States. Agreements under the Act were to be based on the unconditional M.F.N. clause, the benefits of which, however, could be withheld from any country discriminating against United States commerce.

The Act was renewed in 1937, and again in 1940; in the first three years of its existence treaties were concluded with Cuba, Brazil, Belgium, Haiti, Sweden, Colombia, Canada, Honduras, the Netherlands (and colonies), and Finland. The aggregate effect of these agreements on the volume of trade between and the level of tariffs maintained by the contracting parties was considerable.

Moreover, it was the intention and in some, but not all, cases, the effect of these agreements not merely to increase the volume of trade but to increase United States imports in relation to exports and thus bring the United States trading position more into line with that appropriate to a great creditor country.

The United Kingdom, though not unaffected by the trend towards bilateral trade regulation, also threw her weight into the balance in favour of the maintenance of the basic institutions of an international trading system. The salient developments in her commercial policy may be briefly noted.

The Ottawa Agreements of August 1932 had set up an elaborate system of tariff and, in respect of certain commodities, quota preferences between the United Kingdom and the Dominions. The Colonial Empire, earlier in the same year, had extended preferences to the mother-country and other parts of the Empire mainly by increasing tariffs and granting rebates therefrom for Imperial products. In 1934, certain colonies supplemented these measures by quotas—aimed mainly at Japan—on various foreign manufactures, especially textiles.

In the United Kingdom itself, import quotas on industrial products were avoided but quotas on agricultural products were introduced as from 1933 and became an important element in the trade agreements concluded from that year onwards. Agreements were made between 1933 and 1936 with the Argentine, Poland, France, all the Scandinavian and Baltic countries and the U.S.S.R. They provided, in effect, for the purchase of definite quantities of certain British goods (e.g. coal) against quota privileges in the British market and, in some cases, the stabilisation or reduction of duties in either or both contracting countries.¹

The tariff was used to facilitate the reorganisation of certain British industries and to strengthen their bargaining position in international industrial negotiations (e.g. the negotiations between the British Iron and Steel Federation and the International Steel Cartel).

3. RECOMMENDATIONS BY LEAGUE BODIES.²

(a) *The Committee on Clearings, 1935.*

Clearing agreements were first concluded in order to enable certain free-currency countries to collect the service of their debts from, and continue some trade with, the countries with controlled exchanges—particularly Germany, which declared a moratorium on the transfer of debt payments in 1934. The countries with

¹ For the most important agreement of the series, the Anglo-American Treaty of 1933, see Chapter X, §2 below.

² See also Chapter V, §3d—The Economic Committee's views on "Equality of Treatment," 1936.

controlled currencies established clearings in order to trade with one another.

The harmfulness of these agreements, which broke up the multilateral system of transfers and tended to reduce the volume of trade and deflect its course into unnatural channels, was generally recognised and, following a decision by the 1934 Assembly, a special Committee was set up to make an enquiry into their causes, scope, methods and results.

The Committee, like most of the Governments consulted, considered¹ that the system could only be regarded as a makeshift involving serious drawbacks and that it should be abolished as soon as possible. The best, though not the only, solution lay in the complete abolition of exchange control, facilitated by debt settlement and "a less restrictive commercial policy which would afford minimum guarantees for export". Failing complete abolition of control over all international financial transactions, commercial transactions at least should be liberated from exchange control. The Committee likewise urged that the conditions—including exchange conditions—under which imports and exports were effected should be left as far as possible to the decision of traders themselves and recommended that, so long as some form of clearing arrangement were unavoidable, it was better to use payment agreements, under which the exporter is paid direct by the importer, usually in the latter's currency.

The other recommendations for attenuating the effects of clearings were likewise based on practical experience. There had been, in the course of 1934/35 some relaxation of exchange controls in certain Latin-American and other countries, accompanied by currency devaluation or the official recognition of depreciated rates, and the practice of private compensation was being extended. The most noteworthy example was Austria, which by a gradual process of decontrol under the guidance of the League Financial Committee, was able during 1934 and the early part of 1935 to devalue, repay short-term blocked accounts and abolish control altogether as regards commercial transactions.

In the course of 1935 and 1936, there was a widespread movement towards a simplification and relaxation of control measures along the lines adumbrated by the Clearings Committee. With

¹ *Inquiry into Clearing Agreements*. League of Nations document C.153.M.83. 1935. II. B.

the economic recovery in 1936/37 and more especially after the devaluation of the "gold bloc" currencies in September 1936, this movement was accelerated and extended, only to be arrested with the recession later in 1937 and with the blackening of the political horizon. (See Chapter IX, §3 below).

(b) *Agricultural Protectionism, 1935.*

The agricultural protectionism practiced by certain industrial countries was discussed at length by the League Assembly of 1934 and an investigation by the Economic Organisation of the League called for. In a reasoned report on the causes and effects of the evolution of agricultural protectionism, published the following year,¹ the Economic Committee came to the conclusion that "the maintenance of a normal current of agricultural imports on the part of the industrial countries is in keeping with the true interests of the nation as a whole and of the agricultural producers in particular. Such a conclusion is obviously incompatible with the existence of unduly restrictive quotas, but it does not in any sense exclude maintenance of reasonable protectionist duties. Certain countries . . . prefer to afford their agriculture what appears to them equitable assistance by means of direct subsidies, the funds for which are provided by duties sufficiently moderate in themselves not to cause any undesirable rise in the cost of foodstuffs within the country".

(c) *The Raw Materials Enquiry, 1936-37.*

The problem of the commercial access to raw materials, which was closely connected with the developments in trade and monetary policy referred to above, was the subject of an enquiry and recommendations by a special League Committee set up in virtue of a resolution of the 1936 Assembly. The Committee published its report in September 1937.²

The elements of the problem were very different from what they had been in 1919/1920 (see Chapter I, §7). In spite of the recent expansion of industrial demand, prices of raw materials were still relatively low, stocks plentiful and, with some excep-

¹ Considerations on the Present Evolution of Agricultural Protectionism. League of Nations document C.178.M.97. 1935. II. B.

² League of Nations document A.27. 1937. II. B.

tions, exports unhampered by prohibitions and restrictions. The main problem no longer concerned supply, but payment—i.e. the difficulties of countries with a controlled currency in obtaining foreign exchange to pay for their purchases. These difficulties were partly the inevitable result of bilateralism and its forbear exchange control, partly the result of the general growth of trade restrictions which bore heavily on the exports of industrial countries (e.g. Japan and Germany). They were aggravated by the closing of the “open door” in the British Colonial Empire and the tightening up of other imperial preferential regimes.

The Committee came to the conclusion that “the only general and permanent solution of the problem of commercial access to raw materials is to be found in a restoration of international exchanges on the widest basis”. The formulation of such a solution naturally fell outside the province of the Committee. As practical remedies, however, it recommended the liberalisation of exchange control and clearing systems along the lines suggested by the Clearings Committee in 1935 (see above) and the granting of financial support to countries wishing to take such measures; the reduction of barriers to trade, for example by the revival and readaptation of the 1927 Prohibitions Convention and the relaxation of preferential tariffs between metropolitan countries and their colonies and dependencies.

In regard to difficulties of supply—which, though of less practical importance, nevertheless raised far-reaching questions of principle—the Economic Committee made certain proposals in a report to the League Council in December 1937. International schemes regulating supplies and prices, it suggested, should be so framed as to afford effective representation and protection of consumers’ interests; raw materials should not be subjected to export restrictions, except in pursuance of such international regulation schemes, nor to any export taxes except non-discriminatory duties imposed for revenue purposes or to improve the production, utilisation or marketing of the raw material concerned; and foreigners should have the same opportunities as nationals for developing the natural resources both of sovereign countries and of colonial territories.

The majority of Governments expressed themselves as favorable, on the whole, to these recommendations but did not believe that concerted action was feasible in the existing circumstances. The whole enquiry was without practical results.

CHAPTER IX

THE TRIPARTITE DECLARATION AND PROPOSALS FOR THE LIBERATION OF TRADE, 1936/38

1. THE TRIPARTITE DECLARATION, SEPTEMBER 1936.

At the beginning of September 1936, the Economic Committee published a report¹ in which it expressed the opinion that it was indispensable for the restoration of normal international economic intercourse to close the "abnormal gap which separates the price levels of different countries" and called attention to the difficulty of bridging this gap through further deflation. A warning was given that "no currency adjustment can bring about any improvement in the economic situation unless it is accompanied by a relaxation—leading, we should hope, to ultimate abolition—of exceptional import restrictions". The ultimate objective aimed at was the restoration of "a situation in which, irrespective of frontiers, the purchaser can buy what he wants, the debtor can pay what he owes, the tourist can go where he wishes—without encountering, owing to Government intervention, impassible obstacles such as quotas and "currency control".

These opinions were specifically endorsed by the League Financial Committee, which also urged that any attempt which might be made by the 'gold bloc' countries to adjust their price levels through devaluation should not be defeated by further devaluation elsewhere.

A fortnight later the French franc was devalued and the Governments of France, the United Kingdom and the United States published a joint declaration, the Tripartite Declaration of September 25th, 1936, affirming their "common desire to foster those conditions which will safeguard peace and will best contribute to the restoration of order in international economic relations, and to pursue a policy which will tend to promote prosperity in the world and to improve the standard of living".

¹ Remarks on the Present Phase of International Economic Relations. Geneva, -936.

After noting the decision of the French Government to devalue the franc, the three Governments agreed "to maintain the greatest possible equilibrium in the system of international exchanges". They went on to state that "the success of the policy set forth above is linked with the development of international trade. In particular, they attach the greatest importance to action being taken without delay to relax progressively the present system of quotas and exchange controls with a view to their abolition". They invited the co-operation of other governments in the policy laid down.

This declaration was welcomed by a resolution of the League Assembly (October 10th, 1936) recommending:

"all States . . . to organise without any delay determined and continuous action . . . to reduce excessive obstacles to international trade and communications, and in particular to relax and, as soon as possible, to abolish the present systems of quotas and exchange controls."

2. PROPOSALS AIMING AT INCREASING LIBERTY OF INTERNATIONAL TRADE.

After the signature of the Tripartite Declaration, attention was turned to the problem of how to secure that general relaxation of quotas and exchange controls on which the success of the monetary alignment was held to depend.

(a) *International Chamber of Commerce, 1936 and 1937.*

The Council of the International Chamber of Commerce, at a meeting in Paris on October 16th, 1936, approved a plan drawn up by a group of economists, aiming at restoring world-wide multilateral trade. Under this plan multilateral agreements, and the general use of unconditional M.F.N., were made the ultimate objective, but in the meantime bilateral treaties "consciously used as an instrument for the demobilisation of trade barriers" were recommended.

At the biennial Congress of the Chamber, held in Berlin in July 1937, a detailed programme was put forward, the essential elements of which are similar to those which the Economic Committee was elaborating and published two months later (see below).

(b) *The Buenos Aires Conference, 1937.*

The Inter-American Conference for the Maintenance of Peace, held at Buenos Aires in December 1936 recommended

“That the American States abstain, so far as possible, from raising or augmenting tariff barriers and every other kind of restrictions which directly or indirectly hinder international trade and resulting payments;

“That immediately, and to the extent that the several national economies permit, a policy of abolishing and gradually reducing the said excessive or unreasonable prohibitions and restrictions upon international commerce be undertaken and carried forward by each of the said States, through the conclusion or revision of bilateral economic or commercial agreements and treaties and through unilateral action by each country. . . .”

(c) *The Hague Convention, 1937.*

An attempt at concerted action to liberalize trade between themselves was made by the Oslo Powers. Under the Hague Convention of May 1937, the Netherlands and the Belgium-Luxemburg Union agreed to abolish all quotas and to impose no new barriers on goods from other members of the group, while Denmark, Norway, the Netherlands East Indies, Sweden and Finland agreed not to raise tariffs or impose new restrictions.

This Convention was of special interest because it brought together countries with different commercial policies, some of which afforded tariff protection only, while others applied quotas and one (Denmark) practised exchange control. Owing to the economic recession and the gathering political crisis, it was allowed to lapse after one year (Stockholm Declaration, May 1938).

(d) *The Economic Committee's Scheme, September 1937.*

In a report to the League Assembly in September 1937, on the carrying out of the programme of the Tripartite Declaration,¹ the Economic Committee outlined a scheme of international

¹ League of Nations document C.358.M.242. 1937. II. B.

action for the purpose of restoring normal economic relations. Under this scheme, in effect, the countries of Western Europe were to relax those restrictions which bore most heavily on the Central and Eastern European States, while the latter, relieved of their most acute difficulties by such measures, and the provision of financial assistance, were to reciprocate by the removal or relaxation of exchange control.

The Committee proposed that Governments should make a joint declaration on the lines of the Tripartite Declaration of September 1936, setting out objectives and methods.

The Governments, it recommended, "should affirm their determination to do away as soon as possible with quotas—with the exception of any whose object is to ensure the application of industrial agreements aiming at the improvement of international economic relations or which are justified by flagrant dumping; to increase substantially quotas which cannot be immediately abolished as the consumption demand increases; to improve the operation of the quota system, so as to avoid so far as possible any discrimination; to achieve greater stability in the matter of tariffs, and, when necessary, to reduce to a reasonable level duties on goods not subject to quotas. Apart from autonomous measures which would be taken simultaneously, they should signify their intention of undertaking a revision, in the same spirit, of the provisions relating to quotas and tariff guarantees in their commercial agreements, their payment and clearing agreements being revised on similar lines for the purpose of mitigating the restrictive effects of exchange control. The economic programme should be completed by provisions tending to facilitate the freer circulation of raw materials in accordance with the recommendations of the Committee entrusted with the study of this problem. (See Chapter VIII, §3 above.)"

"The countries concerned would also have to consider whether measures could be adopted to carry further the principles of the Tripartite Agreement as regards the relative stability of their currencies, either by autonomous undertakings or by concerted action.

“They would also have to examine what means can be devised for extending the system of free currencies and securing the abolition of exchange controls, the possibility of giving assistance to countries which practise such controls but which are anxious to abandon them and are prepared themselves to pursue an appropriate financial policy, and, in that event, the conditions which would have to be fulfilled for such action to be effective.

“Finally, it would be necessary for the countries concerned to arrive at some agreement as to the principles of economic and financial management which would have to be maintained by the States which are parties to the Declaration.”

The Committee made it clear that such general economic collaboration postulated a political settlement and a concerted policy for the limitation of armaments.

A point of particular interest is the stress laid by the Committee in the above report on the need of convincing public opinion, if the necessary support for the proposed scheme was to be forthcoming, that an increase in general welfare depended on an expansion of international trade and that the preservation of peace itself was dependent upon the reversal of the prevailing autarkic tendencies.

(e) *The Van Zeeland Report, 1938.*

In April 1937 the British and French Governments requested the Belgian Premier, M. van Zeeland, to enquire into “the possibility of obtaining a general reduction of quotas and other obstacles to international trade”, M. van Zeeland’s report was published in January 1938. His recommendations were very similar to those made by the Economic Committee, but some were made more concrete and others added. These may be summarized as follows:

Tariffs.

A general agreement to be concluded between Governments not to raise existing duties or impose new ones and gradually to reduce exceptionally heavy duties. Reciprocal commercial agree-

ments to be based on M.F.N. Exceptions to M.F.N. to be admitted in order to allow the formation of group agreements aimed at lowering tariff barriers, provided these are open to the accession of other States.

Measures of "indirect protectionism" to be suppressed. Recourse to be had to arbitral bodies—such as provided in the "Procedure for the friendly settlement of differences of an economic character" instituted by the League in 1932—in case of disputes arising, e.g. out of anti-dumping legislation.

Quotas.

Industrial quotas to be suppressed and replaced, if necessary, by tariffs or "tariff quotas."

Agricultural quotas to be enlarged, if abolition were impossible.

Financial Measures.

In order to permit countries with exchange control to relax and finally abolish it and make the currency adjustments necessary for this purpose, creditor countries to remove restrictions on capital exports; frozen assets and arrears in clearing agreements to be consolidated and credits provided to ease the transition.

In M. van Zeeland's view a coordinated scheme, embracing such measures, could best be carried out within the framework of a *Pact of International Economic Collaboration* designed "to assist the participants to raise the standard of living of their nationals by improving the general well-being".

Such a plan, clearly, could not be realized without the support of the principal economic Powers, the United States, the United Kingdom, France, Germany and Italy. The first stage should therefore be a conference of representatives of these Powers, which, if they agreed to take part in an attempt at economic collaboration, might then set up a special bureau to consult with other governments and draw up a programme of action. The conclusion of the Pact would be the final stage, marking a general acceptance of that programme.

M. van Zeeland made it clear that guarantees would be required, "necessarily political in their nature", that the financial assistance, credit facilities or facilities for obtaining supplies

would not be diverted to serve warlike ends. The success of his proposals thus depended on political conditions, which, as is only too well known, were never realised. The only definite action taken to implement any of those proposals was the relaxation of the British embargo on foreign loans (February 1938); this embargo was later reinstated.

3. THE COURSE OF POLICY IN THE YEAR FOLLOWING THE TRIPARTITE DECLARATION.

The devaluation of the French franc was immediately followed by that of the Swiss franc and the guilder; Belgium, as well as the Netherlands and Switzerland, adhered to the Tripartite Agreement, and a series of other States—Italy, Czechoslovakia, Greece, Latvia, Turkey—adjusted their currencies. Business activity and international trade received an immediate stimulus; and the effects on commercial policy, though limited, were encouraging. Before the end of October 1936, tariff reductions and/or quota relaxations had been announced in France, Switzerland, the Netherlands, Italy, Czechoslovakia, and Latvia.

Although this tempo was not maintained, a distinct movement towards freer trade was noticeable throughout the year following the signature of the Tripartite Agreement. It was a period of growing economic activity, largely connected with rearmament, and of rapid expansion of trade, mainly between primary producing and industrial countries. The scarcity of certain raw materials led to some important relaxations of restrictions in industrial countries (e.g., the reduction or removal of duties on iron and steel in the United Kingdom, Germany and Japan); a series of crop failures accounted for the enlargement or abolition of quotas on grain and other foodstuffs in Germany, Italy and several other European countries; the improved position of primary producing countries enabled many of them substantially to relax exchange control (Denmark, Roumania, Yugoslavia) or to abolish it completely (Portugal); similarly, Czechoslovakia abolished control as regards commercial transactions.

But the movement was by no means general and the recovery on which it was based showed clear signs of instability. The devaluation in France was followed by various increases in costs, and thus failed to produce the improvement in the com-

petitive position of the country that had been expected. The franc depreciated further in the summer of 1937 and various quota and tariff concessions introduced in September 1936 were subsequently withdrawn. A fresh fall in commodity prices began in the early summer of 1937, exerting a renewed strain on the exchange position of the primary producing countries. The United Kingdom took no lead in breaching the defences of restrictions and in Germany and Italy—neither of which acceded to the Tripartite Agreement—the drive towards autarky was vigorously prosecuted.

CHAPTER X

PROPOSALS AND POLICY AT THE ELEVENTH HOUR

1. PROPOSALS BY INTERNATIONAL BODIES.

(a) *League Report on Exchange Control, 1938.*

In the summer of 1938 a joint Committee, consisting of members of the Economic and Financial Committees, issued a report on exchange control.¹

The Committee stated clearly that the responsibility for providing conditions which would enable the exchange-control countries that wished to do so to return to a free-currency system lay not only with those countries themselves, but also with the creditor countries—more especially those industrial countries which were pursuing a policy of high agricultural protectionism or maintained high tariffs and rigid quota restrictions.

It considered that, though the time was not propitious for collective action, there was much that individual countries could do on their own initiative. It therefore set out in detail the steps which certain countries had been able to take to relax their controls and the principal obstacles to further abrogation. Many smaller countries, it observed, had great difficulties in relaxing their controls so long as control was maintained by countries which took a large share of their exports, and decontrol, which had been facilitated by the rise in commodity prices and the value of world trade which took place after 1935, was almost impossible during an industrial recession such as had occurred in 1937.

(b) *The Lima Conference, December 1938.*

Efforts towards freer trade—and more particularly the trade agreements programme of the U.S.A.—were again supported by the American States at the Lima Conference of December 1938. After denouncing (a) unreasonably high tariffs, (b) quotas,

¹ League of Nations document C.232.M.131. 1938. II, A.

licences, exchange controls and other forms of quantitative restrictions and (c) discrimination of all kinds, the Lima Conference resolved:

“To endorse the negotiation of trade agreements, embodying the principle of equality of treatment, as the most beneficial and effective method of extending and facilitating international trade”.

and recommended the substitution of reasonable tariffs for other forms of trade restriction.

(c) *The Economic Committee and the International Chamber of Commerce, June 1939.*

In its *Observations on the Present Prospects of Commercial Policy* published in June 1939, the League Economic Committee put forward a series of interrelated proposals designed to achieve some progress—whatever the limitations imposed by existing circumstances—in the direction of greater freedom and equality of trade. Countries desiring to see a “progressive, all-round expansion of trade on the basis of the maximum possible freedom and equality” were invited to adopt a dynamic policy aimed at a common objective—namely, ‘an improvement in standards of living the world over’. To this end it was hoped that each country would examine with every other what tariff or other concessions it was prepared to make and anxious to obtain. Free currency countries should maintain a liberal commercial policy; countries with controlled currencies should relax control as opportunity offered and be given every possible help from outside. Except in cases of flagrant discrimination, most-favoured-nation treatment should not be withheld from countries practising exchange control, since any measures tending to divide the world still further into two opposing camps would, it was considered, defeat the purpose in view.

The International Chamber of Commerce, at its Tenth Congress (Copenhagen, June 1939), made a bid for political appeasement through economic appeasement, advocating “a procedure and policies which will render unnecessary the movement of armies across frontiers and which will substitute therefor an increasing movement of goods, services and capital”. “Believing

that the gateway to peace is still open", it recommended that experts appointed by each of the Great Powers should formulate "a plan of adjustment which will give to all countries of the world a fair opportunity to share the resources of the world".

2. ATTEMPTS BY GOVERNMENTS TO IMPROVE THE CONDITIONS OF INTERNATIONAL TRADE.

Among the efforts made in this period to realise some progress along the lines consistently advocated by international bodies, mention must first be made of the later United States tariff agreements.

By the outbreak of the war, the United States had concluded agreements—the effect of which on world trade was enhanced through the operation of M.F.N.—with 20 countries, covering about 60% of her trade. The most important were the Agreements concluded with the United Kingdom (including the British non-self-governing Empire) and Canada¹ in November 1938, which not only brought about a reduction in tariffs on a substantial volume of world trade but a relaxation of the British Imperial Preference system and thus an extension of the principle of equal trading opportunity.

Other moves in the same direction were the Anglo-Irish Trade Agreement of April 1938, putting an end to the commercial war between those two countries, the abolition of numerous quotas by France and Belgium in August of the same year, and the attenuation of licencing restrictions in Australia and Denmark.

In January and March 1939, discussions took place between representatives of British and German industries, at which the broad lines of a far-reaching agreement were worked out regarding the allocation of markets for coal and certain industrial products on the basis of a system of cartels supported by the Governments concerned. This plan, it may be noted, would have involved an important modification of British commercial policy. The negotiations were abandoned after the occupation of Czechoslovakia by Germany.

¹ This agreement revised and extended the earlier agreement between the U. S. A. and Canada concluded in 1935.

3. THE COURSE OF POLICY, 1938-1939.

The fall in commodity prices in 1937 and the business recession accompanying it were arrested in the course of the following year and trade again moved upwards; but the favorable influence of economic factors on commercial policy was henceforth heavily outweighed by the political crisis. Faced with the prospect of another universal war, the most liberal countries of Europe were obliged to take precautionary measures at home involving new restrictions—measures such as restrictions on the export of food-stuffs and raw materials, the intensification of agricultural production, the safeguarding and expansion of vital industries.

Eleventh hour attempts at economic appeasement in Europe,—for example, the Anglo-German discussions mentioned above—were frustrated by political events. There was a modest revival of international lending, mainly in the form of Government loans and export credits, behind which, however, political motives were clearly discernible. Otherwise, the main tendencies noted in preceding years continued to operate and were in some cases accentuated—the struggle for self-sufficiency; the movement towards State regulation of trade; the disintegration of world markets; the concentration of trade between members of economic or currency “blocs” (for example, the United Kingdom with the sterling area and the Empire, Japan with her possessions and Manchuria, Germany with South-Eastern Europe); the simultaneous extension in different geographical spheres of relations based on comparatively free trade, individual transactions and non-discrimination, and of the system of closely regulated, restrictive and necessarily discriminatory trading under a regime of exchange control.

This conflict of commercial policies—the main lines of which have been indicated in Chapter VIII above—was a striking feature of the twilight period preceding the outbreak of war. In Germany and Italy, the rigorous control of capital movements and foreign trade had become an indispensable element in the policy of mobilising all national resources for purposes of military preparedness. The maintenance and development of exchange control in these and the smaller countries which had increasingly come under their economic influence was thus essentially an aspect of the gathering political conflict.

ANNEX

PARTIES TO INTERNATIONAL AGREEMENTS AFFECTING COMMERCIAL RELATIONSHIPS CONCLUDED AND BROUGHT INTO FORCE UNDER THE AUSPICES OF THE LEAGUE OF NATIONS

I. CUSTOMS FORMALITIES.

International Convention relating to the Simplification of Customs Formalities. Geneva, November 3rd, 1923. Entered into force: November 27th, 1924.

Australia	Iraq
Austria	Italy
Belgium	Latvia
Brazil	Luxemburg
United Kingdom	Morocco (French Prot.)
Bulgaria	Netherlands
China	New Zealand
Czechoslovakia	Norway
Denmark	Poland
Egypt	Roumania
Estonia	Union of South Africa
Finland	Sweden
France	Switzerland
Germany	Syria & Lebanon
Greece	Thailand
Hungary	Tunis (French Prot.)
India	Yugoslavia
Iran	

II. INTERNATIONAL COMMERCIAL ARBITRATION.

1). Protocol on Arbitration clauses. Geneva, September 24th, 1923. Entered into force July 28th, 1924.

Albania	Italy
Austria	Japan
Belgium	Luxemburg
Brazil	Monaco
United Kingdom	Netherlands
<i>Various British Colonies, Protectorates, Overseas territories and territories under British Mandate.</i>	Netherlands Indies, Surinam, Curacao
Czechoslovakia	Newfoundland
Denmark	New Zealand
Danzig	Norway
Estonia	Poland
Finland	Portugal
France	Roumania
Germany	Southern Rhodesia
Greece	Spain
India	Sweden
Iraq	Switzerland
	Thailand

2). Convention on the Execution of Foreign Arbitral Awards. Geneva, September 26th, 1927. Entered into force July 25th, 1929.

Austria	Greece
Belgium	India
Belgian Congo & Ruanda- Urundi	Italy
United Kingdom	Luxemburg
<i>Various British Colonies, Protectorates, Overseas territories and territories under British Mandate.</i>	Netherlands
Czechoslovakia	Netherlands Indies, Surinam, Curacao
Denmark	Newfoundland
Danzig	New Zealand
Estonia	Portugal
Finland	Roumania
France	Spain
Germany	Sweden
	Switzerland
	Thailand

III. ABOLITION OF IMPORT AND EXPORT PROHIBITIONS AND RESTRICTIONS.

1). International Convention (and Protocol) for the Abolition of Import and Export Prohibitions. Geneva, November 8th, 1927.

2). Supplementary Agreement (and Protocol) to the Convention of November 8th, 1927. Geneva, July 11th, 1928.

Entered into force—January 1st, 1930
Lapsed —June 30th, 1934

*Austria	†Japan
*Belgium	*Luxemburg
†United Kingdom	†Netherlands and Curacao
*Czechoslovakia	†Norway
†Denmark	†Portugal
*Finland	*Roumania
*France	*Sweden
*Germany	*Switzerland
*Hungary	†United States of America
*Italy	*Yugoslavia

Note—Countries marked * ceased to be bound by these instruments as from July 1st, 1930; those marked † withdrew between that date and June 30th, 1934.

IV. EXPORTATION OF HIDES, SKINS AND BONES.

1). International Agreement relating to the Exportation of Hides and Skins, with Protocol. Geneva, July 11th, 1928. Entered into force October 1st, 1929.

Austria	Italy
Belgium	Luxemburg
United Kingdom	Netherlands °
Czechoslovakia	Norway
Denmark	Poland
Finland	Roumania
France	Sweden
Germany	Switzerland
Hungary	Yugoslavia

2). International Agreement relating to the Exportation of Bones, with Protocol. Geneva, July 11th, 1928. Entered into force October 1st, 1929.

Austria	Italy
Belgium	Luxemburg
United Kingdom	Netherlands
Czechoslovakia	Norway
Denmark	Poland
*Finland	Roumania
France	Sweden
Germany	Switzerland
Hungary	Yugoslavia

* Denounced by Finland in 1936.

V. VETERINARY QUESTIONS.

1) International Convention for the Campaign against Contagious Diseases of Animals. Geneva, February 20th, 1935. Entered into force March 23rd, 1938.

Belgium	Poland
Bulgaria	Roumania
Iraq	U.S.S.R.
Latvia	Turkey

2). International Convention concerning the Export and Import of certain Animal Products. Geneva, February 20th, 1935. Entered into force December 6th, 1938.

Belgium	Roumania
Bulgaria	U.S.S.R.
Latvia	Turkey

3. International Convention concerning the Transit of Animals, Meat and other Products of Animal Origin. Geneva, February 20th, 1935. Entered into force December 6th, 1938.

Belgium	Roumania
Bulgaria	U.S.S.R.
Latvia	Turkey

VI. UNIFICATION OF LAWS ON BILLS OF EXCHANGE, PROMISSORY NOTES AND CHEQUES.

1). Convention for the Settlement of certain Conflicts of Laws in connection with Bills of Exchange and Promissory Notes, and Protocol. Geneva, June 7th, 1930. Entered into force January 1st, 1934.

Austria	Monaco
Belgium	Netherlands
Danzig	Netherlands Indies,
Denmark	Curacao and Surinam
Finland	Norway
France	Poland
Germany	Portugal
Greece	Sweden
Italy	Switzerland
Japan	U.S.S.R.

2). Convention for the Settlement of Certain Conflicts of Laws in connection with Cheques, and Protocol. Geneva, March 19th, 1931. Entered into force January 1st, 1934.

Danzig	Netherlands
Denmark	Netherlands Indies,
Finland	Curacao and Surinam
France	Nicaragua
Germany	Norway
Greece	Poland
Italy	Portugal
Japan	Sweden
Monaco	Switzerland

3). Convention providing a Uniform Law for Bills of Exchange and Promissory Notes, and Protocol. Geneva, June 7th, 1930. Entered into force January 1st, 1934.

Austria	Monaco
Belgium	Netherlands
Danzig	Netherlands Indies,
Denmark	Curaco and Surinam
Finland	Norway
France	Poland
Germany	Portugal
Greece	Sweden
Italy	Switzerland
Japan	U.S.S.R.

4). Convention providing a Uniform Law for Cheques, with Protocol. Geneva, March 19th, 1931. Entered into force January 1st, 1934.

Danzig	Netherlands
Denmark	Netherlands Indies,
Finland	Curaco and Surinam
France	Nicaragua
Germany	Norway
Greece	Poland
Italy	Portugal
Japan	Sweden
Monaço	Switzerland

5). Convention on the Stamp Laws in connection with Bills of Exchange and Promissory Notes, and Protocol. Geneva, June 7th, 1930. Entered into force January 1st, 1934.

Australia	Italy
Austria	Japan
Belgium	Monaco
United Kingdom	Netherlands
<i>Various British Colonies,</i>	Netherlands Indies,
<i>Protectorates, Overseas</i>	Curaco and Surinam
<i>territories and territories</i>	Newfoundland
<i>under British Mandate.</i>	Norway
Danzig	Poland
Denmark	Portugal
Finland	Sweden
France	Switzerland
Germany	U.S.S.R.
Ireland	

6). Convention on the Stamp Laws in connection with Cheques, and Protocol. Geneva, March 19th, 1931. Entered into force November 29th, 1933.

Australia	Italy
United Kingdom	Japan
<i>Various British Colonies,</i>	Monaco
<i>Protectorates, Overseas</i>	Netherlands
<i>territories and territories</i>	Netherlands Indies,
<i>under British Mandate.</i>	Curaco and Surinam
Danzig	Nicaragua
Denmark	Norway
Finland	Poland
France	Portugal
Germany	Sweden
Greece	Switzerland
Ireland	

PART II

AN ANALYSIS OF THE REASONS FOR THE SUCCESS OR FAILURE OF INTERNATIONAL PROPOSALS

CHAPTER I

INTRODUCTION

In Part I of this study, the commercial policy pursued by States in the inter-war period was compared with the recommendations on the subject made by international conferences, committees, and other authoritative bodies. In regard to the crucial issues, there emerged from that comparison a striking paradox: the international conferences unanimously recommended, and the great majority of Governments repeatedly proclaimed their intention to pursue, policies designed to bring about conditions of "freer and more equal trade"; yet never before in history were trade barriers raised so rapidly or discrimination so generally practised. In spite of this paradox, however, a great deal was accomplished by these various international bodies in the field of commercial policy during the inter-war period.

The objects of this second part of the study are:

- (a) to consider the reasons for the success, the partial success, or the failure of the recommendations of the conferences, and
- (b) to draw lessons from those successes and failures.

We shall have to examine not only the reasons why commercial policy followed the course we know it to have followed, but also why the recommendations took the form they did. We shall have to examine whether the procedures adopted were suited to their purpose and to consider the varying fortunes of each group of proposals at different periods. Only thus will we be in a position to draw lessons from the experience presented.

The great international conferences of the first post-Armistice decade aimed at the following main objects:

- (a) the extension of the code of international commercial law, the extension of international commercial arbitration, the general application of administrative principles tending to facilitate trade and the removal of various legal, fiscal and administrative obstructions to trade;

(b) the abolition of war-time trade prohibitions and controls and, later, the removal of the hard core of prohibitions and restrictions that remained in a number of countries;

(c) the restoration of pre-war tariff practices involving

- (i) the suppression of fighting tariffs and measures of tariff warfare;
- (ii) the re-establishment of the system of long-term commercial treaties which had been shattered during the war;
- (iii) the restoration of multilateral trade by the removal of all forms of discrimination and the widest possible application of the most-favored-nation principle;
- (iv) greater stability in tariff rates and classifications.

(d) the elimination of “excessive” or “artificial” rates and, later, the general reduction of tariff levels;

(e) special agreements between some of the small countries of Central and Eastern Europe for the purpose of achieving (b), (c) and (d).

Substantial progress was made in regard to (a)—relatively minor matters not affecting the central issues of policy—throughout the inter-war period, but more especially up to 1930 or 1931. On (b) and the various problems falling under (c), the heritage of the Great War was partly liquidated and some progress made towards a restoration of “normal” practices; but such progress was limited and, by and large, all that had been gained—and more—was lost after 1929. In regard to (d), the reduction of tariff levels—the central recommendation of the World Economic Conference of 1927, an objective proclaimed by business and labour opinion in almost all countries and to the realization of which the States Members of the League of Nations pledged themselves in no uncertain terms—nothing whatever was achieved, unless one counts as an achievement the temporary lull in the protectionist hurricane that occurred in 1927 and 1928. The efforts to bring about (e) failed almost completely.

After 1929, as the Great Depression deepened, measures of quantitative restriction on trade, exchange controls and open and concealed discriminatory practices, again made their ap-

pearance, especially in Europe. The International Monetary and Economic Conference of 1933 and a long series of lesser gatherings, official and unofficial, world-wide and continental, reaffirmed the basic doctrines set forth at Brussels, at Genoa, and at Geneva in the 1920's. By one plan after another—the Oslo Pact of 1930, the Ouchy Convention and the Stresa plan of 1932, the Tripartite Agreement of 1936, the Van Zeeland proposals of 1938—Governments sought to find some practical means of applying those doctrines or of creating conditions which would facilitate their application. All those efforts failed; the recommendations were practically without effect.

CHAPTER II

INTERNATIONAL COMMERCIAL AND FISCAL LEGISLATION

1. PROPOSALS AND ACHIEVEMENTS

Before taking up the problems of commercial policy proper, we may deal very briefly with the group of problems in regard to which substantial success was achieved. These problems were, as stated above, of four kinds:

(a) the development of an international code of commercial law;

(b) the extension of international commercial arbitration;

(c) the general acceptance of certain administrative principles tending to facilitate trade;

(d) the removal of certain legal, fiscal and administrative obstructions to international trade.

They may be considered together and in roughly chronological order:¹

(i) *Simplification of Customs Formalities.*

“The removal of obstacles to trade created by instability in administrative and legal measures and the publication of tariffs in easily accessible form,” which the Genoa Conference had recommended, was substantially achieved by the International Convention of 1923. This Convention also provided for the simplification of regulations and procedure, for greater expedition and non-discrimination in the application of regulations, for appropriate means of redress, for greater facilities to commercial travellers and for the simplification of formalities regarding “certificates of origin”.

The Economic Committee was able to record in 1927 that “striking progress” had been achieved as a result of the Convention, which was brought into force in some 35 countries.

¹ For a fuller description, see Part I, Chapters II (§2 and 3), V (§2,c) and VII (§2,ii.).

(ii) *The Prevention of Unfair Competition.*

• Before the last War, certain international Conventions relating to the suppression of unfair competition had been entered into, but the protection thus afforded was inadequate because many important States were not Parties, because the practices to be repressed were not clearly defined and because the procedure for obtaining redress was defective.

These difficulties were partly met by the International Convention for the Protection of Industrial Property of 1925—based on drafts worked out by the League Economic Committee—which was brought into force in some 25 States and territories, and by the supplementary international agreement concluded in 1934.

Of greater importance was the development of

(iii) *International Commercial Arbitration.*

It was essential to the efficient functioning of a system of arbitration, such as was being built up by the International Chamber of Commerce, that the validity of arbitration clauses in commercial contracts between parties in different countries should be recognized by national courts. At the instance of the Genoa Conference, the League Economic Committee worked out an international protocol for this purpose. This Protocol, which was opened for signature in 1923, provided for the enforcement of arbitral awards made within the territory in which execution was sought; it was completed in 1927 by a Convention binding the Parties—which included all important European trading countries—to ensure the execution of awards given outside their territories. The Protocol received over 30, the Convention some 25, ratifications and accessions.

(iv) *Assimilation of Laws regarding Bills of Lading and Bills of Exchange.*

Following the recommendation of the Brussels Conference in 1920 on this subject, the Hague rules relating to bills of lading, drawn up by the International Law Association, were incorporated in an International Convention concluded at Conferences held at Brussels in 1922 and 1923.

A considerable advance towards the assimilation of laws relating not only to Bills of Exchange but also to Promissory Notes and Cheques was made by a series of six international Conventions concluded under the auspices of the League in 1930 and 1931. These Conventions were brought into force in the course of 1933 and 1934 by some 20 States.

(v) *The Unification and Simplification of Customs Nomenclature.*

The League's draft Standard Nomenclature and Classification, the outcome of recommendations by the World Economic Conference of 1927 as well as the Genoa Conference, was published in first draft in 1931 and in revised form in 1937. It has been applied in many countries as and when tariff revisions have taken place and is under study in others.

Among the questions falling under group (d) above, the removal of double taxation and also, perhaps, the standardisation of veterinary police measures, remain to be mentioned:

(vi) *Double Taxation.*

The work taken up in 1921 by the League in conjunction with the International Chamber of Commerce, led, in 1928, to the formulation of a series of model treaties, each dealing with a distinct group of taxes. Between 1929 and 1939, some hundred new bilateral agreements for the elimination of double taxation, based very largely on these League models, were concluded.

(vii) *Veterinary Police Measures.*

The World Economic Conferences of 1927 and 1933 recommended that a code of sanitary regulations should be established by international convention which would prevent the spread of animal and plant diseases without unnecessarily obstructing the trade in animal and agricultural products. The three Conventions concluded in Geneva in 1934 and 1935—relating to measures against contagious diseases of animals, to the transit of animals, meat and other animal products and to the import and export of certain animal products—went some way towards realising those

objectives. But the Conventions were brought into force in only a very limited number of countries—most of them of minor importance in this trade.

2. REASONS FOR SUCCESS ACHIEVED.

Now, what were the reasons why success was attained on the above questions—at any rate as regards (i) to (vi) and not on tariff questions and the more serious issues connected with commercial policy? Let us attempt to answer the first part of this question and leave the second till later. Most of these matters related to the legal conditions under which the individual trader operated. National laws on these questions had been gradually and independently evolved and substantial differences existed from country to country which were definitely disadvantageous to those engaged in international trade. There was, therefore, a strong support for this work of assimilation, and, more important, little opposition. Traders as a class wanted this work done, and other business interests either wanted it too or were not concerned. That was the first reason.

The second was the widespread desire of governments to restore some reason and order into international affairs. Administrations were ready to co-operate in promoting “freer and more equal trade” provided no “sacrifice of national interests”—and no substantial sacrifice of private vested interests—was involved. This desire was strong enough to induce governments to modify their own conduct up to a point, as is exemplified by the Convention on Customs Formalities. Governments were prepared to modify their administrative practices but not the principles of their commercial policy.

All the questions dealt with above had exercised national administrations and business circles before 1914. Several of them had been the subject of conferences which yielded little or no result; others, for lack of any prospect of international agreement, had not advanced beyond the stage of study. They were taken up after the War under conditions of intensified economic nationalism and of acute economic dislocation. That substantial progress was made must be ascribed in very large measure to a third factor, namely, the creation of a suitable international machinery for joint discussion, study and negotiation in the Eco-

conomic and Financial Organization of the League. The existence of this international machinery served a further purpose. Several of the international agreements mentioned above were "elastic" and subject to numerous reservations. Their positive effect accordingly depended largely on the spirit in which they were applied. The goodwill between responsible officials, brought together periodically at League Conferences or Committee meetings, and the informal supervision exercised by the Economic Committee, were important elements in determining the real advance that was registered.

The success of the double taxation draft conventions cannot be explained by the above considerations alone. Not only was government policy involved, but also government receipts. It is worth noting that the hundred odd bilateral treaties for the reduction of double taxation were negotiated between 1929 and 1939—a period, that is, during which finance ministers in all countries were more than usually reluctant to make concessions.

The support of the business world for relief from taxation was, of course, assured. But the most important factor may well have been the procedure adopted. The Fiscal Committee of the League was world-wide in its composition; consisting as it did of revenue officials, it was assured of the co-operation of the fiscal authorities of all important countries, including the United States of America; and by framing conventions intended to be used as the basis, not of multilateral negotiations, but of such bilateral agreements as might be concluded, it achieved that measure of uniformity which was compatible with differences in national economic structures and financial practices and provided a standard to which countries could gradually conform.

Mention has been made, perhaps improperly, of the draft veterinary regulations—perhaps improperly, because it is doubtful whether this work can be classed as a success. But it is convenient to consider this case here to illustrate two points. The London Conference had recommended a general multilateral convention. That proved impossible. Why? Because the time for multilateral conventions had passed. After the failure of the London Conference, the breaking up of the world into more or less antagonistic if shifting currency groups and the gradual drift

through quantitative restrictions on trade to autarky, the will to conclude such conventions even on questions of minor importance was sapped.

But it is not certain that this was the only cause, for these veterinary problems were very close to major issues of commercial policy. The improper application of regulations concerning contagious diseases or the proper application of obstructive regulations were one weapon of protection in the armoury of governments. In all important countries, some agricultural interests would oppose the surrender of these weapons.

Why, then, did governments recommend their abolition if they were not prepared to abolish them in fact? Here we return to the central problem regarding commercial policy as a whole in this period, a problem which requires to be considered in connection with issues more important than the diseases of plants and animals and the use of these maladies for purposes of protection.

CHAPTER III

COMMERCIAL POLICY PROPER, 1919-1929

1. PROPOSALS AND THE COURSE OF POLICY.

It will be convenient to deal first with the vital problems of commercial policy in the first post-war decade only. After 1929, forces were set in motion which had previously exercised little or no influence and the nature of the problem was radically changed. For a few years after 1925, moreover, non-tariff impediments to trade were overshadowed by rising tariffs; after 1930, the tariff question was complicated by the emergence of new forms of trade regulation and finally overshadowed by them.

The early post-war Conferences aimed, as we have seen, at the following main objectives;

(a) the abolition of prohibitions and restrictions, exchange controls and excessive export duties on raw materials;

(b) the restoration of pre-war tariff practices—the suspension of fighting tariffs, the conclusion of long-term commercial treaties, non-discrimination and the extension of M.F.N., greater stability in tariff rates and classifications;

(c) the elimination of excessive duties and the general reduction of tariff levels.

Let us briefly recapitulate the main conclusions of Part I regarding the degree of success or failure attending those proposals.

(a) *Prohibitions, etc.*

Outside Europe and in several European countries, e.g. Great Britain, the Netherlands, Belgium and the Scandinavian countries, such restrictions had almost entirely disappeared by 1920. In other European countries, their removal was a slower and less continuous process; several countries which abolished their war-time measures of quantitative trade restrictions and exchange control soon after the Armistice felt obliged to re-impose them

later; in Central and South Eastern Europe, where trade had practically ceased by the end of the World War and was only gradually resumed first on the basis of intergovernmental barter, then on that of general prohibitions modified by licence, it was not until the middle 'twenties that something approaching a regime of unrestricted trading was restored.

There remained, however, in many countries—and especially in Central and Eastern Europe—a hard core of prohibitions and quantitative restrictions and it was against this that the efforts of the Prohibitions Conferences of 1927-1929 were directed. An international Convention was concluded in 1927 under which the 29 Parties undertook, subject to various reservations, "to abolish within a period of six months all import and export prohibitions or restrictions and not thereafter to impose any such restrictions". A supplementary agreement for the removal of prohibitions and restrictions on exports of (and the limitation of export duties on) hides, skins and bones, was concluded and brought into force among the States principally concerned. But the main Convention—by far the most elaborate and delicately balanced multilateral commercial agreement ever concluded—finally failed, owing to the absence of one essential ratification—that of Poland, which considered that certain reservations made by Germany jeopardised her economic life. The Convention was in fact brought into force in 1930 for a short period by seven States, not including any from Central and Eastern Europe.

But even in that region, the process of whittling down prohibitions and restrictions continued, by and large, up to 1930 or 1931. It may therefore be said that in spite of the very limited direct results of intergovernmental action, there was no striking contrast between the recommendations of international conferences on this subject and the results achieved in the first post-war decade.

(b) *Tariff Practices.*

The instability which was a feature of post-war tariff regimes—as reflected in the surtaxes and "coefficients of increase" to meet currency depreciation which many governments were empowered to introduce and modify without reference to Parliament, as well as in frequent changes in schedules—became less marked after

1922 or 1923; but nothing approaching the pre-war tariff stability was ever regained, even after 1927. That failure was one aspect of the failure to rebuild the system of long-term treaties.

The commercial agreements concluded in the early 'twenties were few and, without exception, of short duration. From about 1925, and more especially in the years immediately following the World Economic Conference, treaty-making was speeded up—though serious gaps remained—and the treaties more frequently provided for the consolidation or reduction of duties. Although the numerous treaties concluded in 1927 and 1928 continued to be denouncable at short notice, denunciation became less frequent. The Franco-German Agreement of August 1927 seemed to have laid the basis for a stable system of commercial relationships. The consolidation movement was, however, arrested in 1928 and reversed in 1929.

The attempt to rebuild the commercial treaty system was closely bound up with the fortunes of the M.F.N. Clause. The re-establishment of the Clause as the basis of the commercial relationships between States was one of the few real successes of the first post-war decade in the sphere of commercial policy proper. The United States adopted the unconditional form of the Clause in 1922; Italy became its advocate in 1921, joining forces with the United Kingdom and other traditional upholders of the Clause, together with Germany and her ex-allies, to break down the opposition of France and Spain. France returned to the Clause in her agreement with Germany in 1927 and Spain adopted it in 1928.

The generalisation of the M.F.N. Clause was, however, not accompanied by any general extension of 'National treatment' to foreign traders and firms, as was the case before the war; and efforts, culminating in the International Conference on the Treatment of Foreigners in 1929, to secure the recognition of a body of liberal principles to be observed in this connection, met with little success. Nor did the Clause in fact go far towards meeting the problem of discrimination, which was effectively practised by means of tariff specifications so detailed that only the Parties to a bilateral negotiation were likely to benefit from the tariff reductions agreed upon. Anti-dumping and countervailing duties were further sources of alleged discrimination, but these factors declined in importance as the decade advanced.

. The really fundamental issue in the efforts to restore pre-war tariff practices centered around the problem of tariff bargaining. 'Tarifs de combat' were a far more serious obstacle to trade than before the war owing to the increased margin allowed for bargaining and the hitherto almost unheard of practice of enforcing the inflated bargaining tariffs first and negotiating afterwards.

Such changes in methods reflected the increase in the intensity of tariff bargaining. Never had there been such general reluctance to grant the smallest concession without a more than compensatory counter-concession, never were concessions in tariff treaties so limited in number, small in degree and difficult to secure at any price.

On the whole, neither the methods of tariff bargaining nor the spirit in which it was conducted were substantially modified throughout the inter-war period, though, as mentioned in Part I¹, the German and French Governments officially stated that their treaty of August 1927 would have been much more difficult to conclude "if the Parties had not been able to rely upon the principles laid down by the World Economic Conference and to benefit by the atmosphere created by its discussions."

(c) *Tariff Levels.*

In the early post-war years in Europe, the level of duties was a preoccupation quite secondary to other forms of trade restriction and the tendency towards increased protectionism was in many cases concealed by currency depreciation which temporarily reduced the effective height of duties. But within a few years—and more especially after the stabilization of most of the European currencies—it became clear that Europe was following the road that had been taken by the United States in 1921 (emergency duties on agricultural products) and 1922 (Fordney-McCumber Tariff). The new tariffs worked out all over Europe were not only higher than their predecessors; they were also—as we have seen—far less frequently and less substantially reduced by negotiation. Indeed, there was a continuing tendency towards tariff increases, effected by means of successive partial revisions.

¹ Chapter V.

Up to about 1925, the main increases in tariffs referred to industrial products; after 1925, agricultural duties in Italy, Germany and France led the upward movement. For two years following the World Economic Conference, the general upward tendency was checked, though not arrested. Proposed increases in a few countries (France, Norway) were moderated and in a few others some actual reductions in duties were effected by bilateral treaties and by autonomous action (Czechoslovakia, Canada); but these reductions were outweighed by increases elsewhere, especially on agricultural products. From the middle of 1929, a wave of agricultural protectionism swept over Europe and the interlude during which the issue of greater world integration or greater national isolation had seemed to hang in the balance was past.

The storm centre of the high protectionist movement in Europe lay in the Danubian region. The Peace Treaties provided that Austria, Hungary, and Czechoslovakia might form a preferential customs 'bloc'. This remained a dead letter. Equally ineffective were the recommendations of the Supreme Economic Council, the Brussels Conference and the Portoroze Conference and the protracted efforts of the Economic Committee which have been described in Part I.

2. REASONS FOR SUCCESS AND FAILURE IN REGARD TO THE ABOLITION OF PROHIBITIONS AND RESTRICTIONS, EXCHANGE CONTROLS, ETC.

The bulk of the war-time prohibitions and restrictions on imports and exports were removed in the United States, the United Kingdom and certain other countries shortly after the Armistice, because there was a clamour for their removal. In other countries, as we have seen, they were removed or gradually whittled down in the course of the following 10 years. The efficient cause of this demobilization of quantitative restrictions lay in the fact that most governments, reflecting public opinion, did not desire to maintain quantitative control of trade as a permanent system. They postulated that the pre-war system was the normal and natural system and their opinion was reinforced by the declarations of International Conferences and Committees. Exchange control, widely enforced in the post-armistice years by European

countries in a weak financial position, was likewise generally condemned. The restoration of financial stability in Europe—towards which the League of Nations made a noteworthy contribution—enabled one country after another to decontrol foreign exchange operations.

Why was the demobilization of quantitative restrictions a slow and uneven process in many countries?

In many parts of Europe, scarcity of raw materials and foodstuffs made governments reluctant to abandon export controls in the immediate post-war years, while currency fluctuations rendered the abolition of import controls difficult. Countries with depreciating or weak currencies maintained, and in several cases (e.g. France in 1922, Poland in 1925) re-imposed import controls in order to strengthen their balance of payments. They believed that this could be more easily done by checking imports than by allowing the depreciation of currency to stimulate exports, especially as currency depreciation was liable to become cumulative and “self-inflammatory” owing to its effects on confidence. Moreover, they wished to avoid the rise in domestic prices consequent upon depreciation. Various countries with stable or relatively stable currencies maintained or re-imposed controls to protect their own industries against “exchange-dumping”. In every European country, the United Kingdom not excepted, certain prohibitions were maintained in order to foster industry or conserve resources considered necessary for national security; and in certain cases, such controls were used as an instrument of commercial warfare aimed at weakening the position of potential enemies.

It must not be forgotten that actual fighting continued in parts of Europe until 1922 and that it was only after 1925 that the danger of fresh conflicts receded into the background. The Locarno Agreements of October 1925 opened a more hopeful prospect for Western European relationships; but in the same month, war between Greece and Bulgaria was only averted by a hair's breadth.

The passing of the conditions of scarcity, the restoration of political and monetary stability and the introduction, in one country after another, of new and higher Customs tariffs rendered possible the gradual removal of the bulk of prohibitions and restrictions on the European continent. In the restoration of sta-

bility, the financial reconstruction of Austria marks an important date. The Hungarian reconstruction scheme likewise contributed. At the Geneva Customs Conference of 1923, the representative of Hungary stated that his Government "might be obliged to maintain the system of prohibitions owing to economic and currency reasons". Early the following year, in accordance with a recommendation of the League Financial Committee, Hungary abolished her whole system of export prohibitions and licences and, with the introduction of the new tariff later in the same year, also abolished her import prohibitions lists. More important still for its effect on European commercial policies was the stabilization of the mark in 1924; the German import licence system was, moreover, abolished in 1925 when Germany regained her tariff freedom.

But why was the process of demobilising prohibitions never completed? The clue may be found in a sentence from the resolution of the League Assembly of 1924 governing the League's efforts to secure an international agreement on the subject. The Assembly decided that "provisions relating to the vital interests of States shall not be affected". The interpretation given to this phrase 'vital interests' was largely determined by two fundamental factors in the political situation at that time: doubts about the maintenance of peace and mutual mistrust. Governments were prepared to advocate collectively policies which implied trust to some limited extent. But when each government severally was faced with the need for formulating its own individual policy and taking sovereign action, it felt unable to act on the assumption that the political risks of which it felt conscious did not exist. Hence, at no stage of the negotiations between 1927 and 1929 were the majority of European Governments prepared to forego their control over the export of certain products essential for their own national defense and important for the purpose of bargaining with other governments.¹ Nor were the majority of governments prepared to guarantee that the removal of import prohibitions would not be neutralized by prohibitive tariffs, by arbitrary veterinary regulations or other weapons of "indirect protectionism". They were not prepared altogether to abandon their power of direct control over the

¹ Reservations regarding export prohibitions on scrap metal were maintained by 10 continental governments, including all the principal metal producers.

most important lines of trade with each and every country or to renounce completely the most convenient instruments for exercising that control.

In addition to the political causes mentioned above, there were profound economic causes of the unwillingness of governments to accept, in their commercial policies, the logic of the resolutions to which they had subscribed. These economic causes may be more conveniently considered in connection with tariffs, which gradually replaced prohibitions to a very large extent as an instrument of protection.

The 1927 Convention, for all the reservations maintained by many of its signatories, would have involved the removal of a very wide range of prohibitions and it must not be forgotten that this Convention nearly succeeded. The whole course of the multilateral negotiations for the purpose of bringing the Convention into force would have been facilitated and the specific hitch which was the immediate cause of the breakdown—namely, the commercial war between Germany and Poland—possibly avoided had the hopes of general tariff reductions entertained in 1927 been, even in small measure, fulfilled. General agreement regarding both the partial removal of prohibitions and some reduction or at least stabilization of tariffs might conceivably have been achieved had inter-governmental negotiations for the latter purpose been begun in 1927 instead of 1930.

3. REASONS FOR GENERAL FAILURE—AND SPECIFIC SUCCESSSES— OF PROPOSALS AIMING AT THE RESTORATION OF “NORMAL” TARIFF PRACTICES AND THE COMMERCIAL TREATY SYSTEM.

The slow and very incomplete response to the recommendations of Conferences that pre-war tariff practices and tariff relationships should be restored was due partly to special and temporary, partly to general and more permanent, causes.

Long-term treaties and the consolidation of rates were impossible when

(a) specific rates were employed, as in Europe, and the future of most currencies was highly speculative;

(b) new States, and States which had been enlarged or truncated, did not know how their economy would work out;

- (c) new tariffs were almost everywhere in preparation;
- (d) there were grave political risks and uncertainties;
- (e) many governments were faced with pressing social problems—unemployment or low standards of living among certain economic groups—the solution of which might require, *inter alia*, some manipulation of tariff rates;
- (f) prices on world markets—as distinct from prices expressed in fluctuating national currencies—were violently oscillating.

The same factors rendered the acute instability of rates and classifications in the early post-war years inevitable. It should be added that the paucity of even short-term agreements in the five or six years following the Armistice was largely due to the attempts vainly made by France in this period to withhold M.F.N. treatment.

By the time the World Economic Conference met in 1927, this last factor as well as (a), (b) and (c) had ceased to operate. Factor (d) was less prominent but, like (e) and (f), still of importance. There remained a condition of uncertainty, political as well as economic, which made governments hesitate to take the risk of binding themselves for more than a very short more than possible that governments would have been prepared to enter into longer term commitments. Under the leadership of Mr. Hull, many governments actually did so after 1934, despite the effects of the depression.

The vicissitudes of the M.F.N. clause can be broadly explained in a few words. All countries feel a certain reluctance to extend to third parties “concessions” which are made as a result of a bilateral bargain. This feeling is likely to be enhanced (1) at a time of international tension and ill-feeling, (2) if one or more of the potential beneficiaries under the operation of the clause has raised insuperable barriers against the exports of the country granting the tariff reduction, and (3) if one or more of those beneficiaries employs not only non-negotiable but high rates of duty. The tension in Europe and the tariff policy of the United States (as well as the introduction of prohibition in that country, damaging the wine-producing countries) explain the attitude

towards M.F.N. and the effective discrimination practised by other means in a large number of European countries in this period.

Nevertheless, most of these countries—including the small countries in a weak bargaining position—found that on balance their interests lay in a general adoption of the clause. A guarantee of equality of treatment for their exports in foreign markets was indispensable even if of limited value, and the only hope of obtaining it lay in guaranteeing equality in their own markets. A general reduction in trade barriers was also desired and it was assumed—at any rate in the early 'twenties—that the most hopeful method of achieving this lay in creating a network of treaties containing the clause. France and Spain ultimately adopted M.F.N. after their experience of the difficulties of negotiating on a basis of pure reciprocity.

If the recommendations of the Conferences regarding M.F.N. were formally fulfilled, effective discrimination by methods which did not violate the letter of the clause continued to be widely practised. The art of specifying individual positions in the tariff was developed to an extent that frequently rendered tariff concessions of little or no value to third parties. For other reasons, too, the clause itself became increasingly discredited. It was felt that instead of facilitating, the clause tended to obstruct the reduction of tariffs by means of bilateral or multilateral agreement, owing to the reluctance of governments to make concessions which would be generalized by it. This was the result, mainly, of two causes: first, the refusal of the United States to reduce its own very high tariff by negotiation while claiming to benefit from any tariff reduction negotiated between European countries; secondly, the opposition of certain countries—notably the United Kingdom, the United States and the British Dominions—to derogations from strict M.F.N. practice permitting the conclusion of regional or similar agreements for tariff reduction, the benefits of which would be limited to the participants. This second point was important—for when it became apparent that multilateral negotiations on an almost universal scale were not likely to succeed, certain groups, especially the Oslo group of countries, were anxious to achieve the general objects advocated in international conference within a more restricted area. Had general support

of such endeavours been forthcoming, it is possible that the practice of reduction through group agreements might have spread and the groups gradually have extended their size. Such a procedure might have been less favourable to world trade as a whole than the rapid conclusion between a large number of countries of bilateral treaties embracing the M.F.N. clause, but not less favourable than the failure to grant concessions owing to the quasi-universal implications of M.F.N.

The causes of the persistence of tariff warfare are extremely complex. Political tensions provide a partial explanation; so does the accident that at the time that many of the new European tariffs were published, negotiations were impossible and the tariffs had consequently to be enforced before they could be reduced by agreement; so, again, does the fact that, if used by one, fighting tariffs tend to be used by all, in self-defence.

But all this does not really explain why trade was consistently regarded as a form of warfare, as a vast game of beggar-my-neighbour, rather than as a co-operative activity from the extension of which all stood to benefit. The latter was the premise on which the post-war conferences based their recommendations—a premise accepted by all in theory but repudiated by almost all in practice. It was repudiated in practice because, as the issue presented itself on one occasion after another, it seemed only too evident that a Government that did not use its bargaining power would always come off second-best. In the inter-war period, States were taking over the competitive struggle from individual manufacturers and traders, between whom competition was being attenuated by the rapid growth of trusts and cartels and the extension of Government control in various forms.

4. CAUSES OF FAILURE TO ACHIEVE A REDUCTION IN TARIFF LEVELS.

(i) *Causes of the Post-war rise in Tariff levels.*

To understand the causes of the rise in tariffs in Europe, it must be remembered that in the early post-armistice days, tariffs scarcely counted and trade was controlled by quantitative restrictions. These restrictions, together with the currency chaos, meant or produced great disequilibrium in national price levels, and governments were afraid of jumping into the cold water of

an extremely tumultuous world price ocean. They therefore tended not to jump but to impose tariffs more or less equivalent to prohibitions, with the intention of reducing them through negotiations. This, indeed, was the course recommended by the Genoa Conference.

Many of these countries were new or had acquired new or lost old territories and had to create or reorganize their administrative systems. They were afraid to take risks. They had to nurture new populations. They did not know how the industrial organization of their territories was going to hang together, and felt incapable of elaborating a carefully thought-out commercial policy. The safest thing to do seemed to be to impose high tariffs all around and protect everybody.

They were ignorant of world markets and those markets themselves were disorganized. Their old trade connections had been severed and to many of the small new states the cost of creating an export market, of appointing consuls, sending salesmen, etc., was prohibitive. Nor had they the capital necessary to reorganize their industrial life. Inevitably, their primary concern was to secure at least the home market to their existing industries. Inevitably, their attitude towards foreign trade was defensive.

So, for somewhat different reasons, was the attitude of the majority of the larger European countries. These countries, owing to changes in the economic structure of the world, had in many cases permanently lost foreign markets and certain industries which previously, as dynamic exporters, had upheld free trade principles, now demanded protection. Governments were under pressure to protect war-expanded industries in order to keep in employment some part of the plant and labour which had become excessive.

Economic re-adjustment, particularly in the older industrial countries, was rendered extremely difficult by the increased rigidity of their economic structures, a rigidity arising not only from the normal conditions of large-scale industrial economies—heavy capital investment and a high degree of labour specialization—but also from the resistance of organized labour to wage reductions. Readjustment, again, was discouraged by the uncertain future of world markets. There was thus every inducement to buttress up existing industries by all appropriate means,

including tariff protection. Where new and more promising lines of production were attempted, tariff protection was likewise required.

In countries with stable or relatively stable currencies, currency depreciations elsewhere reinforced the demands for protection by industries threatened by "exchange-dumping". German dumping had similar effects. Either straight tariff increases or special "anti-dumping" duties were introduced in one country after another to meet such "abnormal" foreign competition.

In the primary-producing countries outside Europe, the process of industrialization had been accelerated during the war owing to the curtailment of supplies of manufactures from the old industrial countries. Tariffs were raised—in some countries, for example Australia, to very high levels—for the purpose of safeguarding the existence of the newly established industries against the revival of foreign competition. In other words, the war had created a high measure of protection all around and governments were afraid of undergoing the deflationary process incidental to its reduction.

The immediate causes of the steep rise in the United States tariff in 1921 and 1922 are set out by the United States Tariff Commission in the following words:¹ "After the World War, there arose a demand for tariff revision which was intensified by currency depreciation in European countries, particularly in Germany. Industries which had grown up or expanded during the war were fearful of the increased foreign competition, and a severe decline in agricultural prices in 1920 caused the farmers also to advocate increases in tariff rates. In response to this demand, the Congress enacted the Emergency Tariff of 1921 and later the Tariff Act of 1922. These acts raised the general level of tariff rates to a position approximating to that which prevailed prior to 1913."

In fact, the fears of foreign competition entertained by the American producers—agriculturists as well as manufacturers—would scarcely have withstood the test of objective analysis. The real explanation of post-war tariff policy in the United States lay in the widespread belief in the desirability of high tariffs as such.

¹ U. S. Tariff Commission. Trade Agreement between the United States and the United Kingdom, Washington, 1938. Vol. I, p. 30.

This point will be dealt with more fully in connection with the further strengthening of United States tariff protection in 1930.¹

One effect of United States tariff policy on European policies, namely the reluctance to grant tariff reductions from which the United States would benefit under M.F.N., has already been noted. Another, of still greater importance, was the development of a position of highly unstable equilibrium under which the constant deficit in the payments position of European debtor countries *vis-à-vis* the United States was covered, and could only be covered, by a flow of United States capital to Europe on a vast scale. This precarious situation broke down when the net outward movement of United States capital ceased in the middle of 1928.² Thenceforward, European countries were under increasingly severe pressure to curtail imports in order to adjust their foreign payments position.

While this specific factor did not make itself seriously felt until 1929, pressure on balances of payments had exercised an influence several years earlier on the new tariffs of weak-currency countries in Europe. This pressure on national currencies provides one explanation of the high duties on luxury and unessential imports invariably found in Central and Eastern Europe; another factor was the need for revenue. Of all taxes, customs duties are the easiest to impose and to collect. The Ministries of Finance of those impoverished countries—in which, on the one hand, indirect taxation was responsible for a high proportion of national revenue and, on the other, military preparations, subsidies and social services, as well as debt obligations, called for very heavy expenditures—were insistent that the duties on luxury articles should be high. High duties on such goods also reflected a widespread and natural desire in countries lacking capital to endeavour to prevent luxury expenditure and promote saving.

Let us return to consider the forces and the arguments favouring increased protection for national industry. We have mentioned the grounds on which industries claimed such increased protection and some of the reasons why those demands were met. But there were others of no less importance. It was considered desirable, in almost every country, to build up certain lines of production of importance for national defence, and to assist that

¹ See page 126.

² There was a short temporary revival of U. S. Capital exports to Europe in 1930.

development by preventing foreign competition. Even the United Kingdom protected "key industries"; but it was on the European Continent that the memories of the blockade were most vivid and the lessons of that war-time experience most fully drawn. The industrial States fostered their agriculture, the agricultural States their industry, in pursuit of a greater measure of self-sufficiency and security.

In the new, mainly agricultural, States, there were, it is true, special politico-strategic reasons for rapid industrialization. Each of those States desired to consolidate its hardly won political independence by economic independence; each was suspicious of one or more of its neighbours and conscious of the precariousness of its own position; each knew that military power depended in large measure on national industrial production. But the main reasons leading to policies of industrialization in the agricultural countries were undoubtedly social and economic. Throughout the greater part of the period under consideration, many of those countries had a surplus agricultural population. Most of them, as well as their larger neighbours with a more mixed economy, had sent a steady stream of surplus labour overseas before the war and were seriously affected by the new restrictions on immigration, more especially in the United States. The agricultural unemployed could only be absorbed by industry; industry had therefore to be built up and for that purpose tariff protection seemed to be indispensable. Protection was made general in many cases because the plans for industrialization were amorphous.

The position of agricultural countries became more difficult and the need to protect industry more pressing when the great industrial countries increased their agricultural protection. The movement was ushered in by the "Battle of Wheat" in Italy and the new agricultural duties in Germany in 1925. Like the industrialization movement which we have just discussed, it was conditioned partly by the wish to utilize to the full the resources available at home when emigration was checked and export markets difficult to penetrate, partly by the desire for self-sufficiency, partly by other considerations, social as well as economic. It was held to be desirable, in terms of social stability, to maintain a prosperous and numerous peasantry, to check the long-continued drift to the towns. As a result, in part, of the expan-

sion of overseas production which the war had stimulated, a wide margin had developed between the trends in agricultural and industrial prices (the "scissors"); farmers had a grievance and were sufficiently powerful politically to enforce acceptance of their demands.

In Germany and in England, there was a deep-lying (though still but half recognised) economic reason for protecting and fostering agriculture. Both these great industrial States had reached a stage in economic evolution at which a large proportion of their exports took the form of capital goods, a form of trade peculiarly sensitive to economic fluctuations. When this stage is reached, insurance against fluctuations may become more important than maximum income in the optimum year. That insurance can be effected by diverting productive activities to agriculture and to industrial consumption goods. It was so effected in both countries.

Thus the highly industrialized countries at the one end of the scale and agricultural countries at the other endeavoured to secure a better balance by developing miscellaneous consumption goods industries—while in one agriculture waxed and in the other it waned. Between these two extremes, lay the truncated industrial States, Czechoslovakia and Austria, in which the labour mobility factor took a special form. These States protected industry to secure at least their home market, and agriculture, in part for rural-political reasons, in part in the hope of re-absorbing some of the surplus industrial population. Had they regained their old markets in Danubia, that surplus would not have existed. Two alternative policies lay before them—the one which they adopted (and possibly carried too far), the other that of constructing customs unions or some form of preferential customs regime with the other succession States. A customs union would have saved their industry and lessened their need for agricultural protection. But for it to have been economically sound (or acceptable to the other States), labour mobility would have been indispensable. The surplus agricultural labour from all parts of the customs union would have had to be granted the right to move to the industrial centres anywhere within its frontiers. That solution was incompatible with young nationalism. Partly for that reason, partly because of the conflicting interests of other Powers, it was never pressed by conferences. Nor was the estab-

lishment of a preferential regime seriously advocated, owing to the rigid M.F.N. ideas that were current, particularly in Anglo-Saxon countries. As we have seen in Part I, Chapter IV, Austria almost succeeded in negotiating preferential arrangements with Czechoslovakia and Italy in 1925; but the attempt failed owing to Italian insistence that all Czechoslovak concessions to Austria should be extended to Italian products.

Between 1922 and 1929 the United States enjoyed a period of great and increasing prosperity. In this prosperity agriculture shared, though it benefited less than industry. Foreign competition was scarcely a serious factor in any section of economic activity. Yet before the collapse of 1929, even before the end of 1928, it was clear that the United States tariff was going to be raised above the formidable level of 1922.

The explanation has frequently been given in terms of political pressure exercised first by the farming and later by the industrial groups—the sort of pressure which has been important in all countries and constitutes indeed a major problem of government.¹ But this explanation is insufficient, for it begs the question why those sectional groups thought that they would benefit from still higher tariffs all round. Nor is it sufficient to point out that those who knew they would benefit pressed for higher protection while the others were content to follow their lead, for it would still be necessary to explain that amenability. The real explanation of the United States tariff of 1930, as well as that of 1922, would seem to lie in the existence of a deep suspicion of import trade as an element of disturbance and depression and a belief in the beneficial effects of economic isolation, a belief based on the experience of the preceding half century or more, during which the United States had grown to be the greatest and most prosperous industrial country in the world under a system of high tariffs. The Fordney-McCumber Tariff was a development of that trend, which persisted in spite of the fundamentally changed position of the United States when she ceased to be a debtor country and became the world's greatest creditor.

¹ The present commercial policies of the world constitute a kind of bastard socialism, conceived not in the public interest but pressed upon Governments by strong sectional organizations." Sir Arthur Salter: *The Framework of an Ordered Society*, Cambridge, 1933, p. 17.

(ii) *Now near was Europe to accepting conference doctrine in 1927-1929?*

For some two years after the meeting of the World Economic Conference, the rise in tariffs, which had hitherto been both steep and continuous, was checked, though not entirely arrested. The hopes of gradual tariff demobilization aroused by the Conference were wrecked in 1929. It is important, however, to consider how near the world was to accepting the doctrine of the Conference in 1927-29. Was the failure due to accidental causes? How far did errors and omissions in procedure contribute? Was it the inevitable result of certain of the factors considered above?

At the Conference, it was realized that a general demobilization of tariffs would at best be a slow process. Any substantial reduction in tariffs, to which, by and large, national industrial structures had adapted themselves, would have involved particular sacrifices and general deflationary consequences which no government could lightly accept. Little immediate result was therefore expected from autonomous action. States were recommended to begin by removing barriers "that gravely hamper trade" and had been imposed "to counteract the effect of disturbances arising out of the war".

Greater hopes were placed in bilateral action for the conclusion of arrangements under which, on balance, both parties should benefit. But here, too, it was clear that progress would be slow and difficult owing not only to the high tariff of the United States and the opposition to European preferential agreements, but also to the non-negotiable character of the tariffs of some of the principal trading countries of the world. The last factor was of considerable importance. It was not so much the level of the United States tariff as the fact that it could not be reduced by negotiation that made countries with negotiable tariffs reluctant to enter into agreements among themselves for tariff reductions, since such reductions would constitute a non-compensated concession to the world's greatest exporter. The United Kingdom and the Netherlands, the two countries which had not introduced a high protective system and were particularly interested in general tariff demobilization, were likewise unable to take part in negotiations for reciprocal tariff reductions. Since their duties were at that time not subject to reduction by agreement, they

were unable to offer tariff concessions against the concessions they sought to obtain from others.

Various delegations to the World Economic Conference desired the Conference to enter a forthright recommendation in favour of negotiable tariffs and the matter was subsequently considered at length by the Economic Committee. But, whatever advantages negotiable tariffs offered for the purpose of bilateral or multilateral agreements, it was impossible to disregard the fact that the principal European countries with the non-negotiable system were those whose tariffs were the lowest. It would have been patently ridiculous to denounce the low- (or no-) tariff countries for their abstention from tariff bargaining. The position was, of course, changed in the early 30's, when those countries abandoned their traditional free-trade or quasi free-trade position.

The relatively small results achieved by autonomous and bilateral action in 1927 and 1928 do not by themselves afford any evidence that further results might not have been gradually achieved had the depression not occurred and had United States tariff policy followed a different course. That the manner in which the problem of collective action was approached was open to question is argued in Chapter V below; but it is possible that more could have been achieved in those two years had the idea of collective action been taken up with greater enthusiasm. During the whole of that period, indeed, no direct negotiations between Governments for the purpose of collective tariff agreements were attempted and the Economic Committee, which had been instructed by the League Council to explore the possibilities of agreement, found itself thwarted at every point by technical difficulties and conflicts of private interest—factors which, had Governments been generally and genuinely determined to secure such agreement, might well have been overcome. The Committee reported in March 1928 that there appeared to be no prospect of achieving general tariff reduction by means of standard percentage reductions or the fixing of maximum scales. As with national armaments some years later, so with national tariffs, it proved impossible to find an acceptable general principle on which reductions by different States, with widely varying systems and degrees of protection, might be based. The Committee then proposed to make a start with groups of commodities—semi-manu-

factures, such as cement and aluminium—in regard to which the prospects of general agreed tariff reduction seemed least dim. After more than a year of negotiations with the representatives of the national industries concerned, it reported that no progress could be made. The main technical reasons for this failure appear to have been as follows: a) each national tariff being adapted—in theory at least—to the national economic structure, action restricted to one group of products tended to upset the balance of the tariff as a whole; b) since a reduction in the protection afforded to semi-manufactures would constitute an increase in the protection afforded to the finished goods made from them, it was difficult to confine action to the first class of commodities; and c) the essence of international trade being the exchange of different kinds of goods, it was far from easy “to find within a single group of commodities that compensatory factor, which ultimately underlies every commercial agreement”.¹

It was not until the autumn of 1929, when the post-Conference lull was over and the danger of a renewal of active tariff warfare acute, that the governments decided to attempt direct collective negotiations for a general reduction of tariffs. But by the time the Tariff Truce Conference met in February 1930, the opportunity had passed. Had the opportunity been seized in 1927 or even in 1928 when the fate of the Prohibitions Convention hung in the balance, it is possible that a tariff truce might have been concluded and some tariff reductions agreed between countries most directly affected by the prevailing tendencies, which might have been followed by bilateral and group negotiations for more permanent stabilization and further reductions. The fact that the necessary stimulus to intergovernmental action was lacking in those fateful years reflects the fear that each country felt when faced by the practical implications of applying the policies all or almost all advocated. For the application of those policies would inevitably have involved an initial shock, a reduction in prices, unemployment in some industries, not offset at once, perhaps, by increasing employment in others, the protests of those adversely affected and the political dangers of these protests. It also reflects the absence of any clear popular conception, even in the countries that were leaders in the movement, of the ultimate

¹ Report of the Economic Consultative Committee: Second Session, Geneva, 1929. League of Nations document C.192.M.73. 1929. II.

goal of freer trade policies and the consequent failure of the World Economic Conference to evoke strong popular support for its recommendations. The idea of freer trade was not effectively linked to that of increased welfare in the public mind, nor the idea of greater economic isolation with that of diminished welfare and increasing dangers of international friction.

Had a greater measure of popular support been forthcoming, had Governments acted with greater resolution, had opportunities been fully exploited, some advance in the direction of tariff demobilization might clearly have been expected. But it is important to bear in mind the limitations to which any such move would have been subject. Fundamental problems would have remained and deep-lying tendencies and forces continued to operate which make it scarcely conceivable that the broad lines—as distinct from the accidental features—of policy pursued in most European countries could have been very different from what they were. To make this point clear it may be well to pick up again the thread of the argument contained in the preceding section.

Some of the factors contributing to higher tariffs which we have indicated were temporary phenomena arising out of the Great War; they made an early post-war rise in tariffs inevitable but they had largely worked themselves out by the end of our period. Some, of more enduring influence, sprang from what it is now generally agreed were errors in human judgment and policy. Amongst such may be ranged the whole familiar catena of mistakes from the endeavour of certain governments to protect an incompetent or unfavourably situated industry at one end of the scale to the two major volitional causes of the distortion of trade and commercial policy in the period; the endeavour to extract large-scale reparations from Germany while restricting imports from that country and the failure of the United States to adapt her commercial policy to the fundamental change in her balance of payments. The pressure by the debtors to meet their obligations led to an unstable balance which ultimately collapsed and the general feeling of economic insecurity was one of the most pervasive causes both of the desire of governments to isolate their countries behind high tariffs and of their reluctance to move out of that isolation and incur the hazards of a world economy.

But the really fundamental factors were those arising out of the stage of economic evolution reached and the precarious economic situation of many European countries, and the impact on those basic economic conditions of the ferment of nationalism and the instability of the post-war world. These phenomena were interdependent; the course of policies was determined by a combination of the forces they produced. But their respective influences can be distinguished.

We have noted with what circumspection and with what scant results autonomous tariff reduction was recommended. This was due to the fact that, while each country believed that the tariffs imposed by others were damaging to it, it believed that its own were an asset not readily, certainly not gratuitously, to be sacrificed. There was, that is, no general belief that each extension of the division of labour would bring about an economy in production and hence an increase in welfare, or that each country must gain, even if the degree of gain varied, from a general reduction in trade barriers.

The economy in the more highly industrialized States had become so rigid that the advantages of lower tariffs were seriously questioned. When the factors of production could be shifted with relative ease from one occupation to another and full employment of resources might reasonably be expected, a lowering of tariffs should, it was argued, lead to an international specialization from which all would benefit, without creating too much disturbance in the process. But in the post-war world, full employment of resources was quite generally not attained in industrial states. Labour had become highly specialized and immobile; wage and price adjustments were extremely difficult to effect. The lowering of tariffs would have involved an inrush of foreign goods, forcing down certain prices in a highly rigid productive and price structure, and increasing unemployment in certain industries without any manifest certainty of increasing employment elsewhere.

In the face of this situation, which was more generally felt in the bones of the politician and the business man than expounded by the pen of the economist (though gradually it was quite fully expounded), the recommendations of the various conferences we have considered appear at first sight paradoxical. But in fact the paradox may have been more apparent than real. The lesson

to be drawn is rather that the possibility of achieving tariff reductions at any moment was dependent on the phase of the trade cycle reached at that moment, than that no reduction was possible or desirable. No reduction could be attained save under conditions of general prosperity, relatively full employment and, preferably, rising prices. The date for the 1927 Conference was thus well chosen, though the slump came too quickly.

But the influence of the trade cycle on commercial policy was more profound and more positive than this. It did not simply determine the timing of action, it directly affected the attitude of the business world and of Governments to the whole problem of foreign trade. This point is one which will need further consideration in connection with the policies pursued after 1929, but it requires to be stated briefly here. As observed above, the richer industrial States had reached a stage of economic development and of wealth at which consumers' demand had become more erratic, more susceptible to sudden contraction, than in areas and periods in which a very large proportion of demand consisted of the bare necessities of existence. Throughout the whole inter-war period Governments were becoming more conscious of the risks inherent in this unstable demand, the risks of depressions and unemployment, and of the obligations which those risks imposed on them. With this growing sense of responsibility developed the fear that, if the economy of a country were largely dependent on uncontrollable foreign supplies and demands, the government's power to influence economic activity, to avoid or overcome a depression, would prove inadequate.

This factor was perhaps not of major importance during the 'twenties; it became of dominant importance after 1930; but it resulted directly from secular changes in economic and demographic structure, certain of which had been greatly accelerated by the war of 1914-1918. By the later 'thirties, a stage had been reached in the whole process of economic evolution at which it was becoming obvious that, were Governments only willing to cooperate, the solution to these difficulties lay not in isolation and contraction, but in joint efforts to overcome the trade cycle itself. Indeed a Delegation of the League of Nations appointed to report on this subject was in the middle of its labours at the outbreak of the present war. In reviewing the development of

policy during this period, it is important to remember that the war itself broke off the work in hand.

While the highly industrial and richer States had reached a stage of economic development which rendered them peculiarly sensitive to depressions, many agricultural States were eager to develop their industry both in order to absorb surplus agricultural population and as an insurance against the risk of violent changes in the prices of their agricultural exports and in their balances of payments. It was inevitable that they should demand a high degree of protection for their new industries and find it difficult to reduce that protection later. It is not so obvious why they should have been unwilling to reduce duties on the wide range of industrial articles which they did not produce and had no immediate prospect of producing. The purpose of the duties on such goods was threefold: to produce revenue, to encourage the establishment of foreign industries within the country and to restrict the volume of non-essential imports in order to safeguard the national balance of payments and currency. These countries were poor, they were greatly in need of foreign capital, they were apprehensive of any action that might compromise their currencies or render them unable to meet their heavy foreign obligations. How could they be expected to apply the recommendations of the 1927 Conference until and unless those problems were at least in the way to finding a solution? Nor would the application of the Conference recommendations by the industrial countries have greatly assisted them, for agrarian protectionism was only in its early stages in 1927-1929 and the tariffs attacked by the Conference were the industrial tariffs by which the agricultural countries were, as exporters, only indirectly affected.

The problem constituted by the multiplicity of small and poor economic units in Central and Eastern Europe, heavily indebted to the Western World, was extremely complex and purely economic measures could only have made a partial contribution to its solution. Among such economic measures, however, the primary need was for a constructive plan to facilitate the development of their industries and for help in the execution of that plan. Since no action along these lines was initiated, it is understandable that the agricultural countries were unwilling to take the risks involved in any liberalization of their tariff policies.

So far, we have discussed the instability and insecurity of the post-war world mainly in terms of internal economic and social conditions; but the effects of external elements of insecurity on commercial policies were no less fateful. The extent to which the international commercial relationships existing before the first World War depended upon confidence in political stability, in the stability of foreign currencies and in the contractual honesty of States is perhaps insufficiently appreciated. Such conditions provided the framework essential to long-term commercial agreements and stable tariff policies. That framework, shattered by the war, was never fully restored. It is true that currencies were gradually stabilized and the memories of the Russian debt repudiation and the indirect defaults resulting from the depreciation of currencies partly forgotten by the later 20's. It is true that the years immediately following the World Economic Conference were the heyday of international political co-operation in the inter-war period; they were also the heyday of international economic co-operation. But one must not overestimate the extent of the return of confidence, especially in the political world. Reporting in 1931, the Sub-Committee of Economic Experts set up by the Commission of Enquiry for European Union expressed the opinion that "the economic development of which Europe stands so much in need is dependent upon an assurance of lasting peace; in the absence of this assurance, the nations are not content to become dependent upon one another for food, raw materials, or the basic products of industry".¹

That chronic lack of confidence in permanent peace in Europe was really of fundamental importance. It was fundamental because European Governments inevitably tended to approach the problem of commercial policy primarily from the angle of national defence and national power; if they endeavoured to enhance the economic welfare of their peoples, to find solutions for economic and social problems, they sought to combine these ends with the overriding political end and to refrain from policies incompatible with the latter; inevitably, their commercial relationships with other countries, and more especially those directly feared, were imbued with the spirit of conflict rather than of co-operation.

¹ League of Nations document C.510.M.125. 1931. VII.

Accentuating the instability and insecurity which we have discussed, and in turn aggravated by them, nationalism was a force consistently resisting the forces making for greater world integration. In the violent forms which it assumed in certain countries of Central and Eastern Europe, it was the product of the Great War, the result of the enhanced sense of national unity and of the xenophobia aroused in the gigantic struggle of peoples and nationalities, the result of the history preceding the liberation of subject peoples.

CHAPTER IV

COMMERCIAL POLICY, 1930-1939

1. SUMMARY OF PROPOSALS AND THE COURSE OF POLICY.

The evolution of commercial policy in the inter-war period falls into two phases of almost equal duration. From 1920 to 1929, in spite of an almost constant rise in tariff barriers, the general trend of policy was, as we have seen, towards a return to something like the pattern of pre-war commercial relationships; from 1930 to 1939, in spite of the momentous change in United States policy after 1934, in spite, too, of the temporary relaxation of restrictions in many countries, as post-depression recovery reached its zenith, the general trend was set with increasing force towards greater national economic isolation and new forms of inter-State economic relationships.

The prospect, gradually confirmed in the course of the year 1929, of a further strengthening of protection in the United States on the one hand, and the deepening of the economic depression in the primary producing countries and its spread to the United States and other industrial countries, on the other, marked the turning point. The immediate effect of the first factor on policies elsewhere was very marked; and when the Hawley-Smoot tariff finally passed into law in June 1930, numerous countries promptly raised their tariffs. But its direct effect on the course of world policy in the years that followed became of secondary importance compared with its indirect effect in deepening the world economic depression, each phase and aspect of which brought its own baleful consequences.

The characteristic developments in commercial policy under the stress of the depression may be very briefly recapitulated:

(i) The collapse of markets and the fall of prices led each country to endeavour to protect its price structure and to maintain, as far as it could, both the level of domestic employment and the stability of its currency by keeping out foreign goods and seizing for its own exports the largest possible share of the

dwindling foreign market. Recourse was had almost everywhere to the classical method of economic defence, namely the raising of tariffs.

(ii) The financial crisis of the summer of 1931, involving the breakdown of the structure of multilateral settlements and accordingly an increased pressure on the balances of payments of many countries, was followed by currency depreciation in many countries and a welter of new and more formidable trade restrictions.

New tariffs were introduced (for example, in the United Kingdom) and existing tariffs raised, and other forms of restriction, exchange control, quotas, etc., made their appearance and soon came to overshadow tariffs as obstacles to trade. The speed with which this movement spread to almost all countries of the world is explained by the intricate manner in which the active and passive trade balances of each country depend upon one another and dovetail into those of other countries.

(iii) Most of the countries which abandoned the gold standard or further depreciated their currencies following the lead of the United Kingdom—the British Dominions, the Scandinavian countries and numerous other countries in Europe, Latin America and Asia—linked their currencies to sterling. The United States dollar was allowed to depreciate in April 1933.

Four currency groupings thus emerged: (1) the gold bloc—France, Switzerland, the Netherlands, Italy (until 1934), Belgium and Luxemburg (until 1935)—maintaining the parity of their currencies and full convertibility; (2) countries maintaining an artificial parity by means of exchange control (Germany, Italy (after 1934), in varying degrees certain of the primary producing countries of Europe); (3) countries with depreciated and controlled exchanges (most Latin-American countries and some European countries such as Greece and Czechoslovakia); (4) countries with depreciated and free exchanges.

These currency developments had profound effects on the course of international trade and on commercial policies.

(iv) The countries of the fourth—and to some extent, American countries of the third—group were in a position to pursue policies of domestic deflation, without recourse to extreme measures of trade restriction. The fair degree of currency stability

within the sterling area facilitated an expansion of trade between the members of that group.

The devaluation acted as an added barrier to imports from and stimulated exports to the countries with over-valued exchanges. These countries, whose position was thus seriously aggravated, resorted to increasingly stringent measures to restrict imports and encourage exports.

(v) Recourse to import quotas on a large scale was characteristic of the defensive measures adopted by countries of the "gold bloc." In France, there was a special reason for quotas, in that numerous items of her tariff had been consolidated for long periods.

(vi) In the countries practising exchange-control, quotas were supplemented by the rationing of foreign exchange for the purchase of imports. Exchange-control was rapidly developed into an instrument for the purpose of minimizing the need for, and maximizing the acquisition of, free foreign exchange. This purpose was achieved mainly through the use of bilateral clearings.

(vii) Clearings were first established in order to enable certain free-currency countries to collect the service of debts from and continue some trading with, countries with controlled currencies—particularly Germany, which declared a moratorium on the transfer of debt payments in 1934. The countries with controlled currencies established clearings in order to trade among themselves.

(viii) The closing of the established channels of trade and the breakdown of the world-wide multilateral system of settlements provoked attempts by many countries to develop their exchanges of goods and realize a system of settlement within restricted areas. Thus, the United Kingdom and France expanded their imperial trade. Germany sought new outlets and sources of supply in Central and South Eastern Europe and in Latin America. Certain of the smaller European countries endeavoured—though on the whole with small success—to expand their mutual trade by means of regional trade agreements.

The acute difficulties of settlement experienced by many debtor countries gave rise to the problem of "commercial access to raw materials."

(ix) With certain notable exceptions (for example, the efforts of the Oslo group), the above developments were accompanied

by the creation of new or the extension of existing preferential systems and the emergence of new forms of commercial discrimination. By the Ottawa Agreements of 1932, and the Import Duties Act adopted in the United Kingdom the same year, a general preferential system within the British Commonwealth and the Colonial Empire was established. The German trading methods were frankly and flagrantly discriminatory. Through the use of exchange-control and quantitative restrictions, the M.F.N. clause lost much of its value in European commercial relationships.

The lowest point in the depression was reached in most countries around 1932/33. The four or five years that followed were a period of recovery, slow and uneven at first, rapid and general in 1936 and the earlier part of 1937. After a recession in 1937/38, the year preceding the outbreak of war was, in general, one of renewed economic recovery.

As we have seen, after the economic and monetary dislocation of the early 20's, emergency trade restrictions had been gradually relaxed and the old pattern of commercial relationships in part restored. The course of post-depression policy in Europe in the thirties was fundamentally different. Except during a short interval between 1935 and 1937—more especially after the devaluation of the "gold bloc" currencies in the autumn of 1936—the general tendency was towards the extension and consolidation of trade restrictions. Measures that had been adopted for defensive purposes became permanent instruments of offensive policy. Germany and Italy pursued autarky as a primary objective and exerted political pressure to bring the smaller countries of Eastern and South Eastern Europe within their economic orbit. In Germany and Italy and to a lesser degree their satellites, state control over foreign trade was extended to cover individual commercial transactions, and a centralized system of state regulated trading superseded the system of competitive trading by individual merchants.

A restraining influence on the spread of these tendencies was exercised by the United States under the Reciprocal Tariff Agreements programme of 1934. The United Kingdom, though not unaffected by the trend towards bilateral trade regulation, also threw her weight into the balance in favour of the maintenance of the basic institutions of an international trading system.

The new tendencies towards intensified trade restrictions and discriminations were denounced, as is related in Part I, by every important international gathering held between 1930 and 1939. Among the measures proposed as means to the desired ends, some related directly to commercial policies, others to the removal of the conditions underlying those policies. Proposals of the first kind were largely concerned with tariffs. The most important were:

(i) The Tariff Truce, as a first step to multilateral or simultaneous bilateral negotiations. This was rejected at the Geneva Conference of 1930, but, under strong representations from the United States Government, accepted by almost all countries for the period of the Monetary and Economic Conference of 1933. The "Oslo Group" in 1930 adopted a procedure for notification of, and appeal against, tariff increases within the group. It proved impossible to extend this practice or even (as proposed by the League Council in 1935) to obtain a general agreement providing for one month's notification of changes in tariffs or other restrictions.

(ii) The allowance of permanent exceptions to M.F.N. in case of agreements between groups of States for the purpose of reducing tariffs, urged by the Commission of Enquiry for European Union (1931) and the Preparatory Committee for the London Conference of 1933, as well as by the Montevideo Conference of American States (December 1933), and frequently taken up later, for instance, as part of the van Zeeland plan of 1938. The Ouchy Convention of July 1932, concluded between the Netherlands, Belgium and Luxemburg, was the test case. It failed, owing primarily to the refusal of the United Kingdom either to become a party or to forego its rights to benefit by the proposed tariff reductions.

(iii) Bilateral agreements, based on M.F.N., for the reduction of tariffs. These received the special commendation of the Montevideo Conference and, after the re-orientation of United States policy in 1934, found a prominent place in subsequent Conference recommendations as a practical and hopeful approach to the tariff problem.

In the latter part of this period, the Hull agreements brought about a reduction in tariffs affecting a substantial volume of

world trade as well as an extension of the principle of equal trading opportunity.

(iv) As regards quotas, a gradual enlargement of industrial quotas with a view to their ultimate removal and improvements in the quota system so as to avoid discrimination were recommended (e.g. by the Economic Committee, 1933 and 1937). The replacement of industrial quotas by "tariff quotas" and the enlargement of agricultural quotas were likewise proposed (van Zeeland, 1938). A direct attack on quotas was made by the Oslo Group in 1937 under the short-lived Hague Convention.

(v) Payments agreements were recommended in preference to clearings agreements, so long as the retention of exchange-control made such arrangements necessary. As regards the method of decontrol, the League Committee on Clearings (1935) proposed that commercial transactions should first be liberated, private compensation encouraged and the free rate of exchange allowed to prevail in a gradually expanding field of operations. Between 1935 and 1937, there was a fairly widespread movement towards a simplification and relaxation of control measures along the lines adumbrated by the League Committee.

There were obvious limitations to what could be achieved by means of a direct attack on the problems of high tariffs, quotas and exchange-control. The really central problem was how to remove or attenuate the force of those depression factors that were considered by Governments—rightly or wrongly—to make the retention of such measures inevitable.

One important factor, it is true, was the severity of those very restrictions on the world's principal import markets. Conferences and Committees consistently emphasized the special responsibility of the richer and the creditor countries *vis-a-vis* those that were impoverished and indebted. An element in every programme, from Stresa in 1932 to the van Zeeland plan in 1938, aiming at the restoration of free exchanges in Central and Eastern Europe was the opening of the Western, and particularly of Western European, markets. Very little was done in this direction.

But no less vital were the problems of indebtedness, of the cessation of long-term capital movements, of "hot money", of currency uncertainties, of discrepancies between national price-levels and last, but not least, of low commodity prices. In very

rough outline, the main recommendations of Conferences on these financial issues were as follows:

1) Currency stabilization was held to be of primary importance. The proposals in this sense put forward by the Preparatory Committee of the Monetary and Economic Conference failed when the United States was unwilling to enter into any undertaking regarding the future value of the dollar, but virtual dollar-sterling stability was achieved in 1934. Thenceforward, the best hope of extending the area of stable currencies was seen to lie in bringing about an orderly devaluation of the "gold bloc" and as many as possible of the controlled currencies. The attempt made under the Tripartite Agreement in 1936 to achieve this result was only partially successful owing to the subsequent decline in the French franc.

2) If an alignment of over-valued currencies was a condition of stabilization, it was also urged as a condition of removing the wide discrepancies between national price-levels which had arisen partly owing to differences in currency policy and domestic economic policies, partly owing to trade restrictions. While such discrepancies remained, the retention of controls to bolster up artificially high price-levels was clearly inevitable.

3) The raising of commodity prices was considered no less essential. This task was approached from various angles. In the early years of the depression, the most urgent problem facing the European Conferences appeared to be the collapse of the export prices of European agricultural products and various schemes for the revalorization of such products were proposed. These schemes came to nothing, although some help was forthcoming through the negotiation of bilateral agreements of different kinds between those countries and European importers. A more general approach was through international commodity controls, as proposed by the Preparatory Committee and a Commission of the Monetary and Economic Conference of 1933. The Wheat and Sugar Agreements of 1933 and 1937 respectively were the somewhat limited results of these efforts. The most important of the Preparatory Committee proposals, however, was to raise commodity prices through the reflationary effects of a cheap money policy. This policy, though not open to the "gold bloc" countries, was successfully pursued within the dollar-sterling area.

4) Debt settlement, with financial assistance to countries anxious to abandon exchange control and align their price structure by an orderly devaluation, was recommended by successive conferences. None of the general schemas of which such proposals formed a part came to anything; but outside support for the purpose of facilitating decontrol was forthcoming in the case of Austria and a few countries which relaxed their controls between 1935 and 1937, while a large number of provisional arrangements between debtors and creditors were made under the general pressure of events.

2. REASONS FOR THE COMPARATIVE INEFFECTIVENESS OF CONFERENCE PROPOSALS.

The restraining influence exercised by international Conferences and Committees and the aid which they afforded to those anxious to promote more liberal policies must not be overlooked. Among the developments in line with their recommendations, the most important were the historic reversal of United States tariff policy in 1934 and the drive for lower tariffs and M.F.N. undertaken by the United States in the years that followed. The League Economic Committee's defence of M.F.N. as the essential basis of peaceful international trading and the last barrier against all-out trade warfare may be described as a successful "rear-guard action". Tariff discrimination was throughout held in check even in Europe and although quantitative restrictions are inherently incompatible with M.F.N. and were indeed normally applied on the basis of reciprocity, there was a constant pressure on Governments to apportion quotas and foreign exchange on some basis of at least historical equity.

Other achievements to which international action contributed were: the Tariff Truce of 1933 and the agreements for consultation in regard to tariffs and other restrictions concluded between the Oslo countries; the reflation based on cheap money and depreciated exchanges carried out within the whole sterling area under the leadership of the United Kingdom, which was of the greatest importance in checking the trend towards further restrictions in those countries; the currency alignment of the "gold bloc" in 1936, followed by temporary relaxation of trade restrictions; the substantial improvements in the administration of

quotas and exchange-control and finally the actual measures of decontrol taken by several countries between 1935 and 1937.

The influence of the inter-American Conferences, the Congresses of the International Chamber of Commerce and the League Assembly and Committees, was clearly salutary; that of certain other gatherings (notably the London Conference of 1933) was, as stated below, probably on the whole unfavourable.

The partial achievements of international action, however, only serve to qualify the failure to prevent the disintegration of the world trading system. The proposals of the Conferences either remained a dead letter or were applied on too small a scale or within too narrow an area to offset the opposing trends. In spite of the gradual recovery in economic conditions after 1933 and the removal or attenuation of many of the economic factors which had led to the imposition of quantitative restrictions, no substantial or permanent relaxation of such restrictions ensued. The political, centrifugal forces prevailed.

There was little hope of reversing economic tendencies once those political forces had gained momentum. But why did the efforts made in the early thirties to arrest the trend towards economic isolation fail? "

The first answer to this question is that at the beginning of the depression there was a quite inadequate knowledge of the concerted measures between countries, or even within each country, by which recovery from a major depression might be brought about. The pressure of the social problems to which the depression gave rise forced governments to take some action, however piecemeal, at least to relieve distress. To eliminate as far as possible influences coming from abroad seemed to diminish for a time, at any rate, the economic dangers so obscure and so threatening. The proposals put forward with international authority for maintaining some measure of freedom in trade relations were directed rather against one of the secondary effects of the depression, namely the drift towards isolationism, than against the depression itself. And when constructive proposals for restoring economic activity—for instance, the cheap money policy recommended by the London Conference Preparatory Committee—were made, agreement on them could not be reached.

There was indeed in those early days no plan for concerted action to relieve the depression; the machinery for executing a

plan, had there been one, was embryonic; there was no accepted corpus of doctrines for national action. *Sauve qui peut.*

The momentum of the depression was such that it could only have been arrested by courageous and constructive policies carefully timed and unhesitatingly applied by at least the major industrial countries acting in unison. But the momentum was uneven, and, as the League Economic Committee observed, "the situations which the crisis created in the several countries were so different that a concerted—or even analogous—policy was impossible."¹ It is clear from the context that reference is made here to political possibility and, in this sense, the weight of the argument can be appreciated if one contrasts, for example, the favoured position of France in the early years of the depression with that of the debtor countries who were desperately struggling with the transfer problem created by the reversal of the flow of foreign capital and the steep fall in the prices of primary products. Concerted action might have saved the situation if governments had known what action to concert; but it is at least improbable that they would have agreed on a programme of concerted action at a time when the shadow of the depression had scarcely crossed the frontiers of some of the most important of them.

Can we assume that concerted action might have been achieved, had the depression been less acute, had situations been more similar, had different countries not been hit at different times and in different ways, had the impossibility of escaping by purely national measures of defence been more fully understood? Clearly not. In the absence of any real knowledge of or unanimity of opinion regarding methods of combating depression, individual and cut-throat measures were to be expected. France, the United Kingdom and the United States of America pursued divergent policies on the basis of different and incompatible theories. In the United Kingdom, the new tariff became a vital element in a recovery based on cheap money and the abandonment of the gold standard; currency depreciation was conceived as an instrument of reflation in the United States; while French policy pursued the then orthodox deflationary course.

¹ Remarks on the Present Phase of International Economic Relations, Geneva, 1935.

If successful concerted action postulated agreement on questions of economic policy, at least between the leading Powers, it also postulated a degree of international solidarity far greater than at any time showed signs of developing—a willingness on the part of all countries, and especially the richer and more powerful, to abstain from defensive or discriminatory measures harmful to others, a willingness on the part of creditors to accept goods in payment of debt obligations, whatever the effect on their price levels and employment situation. But there were two other factors of steadily increasing importance working against the acceptance of the recommendations made in favour of more liberal trade policies during the depression: (a) the obstructions imposed by what were in fact the semi-concealed military policies of certain states; and (b) the inhibitions caused by recent experience which rendered many of the recommendations unacceptable. Of these inhibitions, by far the most important was the fear of inflation which was deeply imbedded in the minds of the public in all those countries that had passed through a period of hyper-inflation in the 20's. This fear, coupled with a widespread misunderstanding of the nature and causes of inflation led the governments of many of those countries to reject immutably all proposals in favour of devaluation.

The new restrictions were thus a consequence of the various forces brought into play by the depression (above all the political effects of mass unemployment), of the revival of old fears and of the lack of any agreed policy for dealing with the depression. They became entrenched as part of national recovery programmes and political systems and thus persisted in spite of the attenuation of many of the economic conditions that had produced them.

The breakdown of the Monetary and Economic Conference of 1933 (when some constructive proposals were put forward) was of fateful consequence for the subsequent course of economic policies. The world's hopes of finding a basis on which international trade could be revived were turned to that Conference. The very magnitude of those hopes served to enhance the psychological effect of the Conference's failure, which helped to confirm every country in the belief that it must solve its depression problems and plan for recovery itself, as best it could. But while recognizing the adverse psychological effects of that failure, it

remains of course true that neither currency measures alone (in the narrow sense of that term) nor the reduction of trade barriers would have sufficed to restore economic activity or to put the international financial mechanism into working order. Indeed, no proposals which failed to deal with, for instance, the problem of short-term capital movements and the breakdown of the world system of multilateral settlements, could have proved more than a temporary palliative. To some extent it is true to say that the disequilibria in international trade were the cause of the trade barriers rather than caused by them and that to deal with the barriers alone would have meant mistaking effect for cause.

The economic aims of most national recovery programmes, elaborated and perfected in the years following the London Conference, were to find work for the unemployed and prevent a further fall in prices. The pursuit of these aims—which were held to require national insulation from outside economic influences—and the gradual aberration from them in certain countries under the influence of political motives provide the broad explanation of the new protectionism that developed in Europe in those years—the transformation of emergency defensive measures into permanent instruments of offensive economic policy, the emergence of autarky as a principal objective of policy, and the extension and consolidation of state control over trade. Quotas came to be used both as a means of stabilizing the domestic market and as bargaining counters in the struggle for foreign markets. Upon exchange-control, Germany and her imitators began to build up an entirely new system of regulated foreign trade, essential features of which were over-valuation of national currencies and bilateral clearings. The breakdown of the system of multilateral world trade following the breakdown of the world monetary system had started the movement toward bilateralism. The opportunity was seized by Germany to expand and stabilize her markets by imposing a system of rigid bilateralism on her weaker neighbours. To a limited extent, other economically powerful States also used their bargaining position to secure specially favourable terms and thus an advantage over third parties.

The movement towards autarky, particularly in Germany, Italy and Japan was at once a reaction to the repression and a preparation for war. The failure of concerted action had paved

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the way for militant nationalism. In the 'twenties, political uncertainty and instability impeded the advance in economic welfare which was desired by all; in the middle 'thirties preparation for war rather than economic welfare became the prime objective of the policy of certain governments. Under the threat of war, considerations of defence perforce assumed increasing importance even in the most peace-loving countries.

National "planning" and the regulation of foreign trade are interdependent. While every new restriction on imports encourages the "regulation" of the industry concerned, industrial or agricultural regulation is impracticable without a control of competition, domestic and foreign. Thus, the extension of national planning—a snowball process, each industrial plan postulating for its success the control of other industries—was inevitably accompanied by an extension of centralized control over foreign trade.

At an early stage in that process, direct quantitative restrictions and exchange control are found to be a useful adjunct to tariffs. At a later stage, such as that reached by Germany and Italy in the later 'thirties, when not only the character, the prices, the quantities, the destination and the provenance of goods crossing national frontiers but also all individual trading operations are brought under state control, such measures are essential.

The postulate of the conferences, that there was a general desire to abandon quantitative restrictions and exchange-control and to return to a system of relatively free and unregulated trading and to an international monetary standard, thus gradually ceased to apply. Many small countries, it is true, found the new tendencies not only immediately damaging to them but ominous for both their economic and political future. Several of them, as we have seen, made great efforts to relax quantitative restrictions in the period 1935-1937. But the growing preponderance of Germany in the foreign trade of Eastern and South-Eastern European countries and the German trading methods which raised their prices and thus reduced their competitive capacity in the free markets, made it well-nigh impossible for them not to accept their place in the German system. Moreover, the darkening prospects of war enhanced the danger of a flight of

capital if controls were removed and discouraged the foreign credits that might have facilitated orderly devaluation and de-control.

In the later 'thirties, the commercial policies of Europe were entirely dominated by the anticipation or fear of war. The rigid control of trade and of capital movements in Germany were an integral part of the mobilization of all national resources for military purposes. Clearings had likewise become an essential instrument for the economic and political control of dependent countries. The proposals that continued to be put forward by international bodies for the abatement of controls and a restoration of the international monetary system in Europe were part of the political endeavour to avert war.

In the years of depression and of recovery, what had been required to prevent the disintegration of the world trading system was a co-ordination of national economic policies and whole-hearted co-operation between the administrations of the more important countries in the financial as well as the strictly economic sphere. The Tripartite Agreement of September 1936 was a step along the road of such co-operation; thereafter, further progress under the influence of the United States or the United Kingdom was still possible over a large part of the world. But in Europe and in the Far East, the political foundations for any liberalization of commercial policy had been shattered and the tendencies towards closed economies and rigid state regulation gained impetus from year to year under the exigencies of a near-war economy.

CHAPTER V

WERE THE RECOMMENDATIONS OF THE CONFERENCES MISDIRECTED?

The early post-war conferences contributed to the partial restoration of pre-war commercial practices; to a limited extent, they achieved their purpose. The recommendations of the World Economic Conference of 1927 regarding tariff policy exercised an immediate—though, as we have seen, very temporary—influence; they had the further merit of bringing home to Governments and peoples the fact, hitherto contested, that “tariffs, though within the sovereign jurisdiction of the separate States, are not a matter of purely domestic interest”; they called attention to a grave pathological development in the relationships between States.

But, if the analysis given in the foregoing chapters is correct, the 1927 Conference, in insisting on tariff reduction and in reiterating the demand for long-term agreements, tariff stability and the abandonment of the practices of commercial warfare, took too narrow a view of a highly complex problem. Had the Conference been held ten years later, there can be little doubt that it would have placed the need for joint anti-depression policies in the forefront of its programme. That could not have been expected in 1927. But in that year and throughout the earlier post-war years, commercial policy tended to be considered as a problem distinct and apart and not as an aspect of economic policy as a whole. That inherent defect in procedure and outlook was due no doubt very largely to the fact that international bodies were reluctant to interfere with issues which were considered essentially domestic and that the part of economic policy which was most clearly international in its effects was that dealing with foreign trade (but it is noticeable that less hesitation was shown in making recommendations on financial matters of a strictly domestic character).

This unwillingness to interfere with national economic problems accounts, in part, for the very general nature of the recom-

recommendations made. There was no endeavour to consider in detail the tariff rates or the general commercial policy of particular countries; there was no attempt to work out for any country a careful plan of industrial development. It is difficult to escape the conclusion, in the light of subsequent evidence, that much greater progress might have been made towards freer trade had more courage been shown. If international help had been offered to countries in the elaboration of a carefully thought-out plan of industrial development, if technicians, machinery, and equipment on credit and possibly other capital assistance had been put at the disposal of governments, and the need for high tariffs on products of the new industries recognized, it should have been possible to incorporate in the whole constructive scheme an undertaking by the beneficiary governments to reduce tariffs on the products of other industries.

Such action as was taken to aid individual governments was confined almost exclusively to financial reconstruction. It is true that until monetary stabilisation had been achieved, all recommendations in favour of long-term commercial treaties were premature and were generally accepted as being rather ideological than practical. By 1927, monetary stability had been generally attained. How unstable the equilibrium was, was perhaps not fully recognized; but if there was a failure to insist sufficiently on the major causes of instability (reparations, the large French liquid balances abroad, United States tariff policy) that failure was one rather of degree of emphasis than of understanding.

The disastrous effects of uncontrolled budget deficits and inflation were manifest. The effects of loss of markets to industries in the Succession States or of demographic pressure were perhaps no less obvious though far less dramatic, and the need for international action to overcome these problems—as distinct from sympathy or exhortation—was no less vital.

There was again, in that period, a misunderstanding of the profundity of the changes which the war had caused or accelerated—the changes in economic structure and perhaps also the changes in the spirit in which policy was formulated and applied. The tendency to look back to 1913 still persisted. The doctrines advocated were inherited from a time when labour and prices were more mobile and economic fluctuations less violent, before

the emergence of the new problems posed, for example, by the "Balkanisation" of Europe. During the course of the depression in the 'thirties, it became increasingly apparent that the expansion of trade would not have sufficed to secure economic progress—that indeed some solution of the problem of economic stability was a prerequisite of both the growth of trade and the promotion of economic welfare. The traditional doctrines, which continued to be preached with only minor qualifications and amplifications, were comfortably worn but not visibly threadbare. They implied through their generalization no special criticism of any single State. They were conservative, but cloaked with liberalism. They demanded little prior work and study.

The last point is of great importance. Neither the League of Nations, nor the International Chamber of Commerce, was adequately equipped to deal with the problems of commercial policy. No Conference or Committee could alone have considered the detailed rates or the special conditions governing the policy of particular countries, nor could it have worked out for each country with others co-ordinated plans of economic development which, by improving internal economic conditions and stabilizing prices and markets, might have provided the basis for a reduction and stabilization of tariffs. The headquarters staff in Geneva was altogether too small to undertake the detailed and constant spadework that would have been required. The need for such a staff was never clearly appreciated and indeed so long as it was assumed that, given good will and understanding, trade barriers would fall like the walls of Jericho, this was natural.

That assumption was based on the belief that tariff policy could be separated from economic policy as a whole, and that, since a general reduction in tariffs was in the economic interest of all countries, governments, when brought to realise this fact, would draw the necessary consequences. None of these postulates was valid. It was perhaps unfortunate that so little was done until the later 'thirties—when the opportunity for successful international action had passed—either to re-interpret such free-trade doctrines as may have become obsolete and therefore unconvincing or to bring home to the public in intelligible terms the importance of an expansion of international trade within the framework of a world trading system as a means to achieving

an advance in economic and social welfare under conditions of international peace.

At the World Economic Conferences of 1927 and 1933, the aim of concerted action was conceived as being the conclusion of broad multilateral agreements. General multilateral conventions yielded positive, though limited results in achieving a greater measure of uniformity in national administrative practices or national laws or tax systems and in removing certain specific obstacles to international trade. But tariff barriers could only have been reduced by international convention if countries with wholly different tariff systems and levels had been prepared—as they not unnaturally never were—to apply some uniform system of pruning, such for instance as a given percentage reduction all round. In fact, the tariff concessions that might have been expected—and were desired—differed from country to country and for the purpose of achieving such concessions, negotiation between pairs and small groups of countries was the first essential step. It is of course true that, owing to the complex nature of multilateral trade, such negotiation would have greatly benefited from central direction and co-ordination.

Conference recommendations, especially in the 'twenties, had further weaknesses which require to be noted. They were frequently little more than formulae representing a compromise between divergent or ever conflicting opinions; they frequently concealed fundamentally incompatible aims and irreconcilable interests of the principal economic Powers in the matters of tariff policy; they were accepted by delegates and governments with every variety of mental reservation as to their practical applicability. They did not bind governments to specific acts of policy¹ nor were the Governments which endorsed them always competent to take the necessary decisions.

The proposals made after the middle 'thirties may, at first sight, appear unrealistic in the sense that they were based on the postulate that all countries desired, or could be induced by suitable concessions, to return to a free price economy and the pursuit of economic welfare. This fact, however, reflects nothing more

¹ Cf. in this connection, the vague drafting of the majority of the "Declarations concerning the Recommendations of the International Economic Conference," League of Nations document C.E.1. 45. Geneva, 1928.

than the inevitable dilemma confronting all whose role is to promote co-operation and dissipate conflict.

Let us now attempt a broad explanation of the paradox which constitutes the theme of the present study. The discrepancy between the recommendations of Conferences and the policies actually pursued, between the professions and the actions of Governments, was due largely to the fact that neither were entirely suited to the circumstances and neither were based on a clear or fully informed conception of the issues involved. In regard to policy, sectional pressures rather than impartial judgment, sectional interests rather than the public interest were too often paramount. Policy was misdirected as a result of such pressures, as a result of the immediate impact of a persistent series of external events—the depreciation of currencies, the threat of political trouble—and as a result of the inescapable ignorance of the form that economic forces, which only slowly revealed themselves, would take. National economic policies in consequence tended to be concerned with the determination of immediate tactics rather than with the formulation of a broad strategy. The recommendations put forward at international meetings, on the other hand, tended to ignore the tactical issues and concentrate on strategy, a strategy which was based on the principles and conditions of the first rather than the third or fourth decades of the century. Viewed from the angle of many European countries, they appeared rather as pious hopes than as serious recommendations in regard to immediate policy and they bore the stigma attaching to propositions stated in absolute terms but postulating conditions unlikely of fulfillment. Because they seemed to disregard the problems which national commercial policies were designed, however crudely and shortsightedly, to meet, they were so frequently ignored.

This explains why Governments and individual experts often behaved with apparent inconsistency, why the same people who recommended one line of policy at Geneva or elsewhere were often responsible for pursuing the opposite policy at home. Ministers, officials, economists and business men alike continued to think about the broad issues of commercial policy in the light of the economic and political conditions obtaining in the spacious pre-war era and desired the general re-adoption of long-run policies appropriate to those conditions. But they were obliged

to act from day to day in the light of the pressing social and economic exigencies of the unstable post-war world. Mental adjustment to revolutionary change is inevitably a slow process; the real magnitude and scope of the differences between the pre- and the post-war world were concealed by many deceptive appearances of a return to normality in the 'twenties.

CHAPTER VI

CONCLUSIONS

The final purpose of this study is not simply to portray a facet of the history of commercial policy during the inter-war period nor to analyze the factors influencing that history; it is rather to consider the lessons for the future that may be drawn from that description and that analysis. These lessons are of two quite distinct orders: first, the broad conclusions that may be drawn regarding the practicability and desirability of alternative policies and secondly, more specific conclusions regarding the suitability of possible procedures for attaining the objects in view. It is convenient to treat those two classes of deduction in this order.

1. CONCLUSIONS REGARDING POLICY.

(a) The first obvious lesson resulting from both studies is that the chances of getting generally adopted a commercial policy designed to promote rather than to restrict international relations as a whole may be jeopardized in the first post-war months if governments fail to agree in advance upon some orderly process of decontrol and some financially and economically sane system of reviving the economic life of countries impoverished by the war. Commercial policy was distorted at the outset after the last war by the violent reaction to the danger of exchange dumping. The depreciation in exchanges was due very largely to the failure to appreciate that relief and the restarting of the machinery of production were a single problem or to consider the effect of the relief policies actually adopted on the power of States to obtain what was required for industrial revival.

There was indeed a general failure to take any concerted international action to achieve an orderly transition from war to peace economy. But this is the first problem that arises and cannot be considered in terms of commercial policy alone.

(b) Another of the two or three major causes of the failure to get more liberal commercial policies adopted was the continu-

ance of political insecurity—caused in large part by war-bred political passions. It is clearly not possible to prevent—though something may be done by governments to allay and much to promote—international mistrust. It follows that the first essential for the achievement of commercial policies designed to promote trade, is the establishment of a mechanism for the preservation of peace so adequate and sure as to create confidence despite antipathies or mistrust. Until this is done, governments are likely again to shun the world and seek a wholly insecure security in isolation.

(c) But after the experience of the 30's, apprehensions resulting from economic insecurity have become at least as important as fear of the risk of the recurrence of war. Governments faced by the social pressures caused by sudden and serious unemployment or rapidly shrinking farmers' income endeavoured to secure freedom of action for themselves by rendering their national economies as immune as possible from external economic influences. Commercial policy cannot be considered by itself therefore. It must be considered as a part of the more general, constructive policies agreed among governments for the prevention (or mitigation) of economic depressions and assurance of social stability.

(d) Failure to concert such policies will involve the risk of the revival of the type of autarkic commercial policies which developed during the 30's and the replacement of a commercial system by a mechanism for economic warfare.

(e) The dependence of commercial policy on

- (1) An orderly transition from war to peace economy
- (2) Political security
- (3) Economic security

are perhaps the three major lessons to be deduced from the commercial history of the inter-war period, but there are others of a somewhat different order that may clearly be ranked as of almost equal importance. Of these the first is the absolute necessity of adapting commercial policies to the circumstances influencing national balances of payments. Great wars inevitably affect many items in those balances, and the changes brought about may require a rapid and radical modification of commercial policies in order to allow the flow of goods to adapt

itself to the new conditions. If creditor countries impede the import of goods with which their debts can be paid, if new obligations are created and no commodity provision made for their service, if debtor countries obstruct the export of the goods with which they may meet the service of their debts, disequilibrium must be caused which will influence the commercial policy of almost all states. In such a state of disequilibrium long-term commercial treaties cannot be concluded, and high tariff rates or quotas are likely to be employed with which to negotiate short-term bargains.

(f) The tendency after the last war for international bodies to take a restricted view of their right to concern themselves with the economic policies of States resulted in an arbitrary line being drawn between commercial policy and other aspects of economic policy and in the failure to consider the whole catena of problems—relief reconstruction, surplus capacity resulting from the specialization of industries working for the war, etc.—which arose immediately after the Armistice. It led to a failure also to put forward constructive proposals later to meet the need of countries anxious to promote industrial development. Adaptation to the longer term economic or demographic forces, some of which may be accelerated by war, cannot be accomplished by measures of commercial policy alone. To consider such measures independently of other measures necessary for economic adjustment, as was frequently done especially in the 20's, is almost certain to fail to produce any useful results. Thus, planning for industrial development requires more than the imposition of high tariff rates; the execution of such plans may require external aid, technical or financial, and may afford an occasion for a careful revision of the aided countries' tariff schedules. Such a revision may necessitate the raising of certain duties to protect the new industries and the lowering of many others to reduce costs. Trade is more likely to be promoted if the economic structure and economic needs of each country are carefully considered, than by general declarations regarding commercial policy alone.

(g) During the 30's, the fact that commercial policy was an integral and inseparable part of economic policy as a whole gradually became self-evident. Indeed, there was a certain tendency towards the end of this decade for those responsible for commercial policy to claim that trade could not be released from its

shackles until the international credit and money mechanism had been restored, until the difficulties arising from international indebtedness had been solved, and for those responsible for financial policy to maintain that no monetary reform or satisfactory debt arrangements could be made while quantitative restrictions on trade continued in force. This apparent logical *impasse* was in fact a phase in the process of understanding the essential unity of the economic and financial issues; and the failure to abolish the restrictions was in the end not due to a lack of understanding of the technical issues at stake, which were very thoroughly studied, but to the unwillingness of certain States to promote political security or to abandon the new system by which they exercised commercial pressure. The essential lessons to be learned from the experience of the 30's would seem then to be not the difficulty of emerging from the sort of *impasse* that was created—granted good will—but

(a) that the pursuit of uncoordinated recovery programmes by great States is likely to involve a disruption of the whole mechanism of trade and economic relations in general and must inevitably do so if severe quantitative restrictions on trade are an integral part of such programmes;

(b) that any important market can, if it desires to do so, create price disequilibria between not only itself and the rest of the world but between markets largely dependent on it and the rest of the world, such as to set limits to the scope of multilateral trade; but

(c) that these limits do not necessarily preclude the maintenance of a free price economy in international trade (such, for instance, as that of the Sterling Bloc) among countries not within the orbit of the determinate influence of any country pursuing an opposed policy.

(h) The growing appreciation of the need to consider commercial policy in a wider setting resulted in two, in a sense contradictory, types of recommendation concerning agriculture—the first in favour of restricting the output of certain agricultural products, the second in favour of expanding the demand for foodstuffs by raising national standards of living and of nutrition. Though to some limited extent both types of policy were

applied, the problem of agricultural excess remained unsolved, and the friction caused by the growth of agricultural protectionism was but slightly mitigated. But there is no evidence to show that had peace been preserved and time been available for the development of these policies, agriculture would not have been materially assisted by them and the incentive to protect weakened. The first line of policy, however, is essentially restrictive, undynamic and unconstructive, while the second postulates and endeavours to promote a dynamic society and general welfare. The success of the second naturally lessens the need, if need there be, for the first.

(i) The M.F.N. clause, which should have been a means for spreading the benefits granted under trade agreements, tended to some extent at any rate, to check the granting of such benefits. This seems to have been due mainly to three distinct causes: (a) the half-hearted belief in the assumptions underlying the clause and the greater freedom of trade that it was intended to promote; (b) the reluctance of Governments to grant any benefits, even indirectly, to countries which enforced a non-negotiable tariff and high rates or to countries with which political relations were strained; (c) the employment of M.F.N. rights to prevent the formation of customs unions, or the formation of preferential areas in Europe, especially when preferences were being increased elsewhere.

A repetition of conditions in the future similar to those which obtained in the period under review is likely to have similar results. A whole-hearted belief in the beneficial effects of the clause is clearly once more likely to be dependent on the degree to which political security and economic security and activity are assured and on the removal of the other objections to the clause. The complete abolition of non-negotiable tariffs would no doubt go far to overcome the second of the objections mentioned; but so long as basic rates in any important markets are out of line with those of other countries or with the logic of a balance of payments situation, objections to the clause are likely to be raised.

The third group of objections, that connected with customs unions, raises still more complex issues.

A greater freedom of trade in the aggregate may be attained either by a given degree of universal tariff reductions or by a

given degree (or varying degrees) of reduction within specific areas. But the effects of these two alternatives may be widely dissimilar. The Peace Treaties, by increasing the number, decreased the size of the free trade areas and gave some rather restricted scope for their subsequent enlargement. The opportunity offered was not seized, and gradually vested interests within the areas to which that opportunity was offered and external opposition acquired sufficient influence to prevent agreements being reached. One result of this fact was the growth of the scepticism about the M.F.N. clause just mentioned; but the lessons of major importance to be drawn from this experience are (a) that if wider free trade areas are to be established, they should be created before peace-time vested interests have time to develop, and (b) that if either complete customs unions or preferential areas are to be given a chance of developing later, it would seem to be necessary to get certain safeguarding principles agreed upon in advance. The first of these two lessons is obvious and requires no exposition. Certain principles concerning the latter were discussed about 1930 but never formulated in an authoritative statement. The suggestions under consideration were that preferential unions between contiguous States or States having close economic affiliations might be recognized if (a) these states formed them in order to reduce rates of duty *inter se* and did not raise the rates against other countries, and (b) any other (such) country whose rates of duty did not average demonstrably higher than those of the contracting parties, could join the union by making concessions to those parties comparable to those which they had made to each other.

Were some such doctrine accepted as a generally recognized derogation from M. F. N., one of the grounds of objection against that clause would be removed. The acceptance of any such general derogation would not, of course, in any way preclude more radical derogations in specific cases.

(j) The last important point that falls to be mentioned here is one which forms a natural link between lessons regarding policy and lessons regarding procedure. The increased rigidity of the economic system in all industrial or semi-industrialized States results in any reduction in tariffs causing a greater shock and one more slowly absorbed than was the case fifty years ago. Consequently the opposition to changes is greater, and indeed

the benefit that may be derived from a change must be greater than heretofore if it is to offset the increased disadvantages resulting from it. Those disadvantages are greatest in times of falling prices and unemployment. Hence the timing of tariff changes has acquired special importance and the procedure adopted is likely to affect not only the chances of success of any change in policy, but also the justification for success, to a greater extent than previously.

There was some tendency during the last twenty years to confuse the "young countries" argument with the "young industries" argument, and to assume that the latter only applied to "young countries." The actual force of circumstances went to show that highly industrialized countries were tending to reach a stage of economic evolution in which their dependence on capital goods industries made them peculiarly sensitive to economic depressions. These countries felt the need for protecting various forms of consumers' industries—"the light industries"—as an insurance against that risk. This tendency to seek greater stability in increased diversification may well make itself felt again and is indeed likely to make itself felt immediately after the war owing to the almost universal over-expansion of engineering and heavy industries.

II. CONCLUSIONS REGARDING PROCEDURE.

(a) When applied to complex questions, which affected different countries in different ways and to varying degrees, and to problems affecting the central issues of national economic policies, the method of general diplomatic conference and convention revealed serious limitations. A lesson may be drawn from the experience of certain modifications of this method attempted by the League:

(1) The limitation of such conferences to States especially concerned in a particular problem and anxious to secure immediate results through concerted action and agreements limited to those States. The Wheat Agreement of 1933 and the Sugar Agreement of 1937 resulted from limited conferences of this kind.

(2) The framing of conventions which were not intended to be signed and ratified but to be accepted by Governments as models or standards in negotiating and drafting subsequent bi-

lateral agreements. Where such a system can be applied, it has great advantages. Not only does it achieve exactly that measure of uniformity, which is compatible with national peculiarities and differences in economic and financial structure, but it is also dynamic: as one country or another develops, it is able—and, *ex hypothesi*, likely to find it expedient—to apply to an increasing extent the common principles laid down. This method has been used with remarkable success in the matter of double taxation.

(3) The establishment of standards or norms for adoption, as and when changes in national legislation were undertaken, or merely to serve as a guide for the formulation of policy in the future. This method was used, for example, in the case of Tariff Nomenclature.

(b) For the purpose of achieving tariff reduction, negotiations between pairs or groups of countries were clearly shown to be more efficacious than general multilateral negotiations, and an extension of the bilateral method may be found appropriate in the future. This might take the form of simultaneous negotiations between numerous pairs or small groups of countries, directed and co-ordinated by an international authority and facilitated both by multilateral consultations and, as occasion required, by multilateral agreements on specific subjects.

(c) Diplomatic conferences on complex subjects cannot themselves work out solutions or produce agreement but can only adopt solutions the general lines of which have already been worked out and agreed upon between all—or, at any rate, the principal—parties concerned.

(d) The existence of non-negotiable tariffs in certain important countries was an obstacle to the realization of the programme of tariff reduction laid down by the Economic Conference of 1927. The adoption of freely negotiable tariffs by all countries would mark a useful advance.

(e) Under the system of specific tariffs commonly employed on the continent of Europe, the burden of duties is reduced in times of rising prices and increased in times of falling prices. That system thus tends to aggravate every depression and contribute to the forces making for greater commercial restriction.

(f) Another fact that is perhaps not quite immediately apparent from what has been said above relates to the interna-

tional equipment for the preparation of Committee meetings, Conferences, etc. Each national administration had at its disposal an elaborate administrative machine at home and consular officers and commercial attaches abroad, whose function it was to study trading conditions with the object of promoting national trade interests. But there was no similar international organization. Trade and trading policy continued in fact to be regarded wholly in terms of rivalry.

The officials of the League dealing with commercial policy never numbered more than half a dozen; there was no attempt at—indeed no possibility of—studying in detail the position of different countries on the spot or of keeping, as was required, in constant touch with national administrations throughout the world. There was only a very limited possibility of following the development of trade as a whole and quite inadequate equipment for following the trade in different commodities. The tendency of international bodies to generalize reflected in part the inability of Headquarters in these circumstances to make, in advance, detailed studies of the real issues, broken down into their component parts. That failure in turn reflected a persistent underestimation by governments of the magnitude of the task involved in any attempt to view world trade as a world problem.

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PREFACE

One of the major and most immediate tasks of statesmanship that presents itself at the end of any great war is that of assuring the re-employment of men demobilized from the armies or munitions factories in peacetime occupations. That problem cannot be solved by hasty improvisation at the last moment, but is necessarily of concern to statesmen during the course of hostilities. It is in fact being carefully considered by many governments today and plans for the future are being laid.

The two studies of past experience contained in this volume are intended to be a contribution to thought on this subject. They relate to two countries only, the United States and the United Kingdom. In both studies the same procedure has been adopted. The course of events from the armistice till about the end of 1921 is traced first, a section is then devoted to a consideration of policy and a final section added summarizing the salient facts of these crucial years. In broad outline the experience of these two countries was similar; immediately after the cessation of hostilities there was a brief period of uncertainty, hesitancy and adaptation during which unemployment was considerable as men moved from one occupation to another. This was followed by a period of great economic activity lasting for about 15 months which culminated in a price boom; the boom burst in 1920 and then for the first time unemployment became serious. As is stated in the last sentence of this volume, "The major problem of the transition from war to peace economy . . . proved itself to be not one of getting demobilized men and machines re-employed, but one of the cyclical effects of the perhaps unavoidably bumpy nature of post-war pent-up demand". This work deals, therefore, rather with cyclical movements in economic activity than with the detailed plans that were made to facilitate re-employment.

There is no reason why on another occasion the course of events should take a like form. The forces at play will not again have exactly the same relative strength and the ups and downs of economic activity will be largely determined by the policies pursued. But the major features of the problem are likely to make themselves apparent again: a sudden great increase in the supply of labour available for civilian purposes, a pent-up de-

mand for civilian goods of all sorts seeking liberation, an industrial equipment that has been converted from civilian to military purposes, a scarcity of raw materials or of raw materials in the right place, public finances strained by the burden of war, war time controls affecting at once supply, demand and prices.

The purpose of these studies is to show how these factors presented themselves after the last world war, how they were moulded by policy and what were the effects of policy on economic activity. The international effects of policy have, however, only been mentioned incidentally. It was felt desirable to keep this survey as brief as possible and not to interrupt the sequence of thought or events by introducing what would necessarily be a considerable volume of material relating to other parts of the world. The two countries selected are of interest as representing the problem when it is not accentuated by inability to purchase raw materials. Most European countries suffered from such inability and the boom of 1920 and depression of 1921 were dispersed in the rarified atmosphere of inflation or hyperinflation.

Other volumes in this series, of which a study of commercial policy has already been published, will deal with the international aspects of post-war problems.

Our thanks are due to the Rockefeller Foundation for assistance that rendered the preparation of this publication possible.

A. LOVEDAY,
*Director of the Economic,
Financial and Transit Department.*

*League of Nations,
October 1942.*

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PART I

ECONOMIC FLUCTUATIONS IN THE UNITED STATES, 1918-22

1. *Essential facts, 1914-1920.*

In the United States the first half of 1914 had been a period of depression. It was aggravated by the financial panic and the sudden interruption of exports to Europe which accompanied the outbreak of the World War. Recovery came in 1915; the war demands of the Allies made 1916 a boom year; the first quarter of 1917, in anticipation of the United States entering the war, was marked by speculation and production up to capacity. After her entry, the calling to the colours of four million men (some 10% of the whole gainfully occupied population) prevented a further expansion of production, which kept about stable till the end of the war.¹

A sustained rise of prices did not begin until the autumn of 1915. During the one and a half years that followed prices rose rapidly, and on the whole with ever-increasing speed, which became greatest in the spring of 1917. This last and greatest advance was cut short after July 1917, and for a full year the price level was kept fairly stable. Business conditions and the huge war orders which the Government was placing favoured a further advance in prices. "It is difficult to explain the checking of the rise on any other ground than the substantial success of the Government's efforts to control prices through the Food and Fuel Administrations, the purchasing bureau of the War and Navy Departments, and the Price-Fixing Committee of the War Industries Board."²

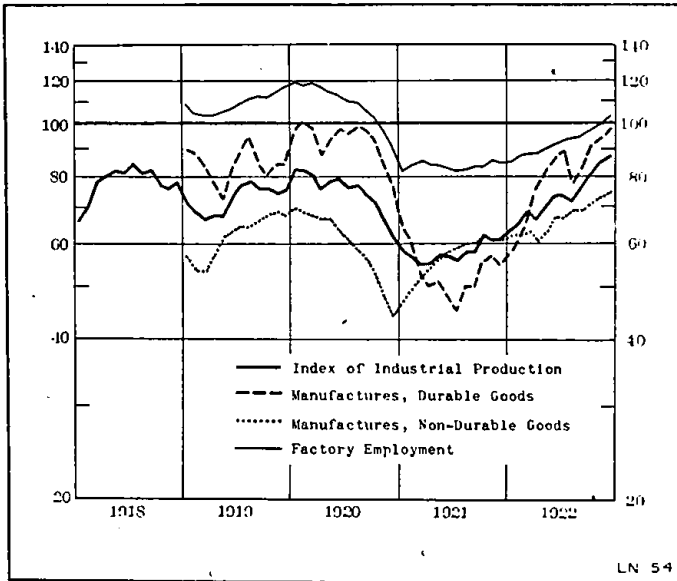
After the armistice, adjustment to peace economy was quickly accomplished. Production and employment temporarily fell till

¹ Cf. J. M. Clark, "The Costs of the World War to the American People," page 37. The production index probably tends to overestimate production in wartime, since it does not cover services, and these are reduced most.

² W. C. Mitchell, "International Price Comparisons," page 11. Department of Commerce, Washington, 1919. To these measures of control should be added, *inter alia*, the policy of heavy taxation after 1917; the propaganda made for the war loans; the restriction of credit for non-essential purposes through the operation of the Capital Issues Committee; the priority schemes of the War Industries Board.

about April 1919, when they were some 10 to 15% below the previous peak. But wholesale prices declined by only 5%. This few months' slackening is, therefore, to be considered as a period of technical adjustment rather than as a real business recession. During the same period, demobilization proceeded at a rapid rate; by the middle of 1919, 75% of the army had been demobilized.

Diagram 1—Industrial Activity and Employment in the United States, 1918-1922
1935-39 = 100
Corrected for Seasonal Variation

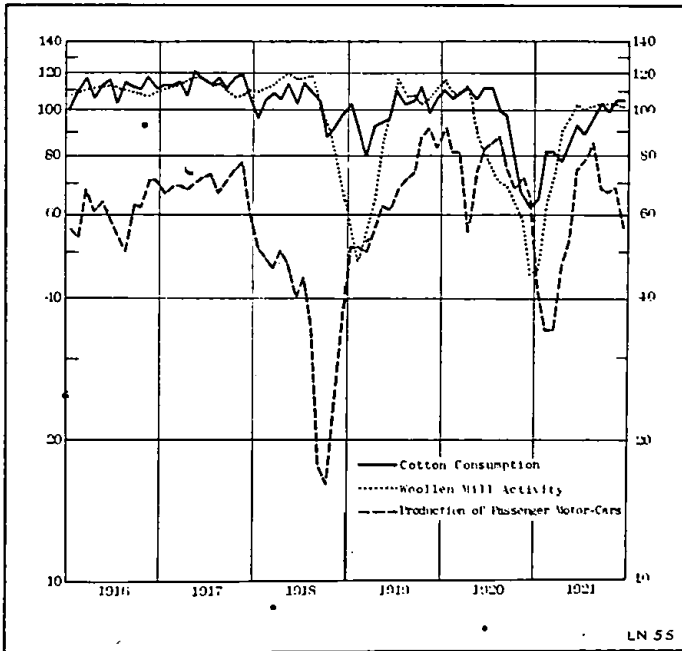


There followed a steep and short boom, lasting till the spring of 1920,¹ when all types of business fell off. During the summer, the recession spread slowly. But in the autumn production and prices fell precipitously. By the end of the year, most indices had nearly reached bottom. Diagrams 1, 2 and 3 throw some light on the nature of these movements of production and employment. They are all drawn on a logarithmic scale. Industrial production as a whole dropped by 20% between September

¹ According to the National Bureau of Economic Research the end of the post-war boom came in the first quarter of 1920 in the United States, in the second quarter in the United Kingdom and in the third quarter in France; in Germany, expansion continued for three years without interruption from the middle of 1919.

1918 and March 1919. From the latter month production rose until January 1920, when it was back at the war-time level, dropping off slightly in March. The decline continued till March 1921, when production was one third below its previous peak. Employment showed similar fluctuations, though with a somewhat lesser amplitude.

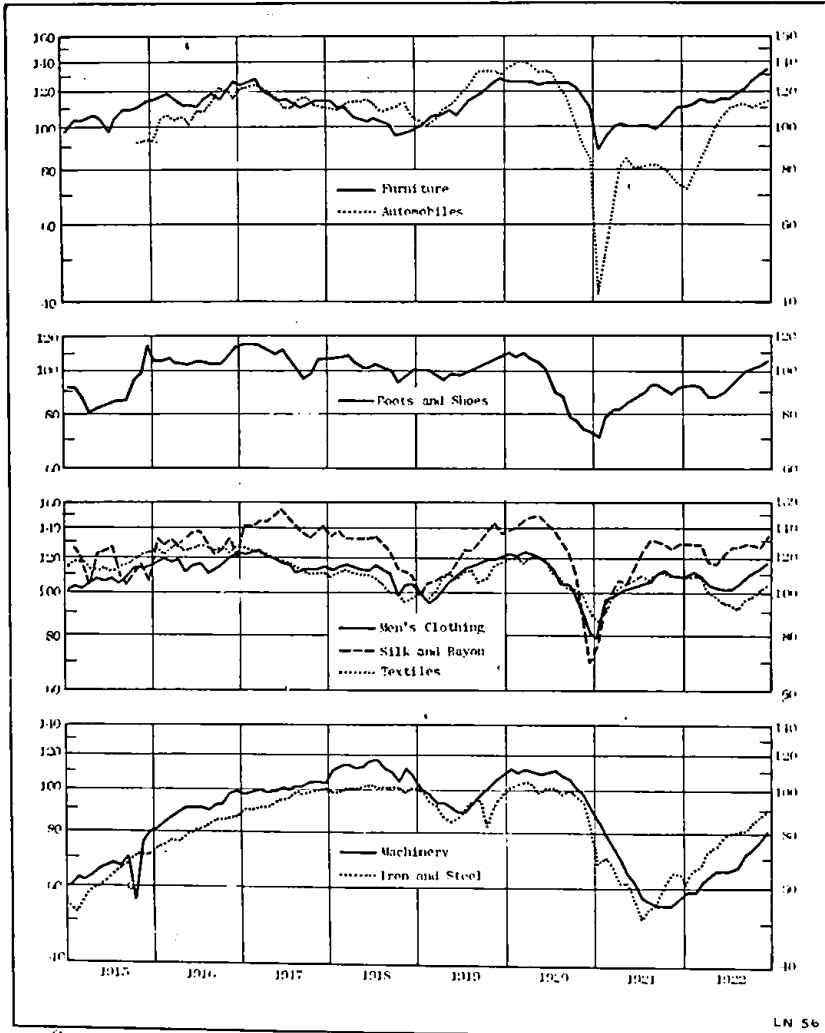
Diagram 2—Output in Various Industries, 1916-1921
Trend Value, January 1st, 1923 = 100
Corrected for Seasonal Variation .



The index of total production conceals important divergencies of its component parts. In its first stages the recovery early in 1919 was due mainly to the revival of demand for consumer goods. Indeed the manufacture of durable goods in the aggregate, though not of durable consumers goods, fell off steeply between January and May 1919, having been maintained relatively stable in the closing months of the preceding year by war contracts in course of fulfillment. Consumers' demand for non-durable and durable goods seems to have recovered almost simultaneously. Employment in the furniture trade which had been seriously depleted of labour during the war started to rise immediately after the Armistice, and so did the production of

passenger motor cars which had been progressively curtailed from the autumn of 1917.¹ Special factors made for a sharp recession in the output of textiles in the first few months after the Armistice. Textile production had been maintained at full ca-

Diagram 3—Indices of Factory Employment, 1915-1922
January 1919 = 100



¹ Cf. also the steep rise in residential construction in the first half of 1919 as shown in Diagram 5.

capacity through the later years of the war, a large part of the industry working on war orders. The fall in raw material prices which actually occurred and the further fall anticipated in view of large stocks of wool in the hands of the British Government made for a serious though very short depression, in particular in the wool industry.

The widest movements in Diagram 3 are shown by the men's clothing industry, in which employment increased by nearly 50% between January 1919 and May 1920 and then fell to under one half in seven months. That the demand was maintained relatively long in this industry was probably due in part to the fact that the whole army was not demobilized at once and in part to seasonal factors.

It is striking that, as shown in the diagram of aggregate movements (Diagram 1), the activity of the durable goods industry was maintained, albeit somewhat unevenly, for almost eight months after the decline in non-durable goods had made itself apparent. This was probably due to a large amount of unfilled orders. A similar lag occurred in the subsequent recovery which started only in August 1921 in the production of durable goods as against January of that year for non-durable goods.

The shift in employment from industry to industry seems to have been relatively slight (Diagram 3). Employment in the machinery industry increased by 72% between June 1915 and the summer of 1918. In June 1920 it was only 8% below the war peak, the industry presumably losing some men especially to the automobile industry. None of the other curves shown suggest any large scale shifts.

2. *Interpretation of the post-war events.*

In the period under review, American economists were, of course, well aware of the fact that American economic life had shown cycles, more or less regular, for a long period in the past. This may explain why the 1919-20 boom and depression provoked relatively little alarm among contemporary observers. The development was even, to some extent, considered as reassuring, in that it showed that "normal" pre-war economic life had been restored. In general, the tendency was to consider the events merely as business cycle phenomena and not as an after-effect of the war.¹

¹ Hence, for example, the measures to mitigate the cycle, put forward by the President's Conference on Unemployment in September 1921 were of a very general character.

Yet to label these events a *post-war* cycle is not merely a convenient indication of time.

There are important causal connections which link this period to the war; moreover, it cannot satisfactorily be described as merely the development of a business cycle.

Three features may be distinguished in the analysis of the period from the middle of 1919 (after the technical readjustments had taken place) to 1922. (i) Certain disproportions that developed during the war had prepared the ground for a post-war boom. This boom put into action again the United States business cycle mechanism, known before the war. (ii) Accordingly, the boom was followed in normal sequence by a cyclical downturn and depression. It would be incorrect, however, to attribute the depression, the first signs of which became apparent in the spring of 1920, wholly to the preceding boom. It was, in part, also due to (iii) a general drop in prices after the war which was to be expected in any case as the productive system was gradually brought back to pre-war efficiency.

The rise in prices during the war had originated in a change in demand and supply conditions for numerous commodities:

(a) There had been a very large increase of demand by Governments, which was only partially offset by decreased civilian consumption; this demand could only be met as higher prices called previously extra-marginal factors of production (land of lower quality, high cost mines, less qualified labour) into operation.

(b) On the supply side, the conditions of production and transportation had been worsened by the mobilization of the best part of the labour force, the lengthening of sea-routes, etc. This factor equally tended to raise prices.

After the Armistice, the reverse process could be expected sooner or later to come into operation. Demand was likely to decline, the decrease in Governments' demand not being completely offset by an increase in civilian demand,¹ and supply conditions* were bound to improve. These adjustments are to be considered as important contributing causes of the 1920 price fall and the ensuing depression.

¹ In many European countries, Government expenditure went on at such a rate for many years after the war that the price-raising tendency arising from the demand side overtook the price-lowering tendency operating on the supply side. Cf. J. M. Keynes, "Tract on Monetary Reform."

3. *Factors making for a post-war boom: deferred demand and accumulated purchasing power.*

The measures of control imposed during the war, together with the decrease in the real income of the majority of consumers (except farmers), restricted non-military expenditure during the war. For most commodities, this decline cannot be observed from war-time production figures, since almost all industries were operating at full capacity turning out goods for army use. The spectacular decrease in the production of two important durable consumers goods, passenger motorcars and houses, may, however, be taken as a clear indication of the development of a backlog, to be made good after the war. (cf. Diagrams 2 and 5).

During the war demand could not be satisfied from current production; claims on future output consequently accumulated in the hands of both business-men and private persons. As the rate of interest was comparatively high, a large part of these claims was held in the form of war loans, rather than idle deposits. About 21 billion dollars of Liberty bonds were outstanding in 1919.¹ These bonds could be sold in the market at prices which, during 1919, were not or not far below par, the Treasury, with the help of a special fund, from time to time purchasing them to stabilize the market.² Moreover, the banks granted loans on Liberty bonds at approximately the coupon rate and on a small margin, and the Federal Reserve Banks were enabled till the end of 1919 to rediscount paper secured by war bonds up to the full face value of such bonds.³ In this way, Liberty bonds could be turned almost automatically into money.

This combination of deferred demand and accumulated savings made for the sudden revival of civilian purchase of various classes of goods in 1919, to which reference has already been made: motorcars, clothing, housing accommodation. Building activity was, however, arrested in the second half of the year by a very steep rise in building costs.⁴

In other countries, diversion of resources to war purposes had taken place on an even larger scale. European populations had been undernourished during the war, and part of their physical capital lost by actual destruction, lack of replacement and under-maintenance. It is true that in some of these countries there

¹ It is estimated that they were distributed as follows: individuals: 17 billions; corporations: 2½ billions; banks: 1½ billions. (National Bureau of Economic Research, "Income in the United States," vol. II, page 264.)

² Annual Report of Secretary of the Treasury, 1918/19, page 82.

³ *Federal Reserve Bulletin*, 1919, page 361.

⁴ See Section 8.

were no foreign assets to pay for the commodities so badly needed from abroad. But this did not prevent American exporters expecting a highly favourable market situation. It was assumed, indeed with some justice, that the purchasing power required to make demand effective would be furnished together with the goods in the form of (i) foreign credits such as had been granted by the United States Treasury since April 1917; or (ii) export credits granted by the banks; or (iii) long-time loans from the public at large, to be effected by large-scale marketing of European securities. But in the end, the expectations of certain groups of merchants in any case proved overoptimistic.

Hence both for the home and the export industries, it was thought likely that boom conditions would prevail after the abolition of war restrictions. These restrictions were in fact abolished promptly¹

4. *Continuation of war-time supply and demand conditions.*

Nevertheless, the boom arising from accumulated demand would never have developed if the factors making for the post-war price fall had not set in at the same time as decontrol. They did not do so, however. Conditions of both supply and demand remained in many ways similar to those obtaining during the war.

(A) *Supply.*

(a) The quantity of output and the level of productivity continued to be far below pre-war levels in the whole of Central and Eastern Europe, owing to losses of men and plant, diversion of machinery to war needs, loss of workmen's skill and physical strength, unsettled political conditions and a multitude of other factors. Hence prices of manufactured products in the United States could rise to high levels without giving rise to serious competition from the continent of Europe either on the home or on foreign markets.

¹ Cf. Annual Report of the Federal Reserve Board, 1919, page 69, quoted on page 16 below. Also: "The Agricultural Crisis and its Causes," Part II, page 42. The most powerful controlling agency, the War Industries Board, stopped its activity practically overnight on November 11th, 1918, and was dissolved on November 30th, 1918. (B. M. Baruch, "American Industry in the War," page 5; L. Hæ Haney, "Price Fixing in the United States during the War," *Political Science Quarterly*, 1919, pages 110, 448.)

(2) The world's transportation equipment, both railways and ships¹, worn out and partly destroyed during the war, could not be restored in a short time. Hence raw material prices in the United States could rise to high levels owing to lack of means for transporting stocks from overseas countries.

(B) *Demand.*

The monetary policy which the United States and most other countries followed during 1919 was a legacy of the war. It was still inflationary. Its main features may be summarized as follows:

(i) Military expenditure did not cease in November 1918. The troops were only brought back gradually, and many of the supplies ordered for the 1919 campaign could not be cancelled at short notice.

The difference between total Government expenditures and receipts affords a partial but useful indication of the inflationary influence of Government finance. The following table gives this deficit for the United States by quarters from her entry into the war:²

United States Government Deficit, 1917-1920
\$ (000,000's)

<i>Quarter</i>	<i>1917</i>	<i>1918</i>	<i>1919</i>	<i>1920</i>
I		2,900	2,876	+403*
II	648	1,500	1,467	+505*
III	1,932	4,025	770	+289*
IV	2,701	4,995	+154*	+170*

* Surplus.

It will be seen that, although the deficit was drastically cut after the end of the war (fourth quarter of 1918) it took a year before a small surplus could be shown.

¹ The world's tonnage was, in the middle of 1919, 2½ million tons higher than in 1914 (47.9 million as against 45.4 million). However, an unusually large proportion of these ships was under repair, their speed was low, the handling in the ports was inefficient owing to lack of railway cars, labour troubles, etc., and, finally, there was a heavy demand for tonnage for the provision of Europe with foodstuffs and raw materials and for the repatriation of troops. The inadequacy of supply is evident from the high freight rates which were maintained till the spring of 1920.

² Annual Report of the Secretary of the Treasury 1920/21, page 241. Figures include loans to foreign Governments.

(ii) During the period of the United States participation in the war, the heavy deficits of the Federal Government had to a large extent been compensated by a reduction in civilian spending. This caused both the rise in prices and the extension of credit to be relatively moderate. After the Armistice, the legal and moral restrictions fell away; the borrowing of the Government was no longer met by private saving,¹ and there occurred a considerable expansion of credit, as may be seen from the following figures:

Banking Statistics. All Banks in the United States.
(billions of dollars)

Year	Individual deposits	Loans and Discounts				Investments	
		Total	secured by			Total	U.S. Government paper
			land and real estate	stocks and bonds	other collateral and no collateral		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Outstanding June 30th							
1914	18.5	15.3	3.5	4.7	7.1	5.6	0.8
1915	19.1	15.7	3.8	4.1	7.8	5.9	0.8
1916	22.8	18.0	3.4	4.7	10.0	6.8	0.7
1917	26.3	20.6	3.7	4.6	12.4	8.0	1.0
1918	27.8	22.5	3.1	4.6	14.8	9.7	2.6
1919	33.1	25.0	2.4	6.6	16.0	12.2	4.2
1920	37.7	30.8	2.6	6.7	21.5	11.4	3.3
1921	35.5	28.7	4.8	6.2	17.8	11.4	3.9
o							
Increase over preceding year							
1915	0.6	0.4	0.3	-0.6	0.7	0.3	0.0
1916	3.7	2.3	-0.4	0.6	2.2	0.9	0.0
1917	3.5	2.6	0.3	-0.1	2.4	1.2	0.3
1918	1.5	1.9	-0.6	0.0	2.4	1.7	1.6
1919	5.3	2.5	-0.7	2.0	1.2	2.5	1.6
1920	4.6	5.8	0.2	0.1	5.5	-0.8	-0.9
1921	-2.2	-2.1	2.2	-0.5	-3.7	0.0	0.6

NOTE: The classification of loans in columns (4) and (5) is based on returns for the National Banks. For banks other than national the classification of loans given in the returns is slightly different. For these banks "loans secured by collateral other than land and real estate" have been entered in (4); "loans not secured by collateral and unclassified loans" in (5).

SOURCE: Report of the Comptroller of the Currency.

¹ Cf. on the war period; B. M. Anderson, "Effects of the War on Money, Credit and Banking in France and the United States" (New York, 1919), page 185; on the situation immediately afterwards, the Annual Report of the Federal Reserve Board for 1919 may be quoted:

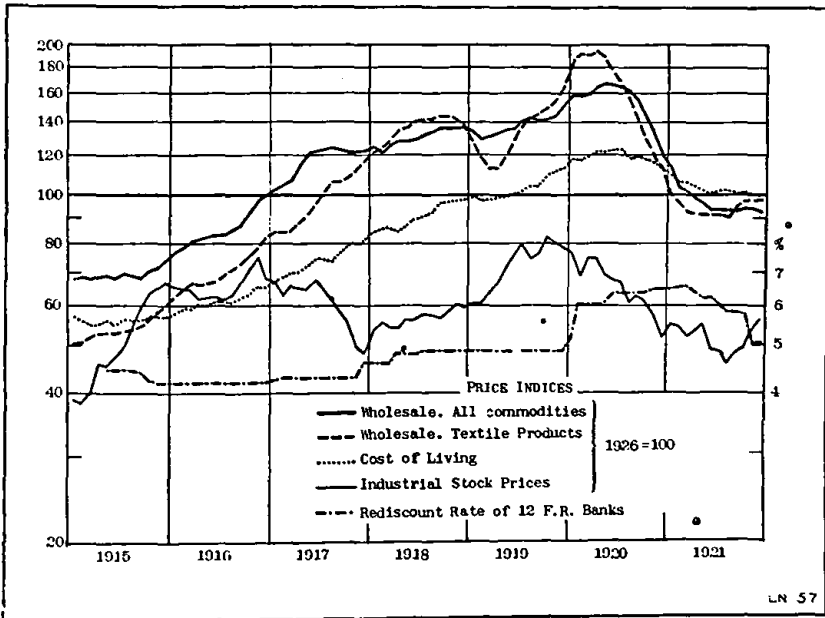
"Although the period of war financing did not terminate with the year 1918, and the Federal Reserve System was consequently under the continued strain of war finance, that strain had to be met without the aid of war restrictions. The safeguard afforded by these restrictions was removed, . . . There is no longer an embargo on exports of gold, nor any regulation or control of foreign exchange . . .; the controls set up over exports and imports, production and consumption, with a view to conserving the national resources and reducing waste, have practically disappeared. As a result the problems of the Federal Reserve System have been greatly increased." (page 60)

The largest increases of deposits were from 1918 to 1919 and from 1919 to 1920; in 1919 the banks continued to absorb Government paper on a large scale (1.6 billion dollars) and in 1920 they increased their loans and discounts by 5.8 billion dollars. This increase, which exceeded the rise in deposits by 1.2 billion dollars, was in part compensated by the liquidation of Government obligations to an amount of 900 million dollars.

(iii) The rediscount rate of the Federal Reserve Banks was kept constant from the middle of 1918 till November 1919. It was admitted that sound banking policy alone would have required a rise in interest rates as soon as boom conditions became apparent, but the reverse policy had to be adopted to enable the Treasury to float the Victory loan at a lower interest rate than it could otherwise have done.

(iv) During 1919, the United States Treasury advanced over \$2,000,000,000 to foreign governments for purchases in the United States¹ (\$3,370,000,000 in 1918).² In this way the Government helped to keep export conditions and expectations lively.

Diagram 4—Price Indices, 1915-1921



¹ *Review of Economic Statistics, 1920, Suppl.*, page 13. Moreover, financial assistance of \$1,500,000,000 was given by the Treasury in the same year by the purchase of foreign currency, the sale of supplies on credit, and delays granted for interest payments.

² *Review of Economic Statistics, 1919, page 247.*

To sum up, supply and demand conditions combined to postpone the post-war price fall until after 1919. Boom conditions could prevail for some time unchecked.

5. *The mechanism of the post-war boom.*

The outstanding characteristic of the 1919 boom was the sharp rise in prices and the intensity of commodity speculation. The mechanism to be analysed is essentially one of a speculative boom in commodities under conditions in which production could not be considerably expanded in a short time. Diagram 4 shows the accompanying price movements.¹

The rise in prices, once started by the recovery and by the termination of Government controls,² became itself an impelling factor of the upswing. It led to:

(a) anticipation of further rises, in consequence of which

(i) producers and traders were willing to increase their stocks for motives ranging from cautious covering for a known future demand to pure speculation;

(ii) consumers bought as much as possible in anticipation of future needs, for fear of having to pay higher prices a few months ahead;

(b) a revaluation of commodity stocks (and other assets), causing windfall profits;

(c) the capitalization of higher returns on property considered as a lasting phenomenon, in particular as regards the value of land. Land changed hands quickly, and as the high prices were

¹ Price indices give a somewhat distorted picture of both the pattern and the intensity of price movements during this period, in particular for raw materials. As the pattern of a steep rise followed by a steep fall shown by many individual price series did not occur for all at the same time, the average index gives the erroneous picture of a slow and moderate rise, and similarly does not fully bring out the steepness of the fall. The effect of this averaging will be seen from the following figures, where "I" indicates the percentage fall (or rise) of the price index from the highest (lowest) month in the first year to the lowest (highest) month in the subsequent year, and "A" indicates the average of the percentage fall (or rise) of the individual price series measured for each series between the extreme monthly values of that particular series in two successive years. It will be observed that though the price indices indicate a relative rise of prices of raw materials less than that of finished goods in the 1919-20 boom, raw materials prices actually rose, on the average, appreciably more than the prices of finished goods.

Commodity Group	Fall 1918-1919		Rise 1919-1920		Fall 1920-1921	
	I	A	I	A	I	A
Raw Materials	5	39	22	67	51	63
Finished Goods	5	25	28	53	41	48

² J. M. Clark, *op. cit.*, page 57; see also Section 11.

often largely paid out of mortgage money obtained from the banks¹ these transfers resulted in a net increase of purchasing power in the hands of the public.

We shall refer to demand due to any of these three causes as "speculative demand."

The higher prices implied, in the first instance, a fall in real incomes. Wage earners, by making free use of the strike weapon, largely succeeded in getting their money incomes increased proportionately with the rise in prices during the upswing—thereby accentuating the upward course of prices. Incomes derived from salaries, interest and dividends did not, however, increase considerably, and fell in real terms. The group of consumers affected therefore were induced to curtail their consumption.

6. *The mechanism of the cyclical downturn.*

The situation on the market for consumers goods, as outlined in the preceding section, was essentially unsound. For (a) the rise in prices made for a decline in the amount of consumption goods which the earners of stable money incomes could buy. But (b) speculative demand, due to this very rise, sustained the market and tended to counteract part of the tendency to a fall created by (a).

Under such conditions, for aggregate demand not to drop, speculative demand must take up an ever increasing part of total output to fill the gap of shrinking regular demand. To induce speculators to do this, prices must continue to rise. Evidently, this process can go on only for a short period of time. The decline in regular demand and the accumulation of stocks undermine the basis for speculation. There are limits to the amount of credit the banking system, however elastic, can put at the market's disposal for speculative, or quasi-speculative, purposes. The high prices will eventually stimulate production. If production could have responded immediately, the price rise would of course not have been possible; in the 1919 state of approximately full employment of resources, however, an expansion of production and, especially, an attraction of raw materials from far away countries, was possible only after a considerable lapse of time.

¹ It is reported as a regular procedure in 1919 for the buyer to pay down 5%, 75% being taken as a first mortgage from a bank and 20% as a second mortgage by the seller. (Cf. Bonner, "Credit Aspects of the Agricultural Depression," *Journ. Pol. Econ.* 1925, page 98.)

The exceptionally large 1920 crops constituted, to some extent, such a delayed increase in supply in response to the rise in prices—though they were mainly due to accidentally high yields. Although the acreage under cereals in 1920 was 10% above the 1909-1913 average, there was only one year in the 1915-1923 period (1916) in which the increase over the pre-war period was less. But a yield of 10% over 1909-1913 made the 1920 cereals crop one of the largest in history which, coming on a faltering market, contributed to the steepness of the fall in cereal prices.

It is clear that a market, carried away by speculation, must collapse as soon as prices stop rising—if not when the rate of increase of the rise slows down. When prices no longer rise, speculative demand falls away. But real incomes remain stable at a low level, and hence regular demand does not increase. So the aggregate volume of demand from both sources diminishes, and the boom breaks.

This analysis shows the inherent instability of such a boom. It gives no clue as to the precise moment when, and the precise reason for which the eventual breakdown will come. The further the upward movement develops, the more “ceilings” emerge. It is to some extent a matter of chance which of these will be touched.

Once the peak is passed the same mechanism works in the opposite direction. In anticipation of a price fall, people stop buying and let stocks run down. The capitalized value of land shrinks with the fall in the price of its products; these capital losses induce the consumers to restrict their expenditure.

The “buyers’ strike” which during the boom was the expression of the inability to pay the high prices, especially of the middle classes, now assumes another aspect. Buyers who could not buy at the high prices become unwilling to buy at the lower prices—in anticipation of still lower prices. So this strike—though not the cause of the downturn—is a powerful factor in accentuating the downward process.

7. An example of the mechanism: silk.

Speculation in silk was lively. Records of the time quote as an outstanding example of extravagance the “silk shirts” of certain favoured classes of labour (munitions workers, shipyard workers). This may have been the initial reason why expectations in the silk market were so high. Soon, moreover, the market itself witnessed huge speculative gains. The price of raw silk showed the following jumps, resulting in a rise of 180% in nine months:

	(\$ per lb.)		
Pre-war	3.50-4.00	November 1919	12.37
March 1919	6.06	December 1919	13.63
October 1919	11.06	January 1920	16.93

No stock figures are available for the period before 1920, but in January of that year, stocks were at a record level, not touched again until November 1929.

On the other hand, clothing is one of the compressible items of expenditure, and great economies on it were reported on the part of people whose real incomes had fallen.¹

It is clear that, during the period of the steep price rise, the silk market was in a highly unstable condition. Opinions do not agree as to whether the actual break was due to the boom's own top-heaviness or, to a general price collapse in Japan.² The matter is not of great importance; the break was bound to come eventually in one way or another. After the downturn, prices fell even more rapidly than they had risen; in six months they came down from \$17 to \$4.60 a lb. in July 1920. In the same month, silk "deliveries" were only 36% of what they had been in February of that year.

Another instance of speculative anticipation of demand may be mentioned. The sanguine expectations of export possibilities to Europe and the optimism with respect to Europe's ability to pay resulted in the "piling up of a wall of lard and a mountain of bacon, hams, and other products in the neutral countries and on the frontier of Germany and other central European states long before these countries were actually opened to trade."³ Many of these stocks proved unsaleable, many tons of food deteriorated in storage; and much was actually shipped back to the United States.

8. *The production of durable goods.*

During the boom, brisk demand for consumers goods, both perishable and of medium durability (such as automobiles), sent prices soaring. In such a situation, one may expect productive resources to be shifted from the production of goods of long durability into the production of less durable goods, particularly if

¹ It may be noted, moreover, that during the same period prices of rayon increased only by 33%, making the switch over from silk to rayon relatively attractive to consumers.

² In Japan, a speculative boom similar to that in the United States had developed. Cf. *Review of Economic Statistics*, 1920, pages 94/5 and page 233.

³ E. G. Nourse, "American Agriculture and the European Market," page 69.

the boom is expected to last only for a short period so that would-be purchasers of commodities of long durability may expect to buy at lower prices if they postpone their demand till the boom is over.

The 1919 boom, though it was of course affected by a great many special factors, tends to confirm this theoretical pattern. True, the production of machinery did not fail to revive, nor did it turn down early in 1920. The employment index for the machinery industry, as shown in Diagram 3, shows a pronounced rise from the middle of 1919 and remain at a high level till July 1920. But in the figures for construction and railway equipment orders, the decline in these forms of investment¹ owing to the rise in prices and wages is very clear.²

(i) *Construction.*

Diagram 5 gives the movements of residential and other construction contracts, in millions of square feet. Both show a very rapid recovery from the low war levels. But this movement was of short duration only. Residential building shows a sharp turning point as early as the middle of 1919, and other construction also turns before the end of the year. Throughout 1920, the course of both series is steeply downward, giving way to a sudden revival early in 1921. It would seem to follow from a comparison of these series with the index of construction costs, shown at the bottom of the Diagram, that the violent fluctuations in construction are to be attributed to a large extent to the movements of construction costs. It will be observed that the two turning points in residential building follow those in the cost series with a lag of three months in 1919 and of about six months at the end of 1920. The lag would be rather longer for other types of construction for which the preparation of plans takes more time.

¹ The railways and residential (but not industrial) construction represent to some extent a special case, in view of the legal restrictions on rates and rentals, which prevented the immediate adjustment of "selling prices" to changes in costs.

² In this connection, it is interesting to examine the series for new orders for durable and semi-durable commodities compiled by the Institute of Applied Econometrics. Orders for durable goods show two peaks of equal height, separated by a shallow dip of probably little significance, in July 1919 and January 1920, and from then on decline sharply. Orders for semi-durable goods, on the other hand, (which show far less violent fluctuations) do not reach their peak value until June 1920.

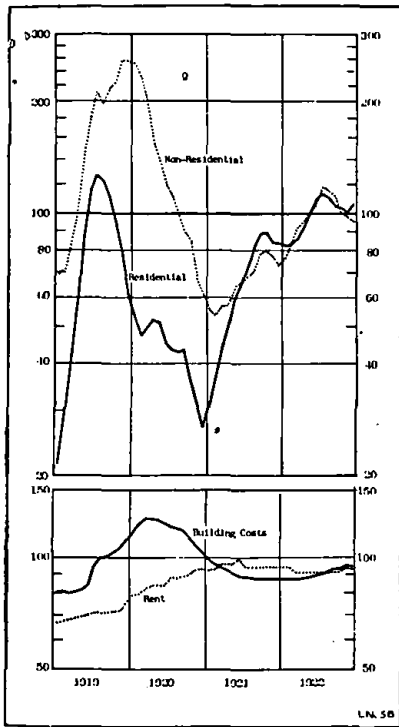


Diagram 5
Construction Indices

1922 = 100

Index of Building Costs,
Index of Rent

1923-5 = 100

Though the movement of costs probably explains¹ the sharp decline of building in the middle of the boom, and the rapid revival (almost as steep as early in 1919) in the middle of the depression, it does not, of course, account for all the fluctuations. The continual increase in construction activity throughout 1922, when prices were stable and even tended to rise again, may well be due to the fall in interest rates and the rise in national income. The considerable increase in rents after the war

was also, no doubt, a powerful factor in stimulating residential building.

(ii) *Railroads.*²

The railroads were operated by the Government from January 1st, 1918, to March 1st, 1920. Various factors contributed to make demand for railroad equipment abnormally small during the first three years after the war. During 1919, neither the Railroad Administration nor the companies made investments of any consequence in view of the uncertainty concerning the further duration of government operation. During 1919 and the first eight months of 1920, low rates combined with high wages made for a very low level of profit, which was not conducive to increasing capacity. Considerable orders were placed only in the period

¹It will be observed that construction fluctuates much more than construction costs. The figures would indicate an elasticity of demand in the order of 2 for residential construction.

²Cf. W. D. Hines, "War History of American Railroads."

Railway Indices
1915 = 100

	1915	1916	1917	1918	1919	1920				1921				1922	1923
						I	II	III	IV	I	II	III	IV ^e		
1. Rates	100	100	100	114 ^a	125 ^b	125 ^b	125 ^b	125 ^b	165 ^d	165	165	165	165	150	150
2. Hourly wages	100	106	120	177	213	225	254	268	272	268	267	240	240	237	236
3. Rates as a % of hourly wages	100	94	83	64	59	56	49	47	61	62	62	69	69	63	64
4. Freight ton miles	100	132	144	148	132	149				112				123	150
5. Net revenue from operations	100	146	139	105	87	41				134				134	164
6. Equipment ordered: freight cars ^f	100	155	12	104	20	58	142	69	36	15	7	2	62	164	86
7. Equipment ordered: passenger cars ^f	100	116	57	1	15	120	160	58	22	6	8	6	30	120	112
8. Equipment ordered: locomotives ^f	100	180	168	161	13	160	202	75	57	11	15	3	30	161	123

^a 100 during first 5 months and 125 during last 7 months.

^b Weighted average: freight 128, passengers 118.

^c Till September 1, 1920.

^d From September 1, 1920.

^e Fiscal year 1915/16

^f Annual equivalents of quarterly figures in 1920 and 1921.

Sources: Hines, *op cit.*; Clark, *op. cit.*; Standard Statistics; Statistical Abstract of the United States.

when government operation was terminated. By the end of 1920, what was probably a workable relation of rates to wages had been restored. But the reduction in the value of transportation caused by the depression resulted again in a very low level of equipment purchases during 1921. In that year, however, considerable economies were effected, including a reduction of personnel by 18%. With the recovery in business, the railroads finally reached a moderate degree of profitability in 1922, and it was only then that, after a three years' interruption, considerable orders for equipment were placed.

9. *The post-war price fall.*

About the same time as the speculative boom broke down, a more general post-war price fall due to other causes began. One after the other the war conditions which, as we saw, still prevailed in 1919 disappeared. Only the most important need be enumerated.

(i) *Deflationary policy of the Federal Reserve Banks.*

Many statements by the Federal Reserve Board¹ show that this body desired to keep the boom in check by means of monetary policy. Not before the war-financing was over—at the end of 1919—however, could the desired policy be carried out. Rates were raised steeply at the beginning of 1920 and again in June.²

It was hoped that discount policy would check further expansion without producing “radical and drastic deflation.”³ The Federal Reserve Board foresaw, on the other hand, that speculation could hardly be deterred by any “reasonable advance in rates of interest.”³ Retrospectively, the rate increases were termed “precautionary steps which did not produce deflation but checked the expansion.”⁴ It is probable that the monetary policy had some effect towards checking the expansion, which, however, would have come to an end in any case. Once expansion was stopped, a process of liquidation was inevitable.

In this liquidation, banking policy played an active role.⁵ In order to maintain the strength of the Federal Reserve system,

¹ Quoted by H. W. Macrosty, “Inflation and Deflation in the U. S. and the U. K., 1919-1923.” *Journ. Royal Stat. Soc.* 1927, page 45.

² There are no traces of a deliberate open-market policy prior to 1922.

³ Annual Report, 1919.

⁴ Annual Report, 1920.

⁵ It will be observed that the average Federal Reserve Banks' discount rate rose till March 1921, when it reached 6½% (Diagram 4).

there was a tendency on the part of the Federal Reserve Board to restrict advances against unsold goods¹ which tended to aggravate (though perhaps also to shorten) the depression, particularly in agriculture.²

(ii) *Decline in exports.*

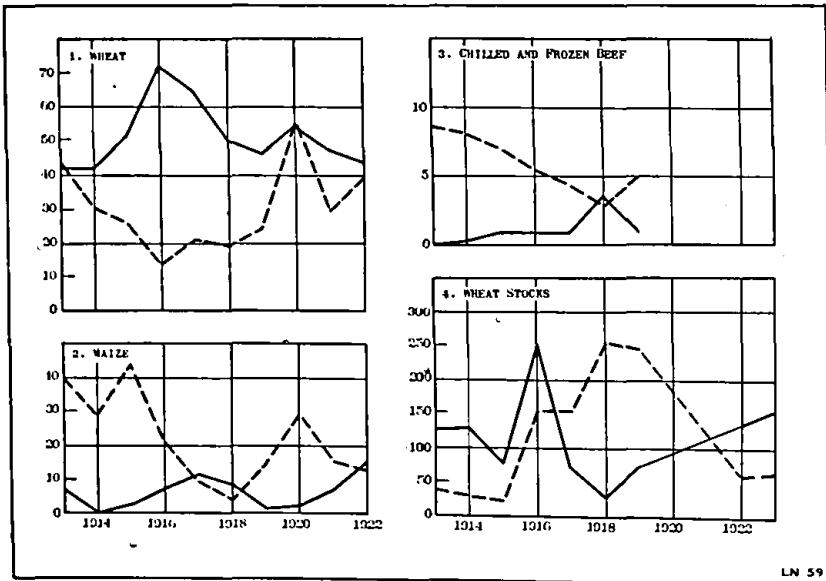
The enormous increase in United States exports during the war had to a large extent been caused by a diversion of European demand from the other suppliers (Australia, Argentine, etc.) to the United States because of:

- (a) lack of tonnage and high freight rates;
- (b) convenience (to have only one sea route to convoy);
- (c) credits granted by the United States Treasury.

Diagram 6 shows, for a few important commodities, how, after the war, United Kingdom importers switched back to the pre-war countries of supply.

Diagram 6—The Diversion of European Demand

———— United States^a - - - - - Other Major Exporters^b
 1-3. Imports into the United Kingdom in cwts. (000,000's)
 4. Wheat Stocks on August 1, in bushels (000,000's)^c



^a In 4: United States and Canada.
^b Argentine (1-4), Australia (1, 3, 4), India (1), New Zealand (3).
^c The first figure indicated for both curves refers to the 1909-1913 average.
¹ Annual Report, 1920.
² This action was criticized in the Report of the Joint Commission of Agricultural Inquiry (Vol. II, page 14).

Stocks had accumulated in the countries that were economically too far away from Europe, partly because demand was shifted to the United States and Canada (wheat), partly because imports were reduced (wool). Comprehensive statistics of surplus stocks during the World War do not exist. Diagram 6 gives the development of wheat stocks in some of the major producing countries. Indication is further available of the accumulation during the war of surplus stocks of¹

wool —in Australia, New Zealand, South Africa, the Argentine and Brazil;
 tin —in Malaya, the Netherlands Indies and Bolivia;
 lead and zinc —in Australia;
 rubber —in Singapore and other Far Eastern ports;
 nitrates —in Chile.

At the end of February 1920, the freight market broke² and so not only reduced the advantage of the United States, but also caused the European markets to be glutted with the accumulated stocks. About the same time, on January 28th, 1920, the Secretary of the Treasury declared that "the Treasury [was] opposed to further Governmental aid" abroad (with some minor exceptions), and that "the governments of the world must now get out of banking and trade."³ Though an extension of export credits was urged upon the banks from many sides, they did not, in fact, increase sufficiently to offset the decline in government credits.⁴

Thus the artificial conditions that the war had created on the market for export goods had come to an end; exports and export

¹ London and Cambridge Economic Service, *Special Memorandum*, No. 1, and J. W. F. Rowe, "Markets and Men".

² This break was due to an increased supply of tonnage which was called forth by these high freight rates and continued to pour into the market a considerable time after rates had started to fall.

³ *Review of Economic Statistics*, 1920, Suppl., page 13.

⁴ Cf. the following figures for capital exports from the United States (*Fed. Res. Bull.*, November 1921):

	1919	1920	1921
	<i>nine months</i>		
	(\$'000,000,000's)		
U. S. Gov't international payments	2.4	.3	—
Investment, private, abroad	.3	.3	.3
Repatriation of U. S. securities	.1	.1	—
Unfunded credits (residual item of the balance of payments)	1.4	1.7	.5
Total	4.2	2.4	.8

prices had to fall; "it is something of a puzzle why prices held up as long as they did."¹

It is difficult to determine, for any particular agricultural commodity, to what extent the price fall was due to decline in foreign demand.² For many products, indeed, the volume of exports remained high. This only shows the basically weak position of the exporter. Diminishing demand and cheapening supply from other countries had undermined high prices. When this situation became evident—through a fall in price, or some decline in exports, or a growing realization of the lack of purchasing power in Europe—the "sellers' market" became a "buyers' market."

(iii) *Railway conditions.*

The railway situation had been bad during the severe winter of 1920; it deteriorated into an outright transportation crisis in April of that year, owing to a large strike of railwaymen. The transport problem formed an additional factor (apart from the speculative motive) in favour of holding large stocks:

(a) producers and dealers were anxious to enlarge their stocks of raw materials and finished commodities to ensure smooth production and sales in spite of slow and uncertain supplies;

(b) sellers in many cases could not dispose of their stocks for lack of transport; hence stocks piled up in agricultural districts.³

The effects of this accumulation of stocks were twofold:

(a) the resulting additional demand tended to raise prices;

(b) the stocks constituted a potential danger to prices and production as soon as traffic became normal and the two parties concerned could use up their surplus stocks or throw them on the market.⁴

(iv) *The decrease in the Government deficit.* See Section 4.

(v) *The abolition of the Government minimum price for wheat.* on June 11th, 1920, has "generally" been regarded as the reason for the decline in wheat prices.⁵ It at any rate made such a fall possible.

¹ Nourse, *op. cit.*, page 73.

² This question was studied at some length by the Joint Commission of Agricultural Inquiry; the Commission's Report does not, however, provide a conclusive answer to the question.

³ It is reported that, in some districts, two crops were held at the time.

⁴ The situation is wholly comparable with that of sea transportation, referred to under (ii).

⁵ Mentioned in the Annual Report of the Federal Reserve Board, 1920, page 8. It would seem from the text that the Board does not wholly agree with this opinion.

10. *The course of the depression.*

The joint action of a cyclical downturn and the post-war price fall resulted in an extraordinarily sudden decline in business activity. In a few months (August 1920 to January 1921) production and employment fell by 25%. Prices and wage rates also went down precipitously, wholesale prices stopping at about 40% and the cost of living and wage rates at 80/90% above the 1914 level. A downward business cycle movement had begun, the effects of which were quickly felt in other countries where the same process of speculative inflation had been going on; this, in turn, had an unfavourable though somewhat delayed influence on American exports.¹

The downswing, then, was unusually rapid, but it was short. By the end of 1920, the worst was passed. But the revival was slow and the whole year 1921 was, in general, one of stagnation. By the end of the year, factory employment and production were only a few percent higher than in December 1920. (Cf. Diagram 1.) It will be noted that in the process of recovery, as in the preceding downturn, the output of non-durable goods led that of durable goods, and durable and semi-durable consumers goods led durable producers goods. Diagram 1 shows a sharp reversal in the trend of the output of non-durables as early as December 1920, whereas durables reached their lowest point in July 1921. The employment figures from Diagram 3 bear out the same facts. Of the six series representing employment in consumers goods industries, five have their turning point in January 1921 and one, men's ready-made clothing, in the previous month. With the exception of the motor car industry, where, after an initial rise, employment remained from April 1921 to March 1922 almost stable at a low level,² the rise in the consumers goods industries was considerable. The December 1921 figure was, in all cases, more than 20% in excess of that of January of the same year, bringing employment to a level of only 10 to 15% below the 1920 peak. On the other hand, employment in the iron and steel industry rose only after July 1922, and in machinery production only after November 1922.

¹ Cf. *Review of Economic Statistics*, 1921, page 8. It is known that the execution of the old export orders kept certain industries well employed for a short period after domestic demand had fallen off; there is little evidence of this, however, in the general export statistics.

² Within the automobile industry, passenger cars make a better showing than trucks. In 1921, the output of the former is 75% of the 1920 level, of the latter, 48%.

After the temporary reduction of activity required to liquidate redundant inventories, industry recovered thanks to a large backlog of demand for plant and equipment and a rapid expansion in the production of a few durable consumers goods, such as motor-cars and radios. In the case of agriculture, there were no such favourable factors on the demand side, nor could supply be easily reduced from the high levels to which it had expanded during the war. These differences largely account for the contrast between the state of chronic semi-depression in agriculture and the high level of prosperity in the rest of the economy. Furthermore, the disturbed condition of European currencies affected demand for export unfavourably, once the period of relief credits was passed. Debts incurred at high prices implied a heavy service in real terms, which weakened the farmers' financial power. Consequently, agricultural prices fell much deeper than industrial prices, and remained lower.

*Indices of Prices Received by Farmers and Paid by Farmers
1910-1914 = 100*

	<i>Prices received paid</i>			<i>Prices received paid</i>	
1910-1914	100	100	1920	211	201
1915	98	105	1921	125	152
1916	118	124	1922-1924	139	151
1917	175	149	1925	156	157
1918	202	176	1926-1929	144	154
1919	213	202			

11. *Consideration of policy.*

The acute crisis which the United States economy underwent in the middle of 1920 was due to the joint influence of two principal factors: the reaction following upon a speculative post-war boom, and the post-war price fall resulting from the reduction in Government demand and the re-establishment of pre-war efficiency in production and transportation. The question naturally arises whether, by appropriate measures of economic policy, this crisis could have been prevented or mitigated.

In countries that have not been too seriously damaged or impoverished by the war a post-war boom is always likely to develop, owing to the sudden unleashing of civilian demand. In the United States it developed into a price boom, and the first obvious conclusion is that, if price and other controls had been

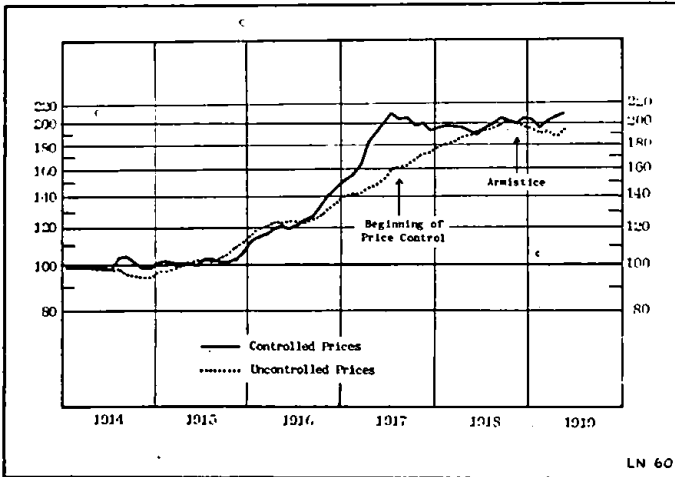
maintained, the sudden flare and collapse might have been avoided. But in fact no such simple solution presented itself. At the time of transition from war to peace economy the conditions of supply may remain at first largely unchanged. This fact alone would seem to justify a continuance of price control, of rationing of raw materials, etc. But the conditions of demand radically change, for the overwhelming war demand of one buyer, the State, is replaced by the infinitely varied and unknown demands of the civilian population. The State can control prices right up to the finished articles it buys, but to control the prices of all the innumerable commodities made for the public in peace time is a different matter; and if the State confined itself to controlling the prices of raw materials and rationing their supply, while leaving finished goods free, this might have as its major result an increase in the profits of the manufacturer and little reduction in cost to the consumer. A continuance of post-war price control, therefore, cannot be accepted as a simple or obvious or complete solution of the difficulty. It is none of these things. Nevertheless the continuance of some measure of control might have proved useful especially as regards foodstuffs and possibly some articles of clothing. Speculative fluctuations in raw material prices, moreover, may be due not so much to a present shortage as to the expectation of a rise in price in the future. Price control of raw materials, provided it is clear that it will be continued as long as the tendencies to a speculative boom last, may dispel such expectations and may to that extent not merely moderate the effects of the boom but actually attack its cause. A beneficial effect of continued control was certainly expected by the Chairman of the War Industries Board, who wrote: "If the proper authority would have been at hand, it would have been possible for the War Industries Board to have continued its functions during the period of readjustment. Much good could have been accomplished. But with the signing of the Armistice, the purchases of the Allies and our great departments coming to an end, the power of the Board, without further additional legislative authority, ceased and it was possible to do only what was done—to wind up its work as quickly as possible."¹

It is at least clear that during the war this Board was successful in the exercise of its control, as is illustrated by Diagram 7 comparing the Board's indices of "uncontrolled" and "controlled" prices—the latter being the prices of commodities that were subject to control during America's participation in the war, or dur-

¹ Bernard M. Baruch, *op. cit.*, page 8.

ing a part of this period.¹ This diagram could not, unfortunately, be extended beyond May 1919; but even for the short post-war period covered it provides pertinent indications.

Diagram 7—Controlled and Uncontrolled Prices
1913 = 100



There is no significant difference in the movement of the two series up to the middle of 1916. From then until control was introduced in July 1917 the one group of prices ran away, while the prices which it was not considered necessary to control rose at a very regular rate from the middle of 1915 to the end of 1918. The gap between the two curves disappears about 10 months after the control was introduced. From then on, the two series almost coincided. Finally, after the Armistice and the

¹ Cf. P. W. Garrett, "Government Control over Prices," page 427. This index ends with December 1918, but is here continued with a similar index based on the Bureau of Labor Statistics price indices (*ibidem*, page 413). The series are linked by using their 1918 yearly averages.

The indices, which are weighted, are based on the prices of 1366 commodities, 573 controlled and 793 uncontrolled. There is a tendency for the controlled group to contain more raw materials and less finished commodities than the uncontrolled group—but there are many exceptions. The class "Wheat and Wheat Products," e.g., was entirely under control: from wheat to crackers. Tea, cocoa and tobacco were free, coffee controlled. Raw cotton and important cotton manufactures were free, but cotton yarns were all under control. Of wool, on the other hand, only the raw material price was controlled. Of the 88 iron and steel manufactures, 36 (among which, steel rails) were controlled.

The indices, in particular that of controlled prices, reflect, of course, the same averaging out of sharp individual fluctuations mentioned earlier in connection with the index of raw material prices.

sudden cessation of control, the formerly controlled prices immediately resumed the tendency to a speculative rise. By May, 1919, the difference between the two series was some 10%; a price boom similar to that of 1916 had started.¹

This rise in prices might have been checked by a better understanding of the factors at play. The information was available, but was misread.

The prices of farm products, for instance, were expected to remain at the high levels reached, or to rise even further. But it should have been clear that the high prices were due to the coexistence of two essentially temporary conditions: exports to Europe financed by United States Treasury credits, and the blocking of stocks in East Asia, Oceania and South America. With respect to many metals the situation was to some extent similar. There was no lack of statistical information about the movement of prices both in the United States and in other countries.² But perhaps partly owing to defective statistics of stocks, interpretations went astray. More complete information concerning all factors influencing markets might possibly have checked the boom; but it is doubtful whether it could have prevented it altogether.

Fuller information and a wiser interpretation of the information available would have contributed something; direct price control of at least certain classes of raw materials known to be liable to speculative movements, even if such control gave rise to increased industrial profits, might have further contributed to stability. But the Government had an instrument of control ready to hand which, efficiently used, might have gone far to check the price boom and the windfall profits. That instrument was its ownership of surplus stocks—valued at some \$2,600,000,000—of raw materials, semi-manufactured goods and even manufactured goods. It was not employed. On the contrary, the Government, in liquidating these stocks, seems to have been much more concerned not to precipitate a slump than to check a boom. A policy was adopted of selling all commodities through the medium of the industries which had produced them (though later on, when the transition period seemed safely passed, direct

¹ The danger of this development was apparently realised by the Government at an early date, and in March 1919 the Industrial Conference Board was created "to meet with the representatives of industry and determine with them 'fair prices' for the basic raw materials." The Board, however, lacked authority and its members resigned two months later. (*Cf. Garrett, op. cit., page 413/4.*)

² *Cf. the detailed studies of the War Industries Board and the Federal Reserve Board.*

sales of some commodities were made to consumers).¹ The policy worked well in the first half of 1919; but it would seem to have had the disadvantage of depriving the Government of the power to curb a rapid rise in the prices of the commodities which it had in store.² Thus it was stated that the lumber industry would have been "paralysed" if all stocks had been disposed of immediately. "Under the agreement the surplus was all sold without disturbance to the industry."² But prices of American lumber rose some 125 to 200% between April 1919 and April 1920. Copper prices rose by nearly 50% between March and August 1919 (and fell again afterwards) in spite of the fact that at the beginning of 1919 the United States Government possessed 100,000 long tons of copper,³ a quantity equal to one-fourth of the total consumption in the United States in 1919.⁴

Not only was the Government failing to check a price rise: it was actually promoting such a rise through deficit financing. The influence of the deficits, which themselves were perhaps unavoidable, might have been minimized had the monies required by the Government been obtained to a greater extent by a reduction of private consumption and not, directly or indirectly, by credit expansion. There, however, the monetary authorities were faced with great difficulties. The art of Federal Reserve open market operations was at that date quite undeveloped and the most important available instrument to prevent credit inflation was the discount rate. But a rise in the official rates would have affected the whole structure of interest rates. A high yield on Government bonds would either have postponed the funding of the large floating debt, or would have made it very burdensome to future budgets. Both possibilities were undesirable. On these grounds, short term rates were kept low till the end of 1919.

The unstable conditions created by the 1919/20 boom should not divert attention from the fact that, even without a boom, the price and income structure of the middle of 1919 could not have continued in a peace economy. A fall in prices (or a rise in money incomes) was to be expected as real costs fell owing to the re-establishment of normal conditions of production. Such a *relative* price fall is inevitable and indeed desirable.

¹ Cf. B. Crowell and R. F. Wilson, "Demobilisation," New Haven, 1921, pages 269ff.

² *Idem*, page 273.

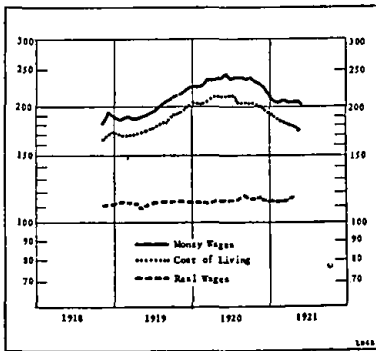
³ London and Cambridge Economic Service, *Special Memorandum*, No. 1.

⁴ At that time all Allied Governments together held about 650,000 tons of copper, equivalent to two-thirds of one year's world consumption.

The price fall which actually occurred in the United States in 1920/21 went beyond the point required to raise real incomes in accordance with the reduction in real costs. As is well known from the swings of the business cycle, the very movement towards a certain level produces the momentum which pulls the whole structure past what, a short time ago, would have been a possible position of equilibrium.

This process of concurrent changes in prices and costs may be seen from the movements of the cost of living and money wage rates over the two years from the end of the war to the middle of 1921. Diagram 8 shows the monthly movement of both series, and the resultant series of real wage rates. (For the last, three months moving averages are plotted to eliminate erratic month-to-month fluctuations.) The 20% decline in money wages did not, in fact, depress real wages. But it had no doubt a depressing influence on entrepreneurs, who could reasonably expect that by waiting a few months they would be able to produce at lower money wage rates.

Diagram 8—Real Wages
1914 = 100



In the downward movement, as in the 1919 boom, speculation played a large role. Prices fell largely because they were expected to fall. For that reason (and partly because the fall in prices reduced the value of the collateral of loans) stocks of raw materials, foodstuffs and finished products were thrown on the market and livestock was slaughtered in large numbers.

Given these expectations, the initial price fall degenerated into a joint fall of prices and incomes which lasted till about the end of 1921. Just as a speculative rise of prices can be checked by a firm policy of price control, such a speculative price fall might conceivably have been arrested by a declaration of monetary policy and by determined action in accordance with that policy, in order to prevent speculation from anticipating ever lower prices.

If a policy of price stabilization at a high level had been adopted, two sets of measures would seem to have been indicated.

1. At the end of a war very appreciable changes in relative wages, as in relative prices, are to be expected and are indeed desirable. But if a protracted process of deflation is to be avoided wage rates on the average should be kept stable.

2. At the same time it would have been necessary to take the appropriate measures to maintain or increase the national income as soon as the essential adjustments of values had been effected. One of such measures would have been a lowering of the discount rate. (In 1921 it was raised when the worst of the crisis was already past.) If, in such circumstances, private investment does not react with sufficient rapidity or strength, Governments may have to embark on a programme of temporary deficit spending as soon as they consider that a further fall of prices serves no useful purpose, by an extension of public works,¹ the payment of war bonuses or the release of savings.

12. *Summary of findings.*

(1) Readjustment from war to peace production was accomplished very quickly after the Armistice; employment declined only very slightly for a few months, after which it recovered rapidly. There was no great difficulty in finding work for the demobilized soldier.

(2) Production of both durable and non-durable consumers goods started to improve between December 1918 and February 1919.

(3) Activity in the heavy industries, on the other hand, declined till the middle of 1919, when recovery set in.

(4) The building industry, greatly restricted during the war, showed a very sharp increase in activity from the beginning of 1919 in both residential and other construction; owing to the rise in construction costs, however, the movement was reversed later in the year.

(5) This expansion sprang from the accumulation of a backlog of requirements, on the one hand, and of financial assets on the other, which, though not liquid in form, could easily be turned into money owing to the banking policy followed. This policy also permitted a considerable expansion of commercial loans.

¹ It has been suggested (by Professor Goudriaan) that the Government should offer public works for contract at prices slightly below the level at which it considered that the price fall should come to a stop. This would render the inception of a public works programme automatic. And, since it would definitely state how far the Government was willing to let prices drop, it might be a very effective check on further deflation.

(6) Interest rates were not raised before the end of 1919, in order to facilitate funding of the Government debt at a low rate, and so credit expansion continued almost unchecked.

(7) The expansion was further stimulated by Government deficits, which continued for a year after the Armistice, and by credits, both official and private, granted to foreign countries.

(8) In view of the limited productive resources and in particular the limited supply of raw materials, the expansion quickly developed into a speculative price boom. For a short period (namely, for most commodities, the last quarter of 1919 and the first quarter of 1920) prices rose because demand was high, and demand was high because prices were expected to rise further.

(9) Wages increased with the cost of living. But the rising prices tended to curtail demand from other income groups, and in particular, it would seem, demand for goods of long durability.

(10) A boom such as this was bound to break. The tightening of credit early in 1920 was one of the factors directly contributing to this break.

(11) At about the same time the special factors tending to stimulate the United States economy after the war lost part of their force as Europe slowly resumed its exports, as stocks in overseas countries began to reach their normal markets thanks to the increase in shipping facilities, and as relief credits were discontinued.

(12) The ensuing depression remained moderate during the summer of 1920 but rapidly gathered force in the autumn. Production fell off somewhat earlier in the non-durable goods industries than in the heavy industries.

(13) The depression was, on the whole, steep but short, the year 1921 showing approximate stability in industrial production at a level about 30% below the 1920 peak.

(14) This stability conceals a decline in the output of durable goods continuing till July 1921 accompanied by a rather sharp revival of the production of non-durable goods as early as January 1921. Construction, too, revived early under the influence of a fall in building costs.

(15) With the agencies of war-time control disbanded almost immediately after the Armistice, the post-war boom went on practically unchecked by any form of control during its initial months. As the Federal Reserve Banks felt compelled to adjust their policies to the requirements of the Treasury, checks from the monetary side became impossible until the end of 1919.

(16) The restrictionist banking policy started at the end of 1919 continued after the 1920 turning point till well into 1921, and this fact may be held partly responsible for a parallel fall in money prices and costs, which tended to aggravate the depression.

PART II

ECONOMIC FLUCTUATIONS IN THE UNITED KINGDOM, 1918-1922

1. *Introduction.*

The task which faced those responsible for economic policy in Britain after the Armistice presented two essential difficulties. First, the administrative machinery and personnel, organized to obtain maximum production, to buy the maximum of supplies, to weed out unnecessary workers, had to be adapted to the reverse process of cancelling orders, selling surplus stocks and finding employment for the demobilized soldiers. Secondly, whereas the objective of the war economy was clearly defined, that of the peace economy was not. Peace might entail either a boom, fed by the unsatisfied demand and the accumulated liquid assets of industries and private persons, or a depression and unemployment owing to the cancellation of Government orders and the demobilization of millions of men. There was uncertainty as to which of these two possible situations would prevail after the Armistice; or, if both were to arise, which would precede the other.

Furthermore, official opinion desired at the same time a boom and falling prices. A boom would help to solve the problem of creating employment for the demobilized. Falling prices, on the other hand, would make possible the coveted return to a substantially lower level of prices and the re-establishment of the gold standard at the old rate. Thus policies had to be framed to deal with an unknown situation without a clear-cut objective. Nor, after the Armistice, was it immediately clear how the situation was going to develop. The doubts as to whether a boom or a slump had to be faced were not dissipated.

Actually, a boom occurred from about the middle of 1919 to the middle of 1920 and this boom was sandwiched between a minor recession, which prevailed during the first half of 1919, and a more severe depression starting in the autumn of 1920. Thus, for some six or nine months after the Armistice, the situation remained ambiguous. This may explain both errors and hesitations in the formation of policy. The first two post-war budgets

were presented just before the turning points of business, in the month of April of 1919 and 1920; and anticipations for the next financial year, based on the existing situation, proved on both occasions to be entirely off the mark. It was permissible to fear that measures to check a boom might precipitate a slump; measures to prevent a slump might cause a full-fledged inflation.

Most of the factors influencing the economic fluctuations in the United Kingdom were similar to those which have been shown to have determined the course of events during this period in the United States. For this reason, only the identification of these factors and a brief historical description of their nature and effects is required in the present study. The main differences are due to the greater importance of foreign trade and the international balance of payments in the United Kingdom.

2. *War finance 1914-18.*

It is convenient to consider first the financial policy followed during the war, since this policy had important effects on the cyclical fluctuations which took place shortly after the Armistice. Government demand for war purposes gave rise to a continual increase in total expenditure and a part of Government borrowing had to be met by credit creation. After a state of full employment had been reached (spring of 1915) this credit creation inevitably entailed inflation. The form of borrowing having the most direct influence on the credit structure and the most inflationary influence was the Ways and Means advances by the Bank of England.¹ An advance of this type of £1 million, after being spent by the Government, has the effect of increasing by the same amount both deposits held in the commercial banks by the public, and the banks' balances at the Bank of England. The increase of £1 million in the liabilities of the banks, however, only requires an increase in cash reserves by the customary fraction of that amount, and the remainder can be lent again to the Government or the public. One initial advance of a given amount thus eventually places several times that amount of purchasing power in the hands of the Government and the public.

Besides lending directly to the Government, the banks also granted credits to private subscribers to war loans.

¹ The published figures of Ways and Means advances also include an unknown amount of advances, through the Bank of England, of spare balances of commercial banks and of foreign deposits, a system in force from early in 1916 to July 1919.

The painful after-effects generally ascribed to this inflation during the war were to a great extent due to certain post-war factors:

1. The widespread opinion, authoritatively expressed by the Cunliffe Committee and subsequently acted upon by the Government, that the prestige of London as a world financial centre was bound up with an eventual return of the currency to the pre-war gold parity. Because of the depreciated value of sterling in 1920 in relation to gold, or the dollar, the pre-war parity could only be restored by a process of deflation.

2. The deflation in the United States, starting in the middle of 1920, which enhanced the real value of gold and thus made the British deflationary process still more painful.

3. The fact that the removal of war restrictions on credit, trade and industry, was accomplished at a moment when the inflationary financing of public expenditure had not yet been brought to an end. This added post-war and much less controlled inflation to war inflation, and so made the starting point of deflation in the middle of 1920 much higher than it would have been a year earlier.

Moreover, the modalities of the inflationary war finance tended in some respects to aggravate its after-effects.

In March 1920, when new borrowing had come to an end, the domestic national debt of £6227 millions was divided as follows:

I. Long-term debt (over 8 years)	£2885 millions, or 46%
II. Medium-term debt (between 1 and 8 years)	£2090 millions, or 34%
III. Floating debt (ways and means advances, treasury bills)	£1252 millions, or 20%

That so large a proportion of floating debt had been allowed to accumulate was due to various causes. Initially, the general expectation that the war would be of relatively short duration may have exerted an influence. Moreover, with interest rates going up continually, lenders were expecting a further rise in rates all through the war and so were less willing to buy long-term bonds for fear of depreciation of their capital value. The Government tried to meet this difficulty by granting subscribers the right of conversion into subsequent loans. But this privilege was disadvantageous to the Government as it meant a rise in the interest cost not only of current borrowing but also of the loans issued earlier.¹

¹ U. K. Hicks: "The Finance of British Government," pages 316-320.

So long as war restrictions controlled private investment and consumption, the influence on the speed and extent of inflation exerted by the form chosen for Government borrowing was limited. But with the removal of those restrictions after the end of the war, the large floating debt gave rise to serious problems which will be discussed below.

The methods of war-time Government finance have been criticised for the encouragement given to the financing of private subscriptions to war loans by bank credit.¹ This resulted in the Government having to pay the same rate of interest for credit created by the banks as for private savings. The Government could have borrowed cheaper if it had gone direct to the banks instead of to the public and the inflationary effect of such a procedure would not have been greater. Moreover, illusions about the extent of inflation would have been avoided.

3. *The period of transition: from the Armistice to the middle of 1919.*

Demand for war purposes dropped off before peace demand could develop with full force. Of the £142 million war contracts outstanding at the date of the Armistice, 86% had been terminated or were under notice of termination by December, 1918, while it proved to be necessary or more economical to complete most of the remaining 14%.

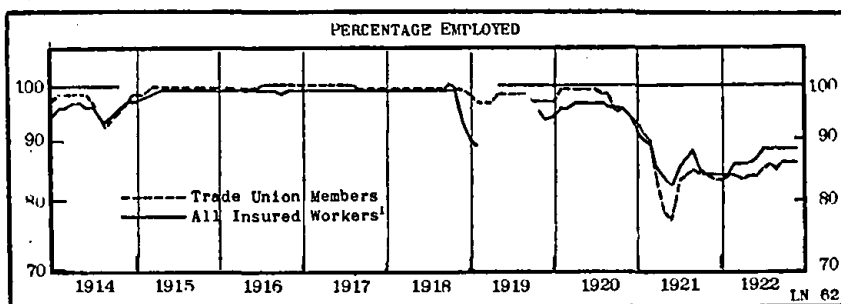
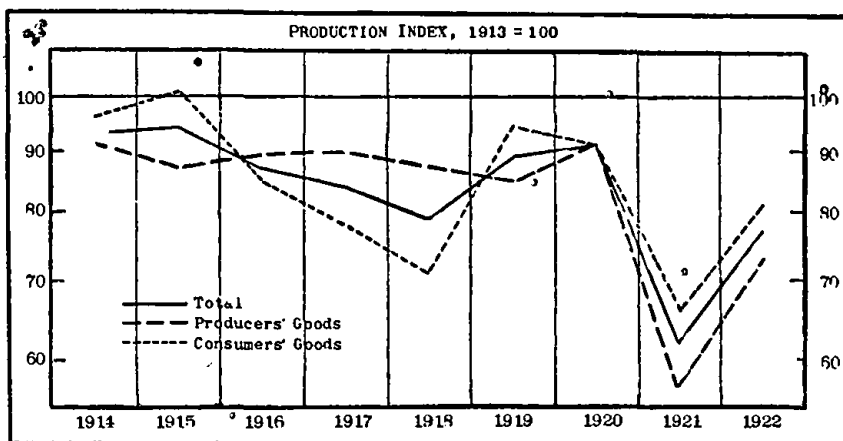
The movement of production and employment after the Armistice may be seen from Diagrams I and II. In Diagram I is shown the only available production index covering the whole period under consideration, which gives annual figures only.² It brings out clearly the sharp decline in the production of consumers' goods during the war (30%), while that of producers' goods was maintained almost at the 1914 level owing to war orders. In 1919, consumers' goods recovered rapidly to 30% above the 1918 level,³ while producers' goods rose only slightly, and did not reach the 1913 level in either 1919 or 1920. The output of producers' goods, however, was affected by the shortening of the working week and by strikes (*cf.* Section 4).

¹ See W. T. C. King in *The Banker*, April, 1940.

² This index is by Hoffmann, published in the *Weltwirtschaftliches Archiv* of 1934. The index of the London and Cambridge Economic Service (shown quarterly in Diagram IV) begins in 1920 only, and does not distinguish between consumers' goods and producers' goods. (It may be noted that, in Hoffmann's index, the latter group includes coal.)

³ Obviously, the increase of the volume of goods becoming available for civilian consumption was much larger.

Diagram I—Production and Employment

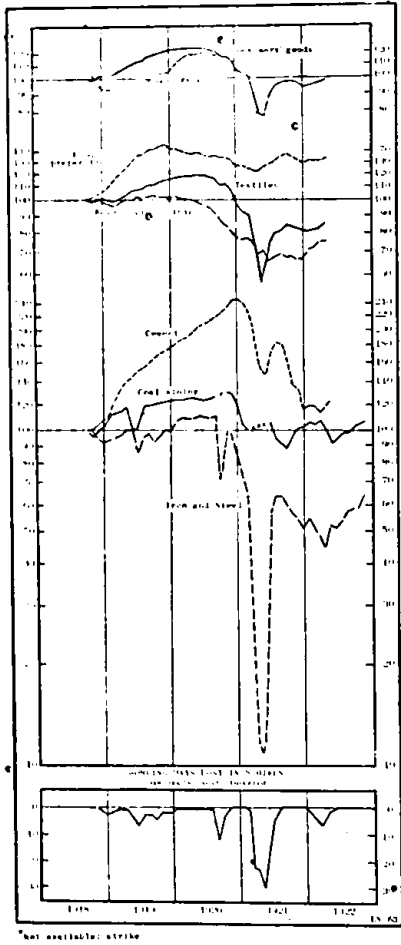


¹ March through October 1914, and October 1920 not available.

Diagram I also shows the employment percentages of trade-union members and of workers insured against unemployment. Both series are reliable indices of the state of full employment during the war. After the war, when union membership increased rapidly and the scope of the insurance system was changed several times, they probably fail to give as good an indication of the employment situation.¹ A notable difference between the two indices is to be observed in the first few months after the Armistice. While union employment did not sink below 97%, unemployment in insured industries (which were then mostly the heavy industries) reached 10.7% in February 1919. For industry as a whole, the highest level of unemployment was touched about the beginning of May, 1919, when 1.1 million per-

¹ Cf. Appendix II on employment series during this period.

Diagram II—Employment Indices
October 1918 = 100



100) by the middle of 1920. The producers' goods employment index declined in the early months of 1919; after an interruption of the index for eight months, it shows a sustained rise up to the middle of 1920.

¹ By the end of 1919, nearly four million men had been demobilized.

² The base of these indices is October 1918. For the sake of clarity, figures for earlier months of 1918 are not shown in the diagram. They will be found, however, in Appendix III. It will be seen from these figures that the indices would have been only very slightly different if the average for the year 1918 had been chosen as a base.

sons (700,000 civilians and 400,000 demobilized soldiers) were receiving an out-of-work donation, which was at that time available for all unemployed persons.

The demobilization was carried out rapidly during the first months of 1919, passing the two million mark by the middle of March.¹ The great majority of the demobilized soldiers was absorbed in industry, the percentage of those claiming out-of-work donation fluctuating around 15% in April and May, and around 10% towards the end of 1919.

Diagram II gives employment indices for various industries and groups of industries.² During part of the period under consideration, series reflecting approximately employment in the consumers' goods and producers' goods industries, are available (cf. Appendix II). Employment in the consumers' goods industries began to recover as early as December, 1918, to reach a level of about 120 (October, 1918 =

These indices are supplemented by the employment series for various industries¹ and indices representing the number of working days lost by strikes. A comparison of the employment and the strike series shows that many of the short-term fluctuations in the former can be attributed to strikes, either directly or indirectly—for example, through the interruption of transport and the curtailment of supplies of coal or raw materials. In the textiles industry, as in ready-made tailoring, a certain hesitation is noticeable at the beginning of 1919, a hesitation due to fears that a quick liquidation of Government stocks of raw and manufactured textiles might break the market. In the production of foodstuffs and cement, there was a strong and immediate revival after the Armistice.

Coal mining, which had also suffered from withdrawal of labour during the war, likewise showed an immediate increase of activity. On the other hand, an immediate recession from the level of war-activity occurred in the iron and steel industry; this recession was, however, slight both in extent and duration, though the increase in 1919-1920 over the October 1918 average was naturally less than in the consumers' goods industries. Thus employment recovered very quickly after the war. The position was not, however, one to create unqualified satisfaction, with over a million unemployed and 15% of the demobilized troops unable to find jobs half a year after the Armistice.² The cause of the difficulty in achieving full employment was partly the necessity of adapting industry after the war to civilian demand; but the persistence of a by no means negligible degree of unemployment all through the 1919-1920 boom seems to be attributable to special factors, such as the lack of certain types of skilled labour. (Cf. Section 4.)

The removal of pivotal war restrictions on industry and trade took place in the period of adjustment up to the middle of 1919. Capital issues for the development of home industry and public services were gradually freed from Treasury sanction.³ Further, the restrictions on the importation of, and dealings in, industrial raw materials, and on the employment of industrial equipment

¹ The figures represent "employment" except in the coal and iron and steel industries, where the "number of shifts worked" is shown (or employment corrected for short time).

² If account is taken of the ex-soldiers who did not intend to take up a situation as employees, the percentage of those willing but unable to find employment is considerably larger.

³ The control of foreign issues followed in November 1919, but private foreign lending did not come into full swing until 1921, when demand for capital for the home market receded.

(cotton and wool industries) were lifted. The iron and steel subsidies were stopped by stages, and building was made free of licence. Coal was the only important industrial material the home and export control of which was continued (up to the end of 1920).

On September 1st, 1919, followed the general abolition of all restrictions on imports of manufactured goods except certain "key products".

The decontrol of food took a much longer time. As will be seen from Table I, not only did the rationing of meat continue for over a year, and that of sugar and butter for still longer, but the increases in the sugar and butter rations allowed during 1919 had subsequently to be withdrawn. Similarly, maximum prices for veal, pork and fish lifted before the middle of 1919 were re-imposed during the second half of that year. The long retention and the tightening of control was made necessary by the speculative price developments on world markets,¹ the scarcity of tonnage for the importation of foodstuffs and, with respect to meat, the desire to prevent the excessive slaughter of livestock at home. It was due in part also to the public's clamour for control when, in the middle of 1919, the slow downward movement of prices prevailing since the Armistice was reversed.

Table I—Post-War Rations of Foodstuffs

Commodity	Derationed	Rations	
		Period	Weekly Ration
Tea	Dec. 1918	Nov. '18-Dec. '18	2 oz.
Jam ^a	Apr. 1919	Nov. '18-Apr. '19	4 oz.
Butcher's meat	Dec. 1919	Nov. '18-Dec. '19	1s. 4d.
		Dec. '19-May '19	1s. 8d.
		May '19-Dec. '19	2s.
Butter Margarine	May 1920 } Feb. 1919 }	Nov. '18-Feb. '19	6 oz.
		butter only:	
		Feb. '19-July '19	1 oz.
		July '19-Aug. '19	2 oz.
		Aug. '19-Dec. '19	1½ oz.
		Dec. '19-Apr. '20	1 oz.
Apr. '20-May '20	2 oz.		
Sugar	Nov. 1920	Nov. '18-Jan. '19	8 oz.
		Jan. '19-Sept. '19	12 oz.
		Oct. '19-Jan. '20	8 oz.
		Jan. '20-March '20	6 oz.
		March '20-Aug. '20	8 oz.
		Aug. '20-Oct. '20	12 oz.
Oct. '20-Nov. '20	16 oz.		

¹ With respect to sugar, c/o also below, section 8.

Little has been published concerning the adaptation of war industries to peace production.¹ Of the 302 national munitions factories owned by the Government representing a capital value of £65 million, a large number were sold or reverted to their original owners; others were operated by the Government to break up munitions, to repair army trucks, etc., in order to bring the Government surplus stores into a more readily saleable form. Both the Government and the private factories were rapidly converted for peace production. By about April 1919 a number of munition firms were effectively producing for the civilian market. Many of them turned to engineering, the production and repair of railway carriages, etc. Some of the explosives plants were transformed for the production of dyestuffs, which were protected as "key" products.

In public finance, there were particularly serious transition difficulties. The war had left the money market in a situation very susceptible to an inflationary credit expansion upon de-control of industry. A large amount of liquid wealth, cash, or titles to floating debt was in the hands of banks and the public. The complicated operations carried out by the Treasury in the middle of 1919 were designed to convert as much of this wealth as possible into a less liquid form before the boom started. It is generally agreed that by these operations the best was made of a difficult situation.² First, the market was partly emptied of Treasury Bills so that they should not compete with the Victory Loan; the Government's demand for money during this period was met by Ways and Means advances which, to restrict their inflationary effect, were as much as possible loans through, rather than by, the Bank of England.³ After the floatation of the Victory Loan, a manipulation of interest rates succeeded in inducing British and foreign depositors with the Bank of England to convert their deposits into Treasury Bills, the sale of which was immediately resumed.

But the effect of these operations was limited by the fact that the market wanted to remain liquid or preferred equities. The Victory Loan was not a success. The amount of cash and Treasury bills remaining with the banks still allowed of considerable creation of credit before the conventional ratios of deposits to cash and to bills would be reached; and the cost of a large floating debt made the Government reluctant to apply high interest rates as a measure against credit expansion.

¹ Cf. "British Industrial Reconstruction and Commercial Policies", United States Department of Commerce, *Special Agents Series*, No. 193.

² Cf. U. K. Hicks, *op. cit.*, pages 332-3.

³ Cf. page 40, note 1.

4. *The post-war boom.*

The danger of a boom was serious since a variety of bottlenecks prevented any considerable expansion of production after the middle of 1919.

(i) *Labour.* It would seem that in the boom year 1919-20 skilled labour was, in general, the shortest factor of production. Though efficiency presumably increased as demobilized soldiers replaced the less fit workers who had held their place during the war, there was, it was believed, a widespread decline of productivity as "wage-earners, full of natural apprehension that the flood of demobilized soldiers would be used to swamp their efforts to maintain their war-time gains, showed a disposition to insist on more pay and shorter hours and to indulge in slack time-keeping after the hard work of the previous four years".¹ There was considerable absenteeism. Only under the stimulus of the depression did labour productivity finally improve.² There are no statistics by which to measure this change in the productivity of labour in general. The coal statistics given below seem, however, to bear out the above contention. Production per hour declined after 1918; and it was not affected, in the short run, by the reduction in working hours.

Index of Productivity in Coal Mining, 1918 = 100

	<i>Production per shift</i>	<i>Hours per shift</i>	<i>Production per hour</i>
1918	100	8	100
1919, first half	94	8	94
1919, second half	81	7	93
1920	82	7	94
1922	104	7	119

Source: Output figures (*The Economist*) divided by index of number of shifts worked, used in Diagram II. (Owing to the prolonged stoppage in 1921, no figure can be given for that year.)

During the first half of 1919, the average working week was shortened by about 10%, while weekly wages remained about

¹ *The Economist*, Commercial History of 1919.

² *The Economist*, Commercial History of 1920. (It may be observed that the *Economist* took in general an attitude sympathetic to labour in these years).

stable. There was much unrest and ill-feeling; strikes were numerous¹ and their dislocating effects extended beyond the industries directly affected.

Diagram I shows a more favourable employment situation for trade union members than for all workers covered by unemployment insurance. This fact is confirmed in the few instances where comparison is possible for individual industries:

	<i>Percentage Unemployed, end of Dec. 1919</i>		
	<i>Union Members</i>	<i>Non-Members</i>	<i>Total Insured</i>
Shipbuilding, Engineering and Iron-founding	7.2	11.1	9.8
Leather	.9	4.4	3.5
Miscellaneous Metals	1.2	3.2	2.8

Union members were drawn largely from the skilled workers. These figures suggest, then, that there was a shortage of skilled labour which prevented full employment of unskilled labour. This inference is confirmed by contemporary observation.

(ii) *Transportation.* Congestion at the port terminals of railways and scarcity of railway rolling-stock were aggravated by a diversion of goods from coastwise shipping to the railways owing to the lower rates offered by the railways. In August, 1919, the Government undertook to pay the difference between coastwise and railway freight rates for any goods coming from or going abroad which were shipped coastwise. Not until January 15th, 1920, were railway goods rates increased by 50% to 100% to put them on an economic basis.

(iii) *Coal.* Congestion on the railways, decreased labour productivity, and, as indicated above, strikes were an important cause of the shortage of coal, which again set a limit to the production of iron and steel and manufactures thereof. Exports of coal remained subject to restriction, and export prices ruled higher than prices on the home market, up to 1921. The figures for coal production, trade and apparent consumption are shown overleaf:

1 Number of working days lost by strikes, in millions:							
<i>Ave. 1900-1913</i>	<i>1919</i>	<i>1920</i>	<i>1921</i>	<i>Ave. 1922-1925</i>	<i>1926</i>	<i>Ave. 1927-1933</i>	
8	35	27	86	12	16½	4	

	Metric Tons (000,000's)						
	1909-1913	1918	1919	1920	1921	1922	1923
Production	274	231	234	233	166	254	280
Exports*	86	41	48	39	36	84	99
Imports	—	—	—	—	3	—	—
Apparent consumption†	188	190	186	194	133	170	181

* Including bunker coal, but excluding coke.

† Production — exports + imports.

It will be observed that the decline in production in 1919 and 1920 as compared with pre-war years (40 million tons) was about equal to the decline of exports in those years in comparison with the pre-war period, so that consumption (measured in this rough way) was very little affected.

(iv) *Raw materials.* With the freedom of imports restored at an early date and with Government stocks of certain raw materials available, shortage of raw materials did not constitute so serious a problem as had been anticipated. In some industries, nevertheless, lack of raw materials retarded the resumption of activity; this was the case, for instance, in the worsted section of the wool industry.¹

(v) *Plant and machinery.* This factor of production was, on the whole, not so scarce as skilled labour. In the month of greatest activity (September, 1920), only 83% of the number of utilizable blast furnaces were in operation. The textile industries, considerably restricted towards the end of the war, could expand very largely before capacity was reached.

Skilled labour and transport constituted in fact the most serious limiting factors in the 1919-20 boom. Scarcity of the first was, to some extent, met by the plan of demobilization, which gave preference to "pivotal" men. This, however, did not suffice to remove the shortage.

In the face of great inducements to invest and a high propensity to consume, both tending to an expansion of total demand, this shortage was bound to lead to inflation, if demand was not kept down.

There are, unfortunately, no even approximately complete figures of investment during this period. It is known that heavy investment was effected by firms, largely out of the amortization and other reserves they had accumulated during the war for the

¹ G. H. Wood, "An examination of some statistics relating to the wool textile industry", *Journ. Roy. Stat. Soc.*, 1927, II, page 284.

adaptation of their plant to civilian demand, to replace worn-out machinery and, in some cases, to expand productive capacity in order to meet an expected increase in demand which, when it materialized, proved to have a brief span of life. If only on account of the technical difficulties of converting plant and the practical impossibility of anticipating the nature and extent of immediate post-war consumers' demand this new investment got into full swing rather later than did the manufacture of consumers' goods. Such figures as are available relating to capital issues and the loan expenditure of local authorities confirm this fact. As these figures cover only part of total investment they are, however, of restricted value as evidence.

Table II—Selected Figures on Investment

		£ (000,000's)			
		<i>Quarter</i>	<i>1919</i>	<i>1920</i>	<i>1921</i>
Home capital issues ¹	I		35	127	36
	II		35	85	26
	III		43	67	10
	IV		76	53	28
	Total		189	332	100
Expenditure out of loans by local authorities (Eng- land & Wales) ²			24	94	128

A large part of the saving and investment that was effected during the first eighteen months or more after the war took the form of the accumulation of stocks of raw materials by firms and of more or less durable consumers' goods by the public. As will be shown below, this purchase for stock was stimulated by the rapid post-war rise in prices and passed through the stage of the replacement of the essential to that of the acquisition of speculative inventories.

The influence of public finance on the general credit situation and on price movements, at any rate in the first two post-armistice years, is not easy to determine. As may be seen from

¹ Excluding Government loans for national purposes and conversion issues. (Midland Bank's figures).

² Fiscal years starting April 1.

Table III below there was a Government deficit of £580 million

Table III—Government Finance

	GOVERNMENT			CHANGES IN PUBLIC DEBT (+increase, - decrease)						
	Revenue ¹	Expenditure	Surplus (+) or Deficit (-) ²	Total	Foreign	Domestic				
						Total	Treasury Bills	Ways & Means Advances	Other	
1919 I	380	529	-149	+ 66	-52	+118	-138	0	+256	
II	186	401	-215	+269	+ 64	+205	-160	+321	+ 44	
III	273	339	- 66	+ 74	- 12	+ 86	+ 55	-380	+411	
IV	236	386	-150	+254	+ 12	+242	+255	-153	+140	
Year	1075	1655	-580	+663	+ 12	+651	+ 12	-212	+851	
1920 I	643	540	+103	-204	-125	- 79	0	- 38	- 41	
II	315	285	+ 30	- 30	+ 44	- 74	-105	+ 39	- 8	
III	304	257	+ 47	- 45	- 12	- 33	+ 87	-101	- 19	
IV	270	301	- 31	+ 31	-100	+131	+ 13	+163	- 45	
Year	1532	1383	+149	-248	-193	- 55	- 5	+ 63	-113	
1921 I	537	353	+184	-211	- 32	-161	+ 19	-152	- 25	
II	204	271	- 67	+ 88	- 10	+ 80	+100	- 2	- 21	
III	252	227	+ 25	- 27 ^a	- 9	- 18 ^a	- 62	+ 9	+ 35 ^a	
IV	221	262	- 21	+ 11	- 16	+ 27	- 99	+ 39	+ 87	
Year	1214	1093	+121	-139	- 67	- 72	- 42	-106	+ 76	

¹ Includes revenues from the sale of government assets.

² Includes changes in Exchequer balances.

^a Excluding an increase of £102 million due to conversion.

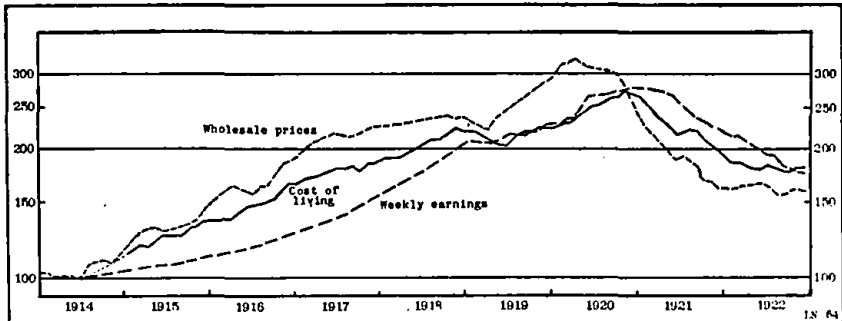
NOTE: Owing to adjustments to the debt figures which are not applied to revenue and expenditure, there is in some quarters a lack of correspondence between the total debt and surplus or deficit figures. The differences are usually compensated by differences in the other direction in the next quarter. (e.g. 1919 IV and 1920 I, 1921 I and II.)

in 1919 which might have constituted a factor stimulating demand. But there is no direct evidence that this was the case as Treasury bills in the hands of the banks and Ways and Means advances were reduced, while there was a large increase in long-term borrowing. Similarly the Government surplus in 1920, which might have contracted demand, was accompanied by a reduction in long-term debts and an increase in Treasury bills held by the banks and in Ways and Means advances. In 1921, however, a small budgetary surplus was accompanied by a considerable increase in funded debt and a contraction in short-term debts; in this year, therefore, the operation of public finance probably exercised a deflationary influence at a moment when stimulation was required.

By the middle of 1919, private demand had carried production to practically full employment of the scarcest factors of production. From then onwards a new inflation set in. However, the decontrol and the shift from Government demand to private de-

mand had, in the meantime, changed the character of the inflation. During the war the rate of inflation was to a large extent under Government control. The Government could within certain limits choose what proportion of its expenditure would be met from taxation, and a system of priorities and restriction of capital issues kept private investment within bounds. The post-war inflation, however, was uncontrolled as long as the banks were willing to continue to expand credit. After decontrol, private demand was itself stimulated by rising prices, and the inflationary boom thus tended to reinforce itself. Diagram III shows the movements of wholesale prices, the cost of living, and weekly wages for the nine years 1914-1922. Real wages per week

Diagram III—Prices and Wages
July 1914 = 100



would seem to have been at about the 1914 level all through the boom. With a 10% reduction of the working week, this means that real labour costs per unit of output were probably 10% higher than before the war, and mounting. The insistence of labour on a reduction in the working week without a change in real weekly income was at first a powerful factor in raising costs and prices.¹ As is common in countries with strongly organized labour, real wages of those employed rose at the beginning of the depression as the cost of living fell more rapidly than wages. This discrepancy between money wages and the cost of living did not disappear until the autumn of 1922. Wholesale prices rose much more steeply during the boom than they

¹ It may be doubted whether the reduction in hours led, at least in the short run, to an increase in output per hour (see, for instance, the coal mining figures given on page 48). Moreover, in the industries where such an increase was most likely to take place, workers were generally paid on a piece-rate system. When working hours were shortened in 1919, piece-rates were mostly increased simultaneously by the same percentage, so that the benefit of increased productivity, if any, went to the worker in higher earnings and not to reduce costs. (Cf. A. L. Bowley, "Prices and Wages in the United Kingdom, 1914-20," App. III and *passim*.)

had done in the war, especially in the latter stages of the war. The turning-point was reached in April, 1920.¹

Once the rise in prices had started, the very fact of rising prices called forth fresh demand in the following four ways:²

1. Purchases as much as possible in advance of requirements constituted both a precaution against shortage at a later moment, and a source of considerable profit. Indeed, with prices

*Table IV—All Stocks of Food in the United Kingdom, Expressed in Weeks of Pre-war (1909-13) Consumption.**

Foodstuffs	Stocks				
	September 1st			December 31st	
	1914	1918	1919	1919	1920
I. Goods, the imports of which were still controlled on September 1st, 1919.					
Wheat (including flour as wheat)	22	28	21		
Barley	36	30	27		
Oats	37	55	44		
Sugar	4	14	8		
II. Goods, the imports of which were reconrolled before September 1st, 1919. ¹					
* Bacon and Ham	3	21	14		
* Lard	5	16	12		
* Cheese	6	12	5		
III. Goods, the imports of which were free by September 1st, 1919.					
* Meat other than Bacon	5	6	9	13 ²	4 ²
* Butter	4	4	5		
* Margarine	3	2	4		
* Condensed milk		29	41		
Tea	14	18	26	41	43
Coffee	84	160	192 ³	143	
Cocoa	22	22	120	55	79

* For commodities the consumption of which is drawn partly from home-produced supplies, partly from imports, and for which it seems plausible to assume that stocks are held largely to even out the irregularities of imports, the stock figures are expressed in weeks of pre-war consumption from imports.

¹ On the reimposition of control in the middle of 1919, *cf.* page 46.

² Figures not strictly comparable.

³ June 1st.

SOURCE: *W. H. Beveridge, "British Food Control"*. Figures in the last two columns based on figures taken from *The Economist*.

¹ This is the month when the total index reached its maximum. The first sub-group "materials" (and each of its three composing series "minerals", "textiles", and "sundry materials") had its peak in February, whereas the other sub-group "foodstuffs" reached its maximum in July. The diversity of the movements of the sub-indices explains the fact that, owing to differences in the weighting systems, the indices of the *Economist*, the *Statist*, and the Board of Trade showed maxima in March, April and May respectively. (*Cf.* also section 8).

² This internal process of the boom was much the same as that analysed in Part I.

rising at that rate, an interest rate of 45% per annum, less the percentage cost of handling and storage, would have been required to take all profitability out of the mere holding of the average commodity on borrowed money—while the relevant short money rates at no time exceeded 7%.

Some evidence concerning the accumulation of stocks can be obtained from the figures for food stocks given in Table IV.

It will be observed that stocks of all foodstuffs which were not subject to import restrictions rose appreciably during 1919, and that extremely large stocks of tea and cocoa were carried all through 1920.¹ On the other hand, stocks of cereals and sugar were allowed to decline;² for bacon, ham, lard and cheese, control was reimposed when stocks ran down.³

The import⁴ and stock statistics do not, however, give a full account of the buying activity of British importers. Often, commodities bought could not be transported and were temporarily stored in the countries of origin (e.g., timber in Sweden); and for some commodities, the accumulation of physical stocks was replaced by heavy forward buying.

The fall in the foreign exchange value of the pound, which depreciated by 20% during the year ending March, 1920, was in part due to these large imports at high prices and reinforced the rise of internal prices.⁵

2. Demand for consumption goods was fed by the windfall gains made on the appreciating commodity values and by the soldiers' bonus.⁶

3. Exaggerated profit prospects led to a hectic speculative activity in the capital market. Though dividends declared re-

¹ The following figures are also indicative of excessive imports in 1919 and/or 1920.

	<i>Imports in long tons (000's)</i>		
	<i>Ave. 1909-1913</i>	<i>1919</i>	<i>1920</i>
Tea	155	220	192
Cocoa	33	110	103
Tobacco	59	155	98

² On sugar control, *cf.* also below, section 8.

³ The insufficiency of bacon imports is explained by the fact that, though imports were temporarily free from March 1919, the spread between the maximum price at home and the rising world market price was insufficient to make imports profitable.

⁴ *Cf.* also Table VI.

⁵ *Cf.* section 5.

⁶ In the financial year ending March 31st 1920, subscription to savings certificates still exceeded repayments by a considerable amount (about £50 mln.). The Joint Stock Banks holdings of Government securities increased by £87½ mln. during 1919; but, since the banks subscribed in their own names for £111 mln. of Funding Loan and Victory Bonds during the same year, there appears to have been no selling by the public to the banks of the Government securities outstanding at the end of 1918.

mained on an average fairly constant up to late in 1920, and gilt-edged prices declined by 16% during 1919, share prices¹ increased by one-third in the same period (and fell even more in the following year). Expectation of further appreciation was reported to be the main incentive for buying shares.

4. The market also absorbed a flood of new capital issues. In many instances such issues did not serve for capital development, but only for higher capitalization of existing equipment or the buying up and refloating of enterprises.² The most striking example is the boom in Lancashire cotton mills, which has been studied by H. Champion.³ He shows that of £38 million paid for 129 refloated spinning companies, £21 million was actually paid in by the subscribers to new shares.⁴ The remaining £17 million plus formation expenses (including compensation to former directors) was raised by loans, bank overdrafts and debentures.⁵ The high replacement cost of mills was quoted in justification of the enlarged capitalization.⁶ There was a similar wave of speculation in shipping.

Speculation in the capital market accentuated the rise in prices owing to the fact that on the enhanced value of the capital, buyers obtained credits which, when passed to the sellers, were likely to be regarded by them to some extent as consumable income.

Speculative demand, incited by a variety of inducements and nourished from a variety of sources, thus tended, owing to the limitations of production, to make demand at existing prices exceed supply. A natural cure for such a situation is a rise in price which compresses the real purchasing power of all persons with fixed, or slowly adjusted, incomes. During the war, and especially in the earlier years, the workers had belonged to this group. After the war, they maintained the real value of their weekly incomes. Accordingly, it required a steeper rise in price to bring total demand into line with productive capacity; for

¹ As measured by the London and Cambridge Economic Service index of 20 industrials.

² These issues are not included in Table II.

³ In an unpublished thesis, see Daniels and Jewkes, *Journ. Roy. Stat. Soc.*, 1928, page 167.

⁴ Prof. H. Champion takes a sample of 129 out of a total of refloated companies of over 200.

⁵ These phenomena may well be compared with the excessive mortgaging of agricultural land at the same time, in the United States, New Zealand, Egypt and many other countries.

⁶ Statement of Federation of Master Cotton Spinners' Associations to operatives, see *The Economist*, November 22nd, 1919, page 939.

the only means of restricting consumption now remaining were through the gradual depreciation of the fixed money incomes of the *rentier* class, and generally through the depreciation of all incomes during the time elapsing between earning and spending.

Such a speculative boom cannot go on indefinitely.¹ (i) Stocks of a speculative character will, after a certain time, tend to have a depressing effect on the market. (ii) The shrinkage of demand from the middle classes, owing to the rise in the cost of living, will in the end have adverse effects on employment. (iii) Higher prices and larger stocks require increasing advances from the banks, which will tend to impair their liquidity. Such limits to a boom of this kind arise even if the boom develops in virtually all countries at the same time. In view of this fact, it is a question of secondary importance whether the first impulse to a downward turn came from Japan (as some have argued) or from the United States, the United Kingdom or some other country or market. If, therefore, in the next section much importance is attached to the developments in overseas markets, this does not imply the view that in the absence of a breakdown on those markets the United Kingdom could have avoided a fall in prices of raw materials and a liquidation of speculative positions. Actually, home demand contracted first. The internal factors which led thereto will be considered in Section 6.

5. *Foreign trade.*

The degree of economic activity in the United Kingdom is proverbially dependent on the state of its export trade. Indeed it has been estimated that prior to 1914, one quarter of the national income was directly dependent on production for export.² This dependence is brought out clearly by the pronounced correlation between the quantum of exports and the level of production, shown quarter by quarter in Diagram IV.³ The exports of the United Kingdom consist mainly of coal and manufactured products. The low level of coal exports after the war has already been mentioned. For manufactured products, there was a brisk demand particularly in the raw material producing countries outside Europe, for the following reasons:

(i) These countries had sold their produce at very high prices during the war, and were getting even better prices in 1919;

¹ Cf. Part I.

² Cf. A. L. Bowley, "Some Economic Consequences of the Great War", page 207.

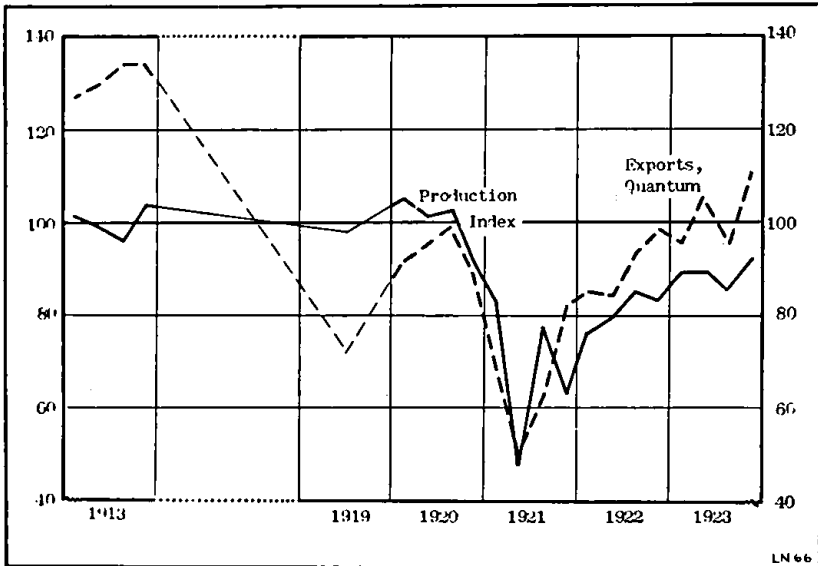
³ The high level of production in comparison with exports which this diagram reveals for the year 1919 would seem to constitute a proof of the strong stimulus to employment given by domestic investment in that year.

(ii) profiting from the international re-stocking boom of 1919, they exported on a large scale;

Diagram IV—Production and Exports

Production Index: 1913 = 100

Quantum of Exports (calculated as values in £'s (000,000) at 1913 prices)



(iii) during the war they had not been able to obtain sufficient supplies;

(iv) the high costs in belligerent countries and the high freight rates had made possible the establishment of local industries in many countries; this created a large demand for machinery;

(v) the rise in the price of silver stimulated imports into the countries on a silver standard (India, China, Mexico);

(vi) on the basis of this increased prosperity, a superstructure of speculation was built up in these countries similar to that in the United States and the United Kingdom: land was mortgaged, stocks were accumulated, etc.

Of the resulting demand, the United Kingdom was in a position to secure a large share. During the war her customers had had to turn to Japanese or American products; when British producers were again able to give their attention to exports, they were easily able to win back a good part of their pre-war markets

owing to better quality, long established preferences of consumers and, in comparison with the United States, lower prices.¹ To this should be added the accumulation of old orders, placed in the United Kingdom during the war, but not yet executed.²

Moreover, the United Kingdom had the advantage of being ready for export earlier than her European competitors. Though the United Kingdom lost some opportunities to the United States (e. g., in the Baltic and in Central Europe) because she was not able to start regular exports immediately after the Armistice, she profited considerably from coming into a brisk market while some of her competitors were still rebuilding their plants.

Finally, as compared with the United States, the United Kingdom exports were favoured by a 25% depreciation of the pound in terms of the dollar.

The pressing demand for exports and the prospects aroused thereby, reinforced the internal boom of prices and values in the United Kingdom. With so large a part of industry working at full capacity and in the presence of intense home demand, however, the exporters disappointed their overseas customers. As prices went up, they were very often unwilling to quote fixed prices, pressing "advance clauses" on the buyers. Deliveries were irregular and slow. Often, therefore, customers turned to the United States or Japan. As will be seen from Table VI, exports of manufactured goods even in 1920 averaged almost 25% lower than in 1913.

The world-wide depression of 1921, due in large part to the preceding speculative boom in raw materials, struck in particular the primary producing countries which constituted the main United Kingdom export markets. A sharp decline of orders from these countries was thus to be expected. It was of some advantage to the United Kingdom, however, that the depression set in on the home market a few months earlier than in most of her customer countries (except Japan). She was thus able to execute *en bloc* many overdue orders (some dating from years before), and ship them hastily to the foreign markets, where, for a time, prices remained good. These large unexpected deliveries, however, soon made the foreign exchange position of these countries

¹ Heavy cancellations of orders for Japanese goods by South America and Australian importers were reported immediately after the Armistice. (*Board of Trade Journal*, 1920, Vol. II, page 272).

² Japan had ordered 1½ million spindles (more than half of her 1913 capacity) in 1915 to 1917; not more than one-fifth of this had been delivered by the end of 1919.

even worse than it was for other reasons, such as the fall of raw material prices. Their high imports coinciding with low export values depressed their currencies (cf. Table V) and importers were very often unable or unwilling to pay the contractual prices, especially after the fall in the value of their currencies. Exporters had to take losses, for instance, in South American countries and in India, and for some time export business was stagnant. It recovered only when the old stocks were cleared and raw material prices improved, in the last quarter of 1921.

Table V—Exchange Rate to the £ in % of Par.

Country	Highest month in 1920 (February)	Lowest month in 1920 (December)
India	136	106
China	334	155
Argentina	115	67
Brazil	148	112 (Nov.)
Chile	85	54

Even at the height of the post-war boom, the volume of exports remained far below the 1913 level. As will be seen from Table VI, none of the three groups of exports shown reached the pre-war level before 1923:

Table VI—Imports and Exports, Quantum Indices

	Value	Quantum index (value at 1913 prices)					
	1913	1913	1919	1920	1921	1922	1923
<u>Imports Retained</u>							
	z (000,000's)						
I. Foodstuffs	278	100	96	86	91	99	115
II. Raw materials	206	100	102	94	62	79	79
III. Manufactured articles	172	100	66	84	60	75	90
Total*	659	100	90	88	73	87	97
<u>Exports: U.K. Produce</u>							
I. Foodstuffs	34	100	44	55	49	53	70
II. Raw materials*	66	100	54	48	45	95	107
III. Manufactured articles	414	100	56	76	51	67	73
Total*	525	100	55	71	50	69	77

* Including a small miscellaneous group.
 x Mainly coal.

In 1919, when exports were slightly over half the pre-war figure, imports were only 10% lower. The import of raw materials and foodstuffs was, in fact, at approximately the 1913 level owing in part to the speculative tendencies mentioned above,¹ though it must not be overlooked that in a number of cases depleted stocks had to be replenished. The import of manufactured articles remained well below the pre-war level, a fact which may to some extent be attributed to the protectionist use made of the import licence system.

The larger decline in exports is also reflected in the value figures, which show an import surplus five times as large as in 1913 (cf. Table VII).

Table VII—Balances of Payments
£(000,000's)

Commodities:	1913	1919	1920	1921	1922
1. Imports	659	1,461	1,710	979	899
2. Exports	<u>525</u>	<u>799</u>	<u>1,334</u>	<u>703</u>	<u>720</u>
3. Import surplus	134	622	376	276	179
<u>Gold and Silver:</u>					
4. Import surplus	<u>12</u>	<u>2</u>	<u>-43</u>	<u>-11</u>	<u>-13</u>
5. = 3+4	146	(662)	333	265	166
<u>Net Income from:</u>					
6. Investments	210	80	200		175
7. Shipping	94	400	340		110
8. Government transactions	-12		-7		-5
9. Other services	<u>35</u>	<u>40</u>	<u>55</u>	<u>2</u>	<u>40</u>
10. Total, services, etc. (6+7+8+9)	327	(520)	588		320
11. Estimated Capital Export (10-5)	181	(-142)	255		154

" . " Information for this item not available.

SOURCE: *Board of Trade Journal*; item 8: Royal Institute of International Affairs, "The Problem of International Investment", page 139.

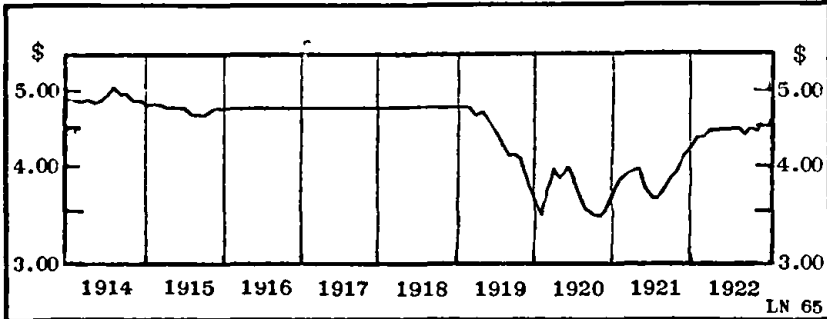
As invisible exports increased in a much smaller proportion, there would appear to have been a very considerable import of capital during 1919 (£142 million² as against a normal pre-war capital export of near to £200 million). The situation was stated to have improved in the course of 1919, so that by the end of that year invisible exports approximately covered the import surplus. The balance of payments situation is reflected in the movements of sterling. (Cf. Diagram V). From \$4.76½ after

¹ Import of materials was freed from control in March 13th, 1919—the same week in which sterling was "unpegged."

² This figure includes gold exports; moreover, the balance of payments figures for 1919 would seem to have been a rougher estimate than those for other years.

the “unpegging” in the middle of March, 1919, it fell to about \$3.40 in February, 1920. When the depression set in, the pound recovered, reaching \$3.95 in June 1920.¹

Diagram V—£ Sterling in terms of Dollars



6. *The downturn: internal factors.*

A run-away market in certain, especially primary, commodities is, as stated before, bound to lead to a reverse movement—though it is impossible to foretell exactly when it will come. Once the peak has been turned, all branches of activity will become depressed, not because demand, at stable prices, would not be forthcoming, but because falling prices exert a deterrent effect on enterprise. This tendency will be the stronger, if, at the same time, there is a feeling that costs can be reduced and efficiency increased over the whole line, and if Government and banks regard with favour any signs of deflation or take steps to promote it.

As is suggested by the employment diagrams, production declined earlier in the food than the textile industry and earlier in the textile than in the heavy industries. This order is what might have been expected in view of the nature of domestic demand. But the textile industry was of course largely influenced by overseas demand and no doubt also by the extensive speculation which took place. Moreover the seasonal demand kept the woollen industry and hosiery active longer than for instance cotton, linen or other textiles.

In shipbuilding the saturation or anticipated saturation in demand appears to have made itself felt very quickly. Table VIII

¹ The stabilization of the £ at its pre-war parity in 1925 does not fall within the scope of this note.

Table VIII—Shipbuilding

Year and Quarter		Tonnage ²		
		Commenced	Under Construction ¹	Launched
1913	Year	1867	Gross Tons (000's) 1956	1916
	I	425	2255	205
	II	660	2524	528
1919	III	714	2817	416
	IV	604	2994	459
	Year	2403		1602
	I	708	3394	454
	II	589	3578	523
1920	III	594	3731	483
	IV	506	3709	580
	Year	2397		2040
	I	393	3302 ²	434
	II	69	2795 ²	322
1921	III	51	2552 ²	308
	IV	55	1918 ²	467
	Year	568		1513

¹ At end of quarter or year.

² "Under effective construction", i.e., excluding tonnage on which work had been suspended. The figures for such tonnage were in the four quarters of 1921: 497, 735, 731 and 722. (cf. *London & Cambridge Economic Service, Special Memorandum No. 3*).

gives the figures for tonnage commenced, under construction and launched for each quarter, 1919 to 1921. The highest figures for new tonnage commenced were recorded in the third quarter of 1919 and the first quarter of 1920. Owing to the long period of construction of ships, tonnage under construction reached its peak value a year later than the earlier of these two dates, and the maximum of launchings did not come before the last quarter of 1920. In 1921 a considerable proportion of the work already in hand was suspended.

Credit stringency was an important factor curtailing the boom. As a result of the insistent demand for bank advances to finance the maintenance and expansion of stocks at rising prices, bank deposits rose from about £2,000 million at the end of 1918 to £2,500 million at the end of 1920. The London Clearing Banks, consequently, became unusually illiquid in the spring of 1920, as is seen from the following figures:

*Table IX—London Clearing Banks. Cash Ratio, 1919-1921**
Macmillan Report. (June and December omitted) ^c

	Jan.	Feb.	Mar.	Apr.	May	July	Aug.	Sept.	Oct.	Nov.
1919	13.9	11.5	14.0	13.8	13.7	15.3	12.8	12.6	12.2	11.8
1920	11.8	10.7	9.8	10.6	9.65	10.6	10.2	10.7	11.0	10.3
1921	11.4	11.1	10.8	12.0	11.8	11.4	11.9	11.2	11.9	12.1

* Ratios used to run higher in the 'twenties than in the 'thirties.

An additional strain on the money market was caused by the increased demand for credits owing to reduced working hours and the congestion on the railways, which slowed down turnover. By the end of February, 1920, banks were reported to be exercising discrimination and to be rationing credits.¹ The bank rate was, however, not raised until the boom was well under way: in November, 1919, from 5% to 6%, and in April, 1920, from 6% to 7%. It remained at the 7% level far into the depression—until March, 1921. The other short rates moved similarly, though the discount rate rose somewhat earlier and turned downwards in the autumn of 1920.

There are no indications that, in the process of deflation that set in in the spring of 1920, the policy of the Bank of England constituted a material factor—though the Bank was in favour of a policy of “gradual deflation.”² In fact, the banks did not pursue a stringent policy of credit restriction.³

7. *The revival.*

A definite revival is noticeable from about the middle of 1922. By that time, wholesale prices had been stable for half a year, and the cost of living had reached its lowest point. A notable increase can be observed from the middle of 1922 in the activities of the iron and steel industries and the collieries. The textile and food industries, after a sharp depression in the middle of 1921 (partly, under the influence of strikes) and a subsequent temporary revival in the second half of 1921, again showed a tendency to improve during the first half of 1922 (Diagram II). The

¹ *The Economist*, February 28th, 1920.

² See the Report of the Cunliffe Committee on Currency and Finance.

³ Cf. H. W. Macrosty, “Inflation and Deflation in the United States and the United Kingdom,” *Journ. Roy. Stat. Soc.*, 1927.

unemployment percentage among trade-union members fell by three points from April to December 1922 (17.0 to 14.0) and by about four points among all insured workers during the year 1922 (16.0 to 12.2).

It will be seen from Diagram IV that the revival in exports preceded and, presumably, had a causal influence on, the improvement in industrial activity.¹ If we disregard the steep fall in both exports and production in the second quarter of 1921, which to a great extent is to be attributed to the coal strike, we find that exports reached their lowest point in the third quarter of 1921. A sharp recovery occurred in the following quarter. In that same quarter, industrial activity touched bottom and its improvement in 1922 and 1923 lagged behind that of exports.

For the United States, the recovery starting in 1921 was the beginning of a long period of expanding trade, punctuated by only minor fluctuations, which culminated in an unprecedented boom in 1929. There was no comparable phenomenon in the United Kingdom. The level of production in the years 1923-25 was only a little higher than in 1922, the year when recovery began. Comparison of the production indices for the United States and the United Kingdom on the basis 1920=100 shows how far the latter lagged behind:

	<i>Industrial Production Indices</i> (1920 = 100)					
	1920	1921	1922	1923	1924	1925
(1) United States	100	77	97	117	109	121
(2) Idem, first 3 quarters of 1920 = 100*	96	74	94	113	105	117
(3) United Kingdom	100	72	85	87	95	96
(4) Percentage excess of index (2) over index (3)	-4	3	11	30	10	22

* Since the downturn in industrial activity in the last quarter of 1920 was far more rapid in the United States than in the United Kingdom, a better comparison may perhaps be obtained by taking the first nine months of 1920 as the base period for the former country.

The incompleteness of the recovery in the United Kingdom is also obvious from the fact that unemployment remained high,

¹ In this connection it should be taken into account that the quarterly production index is constructed in such a way as to "indicate the volume of production in the immediate future rather than in the quarter to which the figures used apply". (London & Cambridge Economic Service, *Special Memorandum* No. 8, page 11.)

averaging about 11% for all insured workers from 1923 to 1925. This average may be taken to represent some 1,300,000 persons in search of work.

Neither industrial output nor industrial employment gives an adequate picture of the expansion in the United States as compared with the United Kingdom. The former country enjoyed a great building boom in these years, as well as an enormous expansion of the service industries. In the United Kingdom, on the other hand, there was no building boom in spite of the building shortage of the war years—such a boom, indeed did not come till the 'thirties; and the generally depressed state of industry did not bring forward a demand for services on anything like the American scale.

Since the lack of building activity may be considered as one of the causes of the unsatisfactory development of industrial production, it may be well to consider the factors influencing building in the years immediately after the war. As will be seen from the following figures, residential construction was almost at a standstill in 1917 and 1918 (at an average of perhaps 3% of 1911-14, if account is taken of the rise in prices).

Value of Building Plans Approved
£ (000,000's)

	<i>Houses</i>	<i>Factories</i>	<i>Other</i>	<i>Total</i>
1911-14, ave.	5.8	2.9	6.2	14.9
1915	2.9	3.7	3.9	10.1
1916	.9	3.6	2.8	7.2
1917	.4	3.9	2.6	6.9
1918	.2	3.3	3.0	6.5
1919	7.7	10.9	11.9	30.5
1920*	25.9	13.1	23.7	52.7

* Fourth quarter estimated as equal to third.

As a result, there was a severe housing shortage at the end of the war, which was conservatively estimated at half a million dwellings. Nevertheless, private building without State assistance remained on a low level during the first post-war decade, at an annual average of 45,000 dwellings or about half the pre-war number. This absence of a boom in private building in the face of a large shortage seems to be attributable to the low profit-

ability of building.¹ Rents were kept down by control,² whereas building costs and interest rates were uncontrolled and high. Houses built in 1919 and 1920, for instance, and rented at the rentals then prevailing, would show a loss on the capital invested of 2.6% and .3% *p. a.* respectively.³

In this situation, the Government felt itself compelled to step in with a subsidy system. Though preparations had been started during the war, it was more than eight months after the war before the Housing Act, 1919, was passed. The Act requested local authorities to submit building schemes within three months. Eight months later (March 1920), only half of the authorities had submitted satisfactory schemes. At the end of 1919 another act was passed extending the subsidy system to private builders. Obviously, no building under these Acts could be started until well into 1920.

The subsidy to local authorities consisted in the Treasury undertaking to pay, for a period of sixty years, the annual deficit in their housing revenue account. Private builders were paid an outright subsidy. When the scheme was initiated, building costs were on the upsurge. Local housing deficits and consequently the burden to the Treasury grew rapidly, and the subsidies to private builders became insufficient to stimulate building. The situation was met, first by an increase in the subsidy to private builders (to about 25% of the building costs), then by a very substantial curtailment of the building scheme in the spring of 1921. The original plan for 500,000 houses in three years was cut down to 216,000—the number which by that time had been finished or were in course of construction, or for which tenders had been approved. This retrenchment formed part of the Government's general economy drive. As such, it came at an unfortunate moment, inasmuch as unemployment was increasing rapidly. On the other hand, and perhaps partly owing to the reduction in the subsidy, the cost of building fell by half in little more than a year from that date.

It was fortunate from a cyclical point of view that, owing to the extremely slow progress of the scheme during the first two years, a considerable part of the expenditure under the plan was made after the trade boom had turned. According to the table

¹ Cf. in connection with this and the following paragraphs: League of Nations, "Urban and Rural Housing" and International Labour Office, "European Housing Problems since the War, 1914-1923".

² In 1930, only 10% of the dwellings had as yet been decontrolled.

³ J. Tinbergen, "Statistical Testing of Business Cycle Theories," Vol. I, page 158. (League of Nations, Geneva 1939).

below there was a lag between plans submitted and tenders approved varying between 3 and 6 months. On February 1st, 1921, fewer houses had been finished than the number of plans submitted 19 months previously. When the scheme was curtailed only some 40,000 houses had been finished and about 80,000 were then under construction.

Number of Houses (000's)

	<u>Plans Submitted</u>	<u>Plans Approved</u>	<u>Tenders Approved</u>	<u>Finished</u>
1919 March 31st*	7	2	-	.
June 30th*	19	9	1	.
September 30th	38	24	.	.
December 31st	85	68	19	.
			"	
1920 March 31st	173	161	88	.
June 30th	225	211	119	.
September 30th	261	245	147	.
1921 February 1st	.	.	.	11
July 14th	.	.	216	about 40

* Previous to passing of Act.

The slow execution, after a late inception, of the scheme was partly due to administrative difficulties. But even after tenders had been approved, it was difficult to start actual building owing to a great shortage of building labour.¹ Only in 1924 did the building unions relax their admission requirements in return for an undertaking on the part of the Government to continue building subsidies for fifteen years.

It must not be assumed from this digression that building constituted the only or indeed the main cause of the difference in development between the United States and Britain. Another factor was the decline of Great Britain's share in world trade. This decline, however, had been taking place for many decades before the war so that the serious consequences by which it was accompanied after the war should not entirely be attributed to changes which the war brought about, though the war greatly intensified² overseas competition in certain industries. This is not the place to enter into the causes of the relatively slow adaption of British industry to the changed post-war conditions—an adaption which was rendered at once more difficult and

¹ On March 31st, 1921, contracts had been signed for 161,000 houses of which only 98,000 had been commenced.

more indispensable by the long drawn out deflationary effects of the return to the gold standard at the old parity.

8. *Policy.*

The situation which was allowed to develop in 1919—freedom of industry and foreign trade from governmental control, reduced taxation and free spending by the Government, exceptional liquidity of the banking system (itself the after-effect of war finance)—left the way open for a rapid stock accumulation boom. The import of raw materials was, of course, desirable where it served to adjust domestic to world prices, or promoted the re-employment of labour and capital which were idle for lack of raw materials. In fact, however, part of the heavy imports was destined for stocks, either required to restore a normal working level or acquired because price rises were anticipated. The additional imports to build up speculative stocks contributed to the world rise in prices and depressed the pound sterling.

Prices showed a tendency to flag in the first months after the Armistice; from the middle of 1919 they rose rapidly as a result of both the scramble for commodities on the world markets and the fall of sterling. The Government tried in various ways to curb those price movements. Its major weapon to affect the course of prices consisted in the stocks which it owned or controlled at the end of the war. A considerable part of these stocks consisted, however, of semi- or fully-manufactured goods of a specialized nature. The stocks of raw materials and leather at the disposal of the Government are shown in Table X.¹

In the early months after the war, these stocks were deliberately held back from the market in order to prevent a severe slump of prices. In fact, the stocks of lead and leather were increased, the latter to take advantage of a temporarily favourable price situation in the United States. In March 1919, the Minister of Reconstruction declared² that the official policy was to use sales of surplus materials for the purpose of bringing down market prices to what was supposed to be the normal post-war price level, as calculated on the basis of the new level of wages, fuel prices, transportation costs, etc. Sales were not in any case to be made at a price higher than the lowest estimate of replacement cost, and where it seemed necessary for the maintenance of

¹The stocks of foodstuffs have already been mentioned. Except in the case of meat, it appears that these stocks were not used for purposes of price control. The commodities of which large stocks were available were quickly decontrolled; the prices of others, like cereals and sugar, could be controlled directly.

²House of Commons, March 10th, 1919.

Table X—U. K. Government Stocks Compared with Normal Consumption

Commodities	Date (Stocks)	Approximate			Value of Government sales 1919/20 £ m.	
		Stocks Metric tons (000's)	Normal annual consumption metric tons (000's)	Stocks in months of consumption		
I. Textile materials, etc.						
Colonial Wool	March 31, 1919	50	365 ²	15	144.2	
Domestic Wool	"	22	61 ³	4	7.6	
Flax ¹	"	20	75 ²	3	4.2	
Jute ¹	"	40	334 ²	1½	2.8	
Hemp ¹	"	9	130 ²	1	1.2	
Cotton ¹	"	1	950 ²	-	1.3	
Kips & hides	"	50	67 ²	9	9.2	
Leather	"	15	63 ²	3	<u>7.8</u>	
Total, I ⁹					179.4	
II. Metals						
Copper	Jan. 1, 1919	250 ⁴	} 93 ⁷	32	} 31.4	
	Jan. 1, 1921	160 ⁵				
Lead	Jan. 1, 1919	64 ⁶	} 181 ⁷	4		
	June, 1919	120				8
	Jan. 1, 1920	60					4
Zinc	Jan. 1, 1919	31	} 134 ⁷	3		
	Jan. 1, 1920	20			2	
"Ferrous metals"	Jan. 1, 1919 ⁸	1,500	8,200 ⁸	2	<u>7.5</u>	
Total, II					<u>38.9</u>	
Grand Total					<u>218.3</u>	

* Approximately.

¹ Stocks exhausted by March 1920.

² Average imports 1909-1913.

³ Average production 1909-1913.

⁴ Of which scrap: 170.

⁵ Of which scrap: 140.

⁶ Includes private stocks, amount unknown but probably small.

⁷ Average of consumption in 1919, 1920 and 1923 (excluding two depression years 1921 and 1922).

⁸ Average of steel production in 1919, 1920 and 1923.

⁹ Including small miscellaneous group.

SOURCES: I. *Raw Material Trading Accounts*, Cmd. 788. This source gives only the value of stocks (at cost); quantities have been calculated by dividing by the average 1918 import price (for home wool, the price paid to farmers).

II. London and Cambridge Economic Service, *Special Memorandum* no. 1. *The Economist*, Commercial History of 1919 and 1920. Yearbook of the American Bureau of Metal Statistics. *Disposal of Surplus Government Property*, Cmd. 850.

employment, issues to manufacturers were to be made at still lower prices. In the middle of 1919 it appeared that this policy benefited manufacturers and traders much more than the consumer, and selling prices were fixed from then on at the full market value.¹ The rise in raw material prices during the next year enabled the Government to liquidate a large part of its stocks at prices which showed a profit over costs.

Raw wool, hides, copper and lead were the only raw material stocks in government hands of really major importance, though the holdings of leather, flax and zinc amounted to about 3 months pre-war consumption. During the 12 months ending March 1920, all sales of Government surplus property totalled £352,000,000, of which raw materials accounted for £218,000,000 (62 per cent). The largest items were wool (£152 m.), non-ferrous metals (£31m.) and hides (£9 m.). The only raw material stocks remaining after March 1920 were wool, Indian kips, leather and copper.

Copper prices continued to run low after the war owing to the enormous stocks (about one year's world supply) held by various governments at the beginning of 1919. Lead prices were equally depressed in the first half year after the war, but then "active speculation set in on a satisfactory decrease in Government stocks."²

Neither the volume of stocks nor the price policy pursued in disposing of them after the middle of 1919 were such as to have exercised any considerable stabilizing influence on prices.

It would seem, however, that the Government actually effected a considerable stabilization of the price of meat by the use of its stocks, (cf. Table IV) prices being kept approximately stable from the Armistice to the end of 1920. The 73% rise in sugar prices must be attributed to causes outside British control. The British Royal Commission on Sugar Supplies and the American Equalization Board had jointly controlled the world sugar supplies during 1918 and 1919. In the middle of 1919 these agencies failed to purchase the entire Cuban crop at a favourable price owing to insufficient authority being given to the American Board, and prices rose rapidly under the impetus of speculative demand. The Sugar Commission nevertheless acquired supplies at relatively advantageous prices; a temporary import prohibition was imposed and the sugar ration reduced from 8 oz. to 6 oz. per week from January to March 1920. By these measures the

¹ *Raw Material Trading Accounts*, Cmd. 738, page 9. •

² *The Economist*, Commercial History of 1919.

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TABLE XI

Highest Price, Middle of 1919 to End of 1920, as Percentage Increase or Decrease (—) over Price of October 1st, 1918.

<i>Commodity</i>	<i>Highest Price Month and Year</i>	<i>Percentage Change from Oct. 1, 1918</i>
<i>Cereals and Meat</i>		
Potatoes	July 1920	97
Flour	Oct., Nov., 1920	94
Barley	Feb. 1920	81
Wheat, Foreign	Nov. 1920	41
Rice	Dec. 1919	31
Oats	July, Aug., 1920	30
Wheat, English	Sept. 1920	25
Mutton	Nov. 1920	13
Beef	Sept., Nov., 1920	7
Pork	Oct. 1920	2
<i>Other Foodstuffs</i>		
Sugar	June to Oct. 1920	73
Tea	Nov. 1919	34
Butter	Nov. 1920 — on	33
Coffee	Apr., May, 1920	21
Tobacco	July 1918 — on	0
<i>Textiles</i>		
Cotton, Raw, Egyptian	Mar. 1920	215
Flax	July to Oct. 1920	160
Silk	Feb., Mar., 1920	146
Jute	Sept. 1919	71
Wool, Raw, Australian	Apr. 1920	68
Cotton, Raw American	Mar. 1920	28
Cotton Cloth	Mar., April, 1920	24
Cotton Yarn	Mar. 1920	12
Wool, Raw, English	Apr. 1920	9
Hemp	Mar. 1920	—20
<i>Minerals</i>		
Pig Iron	Oct. 1920 — on	136
Steel Rails	Jan. 1921	133
Iron Bars	July to Dec. 1920	103
Lead	Mar. 1920	83
Cbal, House	June 1920 — on	55
Coal, Steam	June 1920 — on	29
Tin	Mar. 1920	19
Copper	Mar. 1920	9

Miscellaneous

Oils	Apr. 1920	89
Crystals	Apr. to Sept. 1920	83
Seeds	Mar. 1920	75
Indigo	Feb. to Nov. 1920	41
Leather	Mar. 1920	32
Petroleum	Oct. 1920	27
Timber, Baltic	Apr. '17 to Oct. '20	0
Timber, American	Apr. '17 to Oct. '20	0
Rubber	Jan. to Mar. 1920	—19
Tallow	Aug. 1919	—21

SOURCE: *The Economist*, Commercial History of 1918, 1919, and 1920.

Commission was able to break the sugar boom. As a result, the wholesale price of sugar in the United Kingdom in 1920 was about 25% below that in the United States if the difference in duty is taken into account.

The boom was allowed to get well under way in the second half of 1919 before the restraining influence of the bank rate was employed. After the unpegging of the exchange in March of that year, the price rise rapidly outran the movement in the United States; but it was not until November that the bank rate was raised, to 6%, and by the time that it was raised again in April 1920, to 7%, the whole situation had become patently unsound. The rate of the Excess Profits Duty was halved during the boom (from 80% to 40%) and raised again (to 60%) at the beginning of the depression.¹ Public expenditure followed a cyclical, rather than an anti-cyclical pattern, and public revenue an anticyclical, instead of a cyclical pattern; the four quarters of 1919 showed a considerable deficit (£580 million for the whole year) and the depression year, 1920, was the first to show a net surplus (*cf.* Table III). The Government's major financial concerns were to balance its budget after the long period of war deficits and to fund as large a proportion as possible of the public debt. This was effected in such a manner as to counteract the direct effects of the surpluses and deficits, but involved a postponement of the utilization of interest rates as an instrument to control cyclical movements.

The Government did not conceive of the budget as an instrument of cyclical policy, except insofar as subsidies were employed

¹ It should be noted that when the 1919-20 budget was introduced, the Chancellor of the Exchequer expected a fall in prices and profits; whereas, at the beginning of the financial year 1920-21, the increase of the rate was thought justified on the assumption that the post-war boom would continue. (B. Mallet, "British Budgets," 2nd Series, page 249.)

to give a stimulus to some particular branch of production or to relieve distress, and indeed in the then state of public opinion deficit financing as an instrument of cyclical policy could not have been employed. In the same way, the peak value of capital expenditure by local authorities reached in 1921 (Table II) should, it would seem, be attributed rather to the execution of plans in preparation since the Armistice than to any deliberate anti-depression policy.

9. *Consideration of policy.*

If we consider the instruments in the hands of the Government which it might have used to check the price boom and hence the rapid consequent collapse, we shall find that they were, in the then state of public opinion, at once few and of limited effectiveness. Of the large quantities of surplus stocks held by it, semi- and fully-manufactured goods constituted a considerable part, and these were often in a form unsuited for civilian use. When they were of immediate use, the Government feared, not without justification, that to dump them on the market might check enterprise and therefore impede re-employment in industries treating the raw material in earlier stages of production. When, as in the case of cross-bred wool and copper, the Government was in possession of large stocks of raw material, it did manage to restrain the upward tendency of prices. But it is nevertheless true that the Government viewed the problem of these stocks mainly as one of liquidation. That liquidation was halted when prices threatened to fall, was accelerated when prices rose. Such a policy was not incompatible with price stabilization, but price stabilization was not the first objective.

In the absence of such stocks in its own possession, the British Government was clearly much less well-placed than the American to control prices either by market operations or by legislative means. Most of the raw materials required for civilian use came from overseas. The basic principle of the Government's policy was to leave the import of raw materials and foodstuffs free, while putting considerable restrictions on the import of foreign manufactured goods. The restrictions were defended on the grounds both that they prevented unemployment and that they protected the value of the currency. However, when industries were operating at full capacity, the validity of the second argument clearly became more open to doubt. The effect of imports might well have been to improve the exchange by lowering the domestic price level; it was indeed contended that the mere pos-

sibility of import would bring national prices down² sufficiently to make actual imports unnecessary.¹

In the case of foodstuffs, the Government did take action to keep down prices by increasing the supplies made available to the market. Thus, the Ministry of Food made a prior claim for shipping space for food so as to prevent food prices from rising above the world price level.² Similarly, freedom of imports was asked to break the monopolistic price policies of certain trade associations which had grown strong during the war.

If it had controlled imports of crude products in order to check the speculative accumulation of stocks, it might have exercised some influence on the trend of world prices; but this action by itself might have increased prices on the home market above the levels they actually reached. If it had confined its action to controlling domestic prices, it would have incurred the risk of preventing importers from obtaining the raw materials industry really required. This actually happened in the case of bacon. It would therefore have had to control both imports and domestic prices to prevent domestic prices from rising above the world level. This might have been effective in checking the price boom to the extent that that boom was due to the demand arising on world markets from speculative purchases for stock by British firms. How important this single factor was it is quite impossible to judge. But there is no sort of reason for assuming that it was the determining factor in world markets in the period considered. It is, indeed, obvious that effective action to prevent the price boom would have required not simply close collaboration with the United States of America, but the elaboration and execution of a concerted policy. The United States Government was in no mood to carry out any such policy. On the contrary, it abolished its own control lock, stock and barrel at the earliest possible opportunity. To some extent it was driven to do so. Thus, Sir Arthur Goldfinch records in his 1920 report that: "At the urgent request of the United States authorities an agreement to set up a Leather and Hides Executive was signed in November 1918 by the Governments of this country, of the United States of America, of France, and of Italy, but the revolt against government control on the part of American businessmen after the Armistice was so widespread and so violent that it immediately became evident that the International Control of Raw Materials was impossible and the Hides and Leather Executive was aban-

¹ *The Economist*, March 15th, 1919.

² Beveridge, *op. cit.*, page 284.

done.”¹ It is at least open to question whether public opinion in England would have tolerated a continuance of control. The intensity of the post-Armistice relief at the prospects of the death of Dora² and the insistence on her execution are too often forgotten. If, in fact, a concerted policy had been desired, it would have been indispensable to have elaborated that policy before the end of the war and have made sure of public support in advance. One amongst many reasons why this was not done was that the Government and its advisers were uncertain whether the war was likely to be followed by a boom or a slump, by rising or falling prices.

Even if the Government had been quite clear in its own mind about the probable nature of immediate post-war economic forces and about the policy it wished to apply to them, the state of public opinion at home and abroad would have set strict limits to effective action.

Theoretically, the Government might have endeavoured to stabilize domestic prices by appreciating the pound sterling or checking its depreciation; it might have brought its influence to bear in support of a more restrictive credit policy in the early stages of the boom; it might have tried to restrain the exercise of monopolistic powers by certain trade unions in skilled occupations. But actually, it required low money rates to effect its conversion operations and it wished to stimulate exports. Fearing a slump in wage rates immediately after the Armistice, it passed a Wages (Temporary Regulation) Act in November 1918 stipulating that hourly rates in effect on November 11th, 1918, should constitute the minimum rates for six months after the Armistice, and renewed this Act twice up to September 1920. Minimum but not maximum rates were enforced even when the risk became an inflationary rise, and these minima were removed when the danger was a fall in wages and other prices. The timing of this policy would appear, in the light of what actually happened, to have been unfortunate. But, as stated above, there was great uncertainty about what was likely to happen—whether the Armistice would be followed by a boom or a depression. The one major concern was to create a situation in which the demobilized men might find employment readily at the most favourable possible wages. To jeopardize the export trade by raising—or artificially maintaining—the exchanges, or to check enterprise by monetary policy was not considered politically

¹ Cmd. 788.

² Defense of the Realm Act.

practicable. To exacerbate labour by attacking its accepted privileges and violating the agreements concluded during the war was clearly impossible.

The Government's fear of the temper of the men seeking employment and its genuine desire to do all in its power for the demobilized soldiers explains, too, a certain lack of logic in its policy in maintaining rent control when other controls were abolished. This no doubt checked building recovery, while its subsidies to building would seem to have helped to increase building costs. As pointed out in Part I of this study, one difficulty in post-war price control lies in the fact that if only raw material prices are controlled and not the thousand and one finished goods into which each is manufactured, the main effect may only be to give undue advantage to processors and manufacturers. In the case of houses, however, when the bulk of the supply is already on the market, the reverse policy was pursued by almost all governments; the price of the finished article was controlled and not the price of the raw materials that go into its making. Certain of these raw materials at least—bricks and cement—almost universally domestic products, were relatively easy to control. By controlling rents alone, private building was effectively prevented; by subsidizing building without controlling the prices of building materials, certain firms were given an opportunity for undue profit. But such undue profit might have been avoided. If the Government, by its action in controlling rents, had greatly curtailed the market demand for, for instance, bricks and mortar, the substitution of its own demand for what it had killed need not have had an abnormal influence on prices. That it did so in certain cases would seem to be due in large part to the extreme localization of the industry and the existence of local monopolies, which might have been controlled.

The Government might possibly have exercised some indirect influence on prices also had it continued to collect statistics of stocks of raw materials and published its results. There would have been considerable opposition to such a course, not only on account of the cost to firms of the work involved, but because many businessmen held the view that such publicity tended to accentuate a rise in prices when stocks were light and a fall when they were heavy. This belief in the steadying influence of ignorance does not seem to be supported by either evidence or logic. But, at best, the influence of such a measure on the world market movements which determined the boom in England would

have been limited. These world movements could, as stated above, only have been controlled by international action concerted before the end of the war and loyally executed.

10. *Conclusions.*

1. The Armistice was not followed by a slump, but after a quite brief period of disorganization by an extremely rapid boom. The period of unemployment resulting from the demobilization on the one hand and the need to convert machinery from war to peace requirements on the other only lasted for a few months and towards the autumn of 1919 there was a state of almost full employment of available resources.

2. This very rapid restoration of economic activity was due to the release of consumers' demand which had been pent up by rationing, priorities, etc., during the war, and to the demand for the adaptation of plant and rather later for the replacement of worn out machines.

3. As measured by the employment statistics, the demand for consumers' goods would seem to have increased earlier (spring of 1919) than the demand for producers' goods, which did not rise much before the spring of 1920.

4. Employment recovered most rapidly in the food and cement industries—and in coal mining where it was, however, affected by strikes. It fell off first in food and ready-made clothing (spring 1920), and in textiles (summer 1920). Not until December 1920 did it fall off in the heavy industries, nor until the spring of 1921 in coal mining and cement. This is roughly the order that, on theoretical grounds, might have been expected.

5. The release of consumers' demand, to become effective—that is, to allow physical needs to express themselves in actual purchasing power—implied some measure of inflation.

6. The market after the Armistice was in fact very liquid, and the public tended to show a preference for equity investment.

7. The need of the Government to convert its floating debt made it difficult to curtail the boom which resulted from these various circumstances and tendencies by stiffening rates of interest.

8. The boom was in fact carried beyond the point of optimum economic activity and approximately full employment of resources, and developed into an inflationary price boom. The index of wholesale prices rose 25% between October 1918 and April 1920 and many individual prices reached peaks of 50%

and more in excess of their level at the end of the war at various dates in the latter half of 1919 and in 1920.

9. This boom in prices was accentuated *inter alia* on the supply side by lack of skilled labour in certain industries, initial transport difficulties, and coal shortages (caused in part by strikes) and on the demand side by speculative purchases of raw materials for stock which contributed to the fall in sterling, by the overseas demand for British goods, and by the widespread feeling of relief at the abolition of control and speculative optimism. It was rendered possible by the liquidity of the market, soldiers' bonuses, reduction in taxation, etc.

10. There was a close correlation between productive activity and the quantum of exports (with a notable exception in 1919 when the domestic boom carried production to a relatively high level, notwithstanding low exports), the boom in prices favourably affecting the purchasing power of the raw materials producing countries.

11. But even in 1920 the quantum of British exports of manufactured goods was only 76% of what it had been in 1913 and the quantum of total exports only 71%.

12. Rent control prevented any recovery in private building in spite of the severe housing shortage. Preparations started by the Government during the war to stimulate building did not lead to any substantial results until the spring and early summer of 1920.

13. The price boom led inevitably to a subsequent collapse in 1921 and serious unemployment.

14. The major problem of the transition from war to peace economy therefore proved itself to be not one of getting demobilized men and machines re-employed, but one of the cyclical effects of the perhaps unavoidably bumpy nature of post-war pent-up demand.

APPENDIX I

FIGURES USED IN DIAGRAMS IN PART I

Diagram 1

1. Industrial Production

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1918	66	70	78	80	82	81	84	81	82	77	76	78
1919	71	68	66	67	67	72	76	77	75	75	74	75
1920	82	82	81	76	78	79	76	77	74	72	66	62
1921	58	57	55	55	57	57	56	58	58	62	61	61
1922	63	65	69	67	70	74	76	72	76	80	84	86

2. Production of Durable Manufactures

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1919	89	88	83	78	72	82	89	94	84	80	84	84
1920	97	100	98	87	93	97	96	99	97	93	83	77
1921	65	60	53	50	51	48	45	50	50	56	57	55
1922	58	62	68	78	82	87	89	78	82	91	93	98

3. Production of Non-Durable Manufactures

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1919	56	53	53	57	61	63	64	64	66	67	68	67
1920	69	68	67	66	66	63	60	58	56	52	47	44
1921	47	49	52	54	56	58	59	60	60	62	61	61
1922	62	62	63	61	64	67	67	69	69	70	73	74

4. Factory Employment

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1919	109	105	104	104	105	107	109	111	112	112	114	117
1920	119	117	118	117	114	113	110	109	106	103	97	90
1921	82	84	85	84	84	83	82	82	83	84	85	85
1922	85	87	88	88	90	92	93	94	95	97	100	102

Base: 1935-9 = 100

Source: 1: 1918: Standard Statistics

1: 1919-22: 2,3,4: Federal Reserve Board.

Diagram 2

1. Production of Passenger Motor Cars

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1916	56	54	68	61	64	59	54	50	63	62	71	71
1917	66	69	69	68	76	72	73	66	70	74	77	61
1918	51	49	46	50	47	40	44	35	18	16	25	37
1919	51	51	50	55	62	61	67	71	73	87	91	83
1920	92	81	81	55	73	82	85	88	75	68	72	65
1921	41	34	34	46	53	74	78	85	68	67	68	56

2. Cotton Consumption

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1916	100	110	116	105	112	114	103	114	111	110	116	110
1917	112	111	114	107	120	115	113	116	110	116	118	106
1918	96	104	108	105	112	103	114	109	104	88	91	97
1919	103	89	80	92	94	95	108	102	104	111	98	105
1920	110	105	108	110	105	111	111	99	98	80	66	62
1921	65	81	81	78	85	93	87	96	103	99	105	105

3. Woollen Mill Activity

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1916	107	109	110	111	112	112	111	110	109	108	107	109
1917	110	112	113	115	117	117	113	113	110	106	107	110
1918	109	111	113	117	119	116	116	118	101	93	81	67
1919	57	48	55	65	87	104	116	106	107	103	105	112
1920	116	109	109	111	92	81	76	71	69	63	58	45
1921	46	62	72	89	96	104	100	102	104	104	104	103

Base: Trend Value, January 1, 1923 = 100

Source: Standard Statistics.

Diagram 3
Employment

1. Automobiles

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov. 92	Dec. 93
1915	.	.	.	.	.	.	.	.	.	.	.	.
1916	93	104	106	104	105	101	108	108	114	122	120	116
1917	123	124	125	123	120	116	110	112	116	117	113	112
1918	110	110	114	115	115	116	113	109	111	112	114	106
1919	100	101	104	108	111	115	120	125	134	134	134	132
1920	137	140	140	139	134	134	132	122	115	101	90	85
1921	42	53	64	81	85	81	81	82	82	81	78	74
1922	72	78	84	90	100	107	110	112	112	110	112	114

2. Furniture

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1915	98	104	103	105	106	103	97	104	109	109	110	113
1916	114	116	118	115	112	112	111	116	118	116	121	127
1917	125	126	128	122	118	115	116	114	112	113	115	115
1918	115	112	112	106	105	104	106	104	101	96	97	98
1919	100	103	106	107	110	107	111	116	118	122	126	129
1920	127	127	127	127	125	126	126	126	126	124	118	111
1921	89	95	99	101	100	100	100	100	99	101	107	110
1922	110	112	115	114	114	115	115	118	121	126	130	134

3. Boots and Shoes

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1915	92	92	88	81	83	84	85	86	86	95	99	115
1916	105	105	106	104	103	104	105	104	103	103	107	113
1917	114	114	113	111	109	111	107	102	96	98	106	106
1918	106	107	108	104	102	101	103	101	100	94	97	100
1919	100	100	98	96	98	98	99	101	102	104	106	108
1920	110	108	109	107	104	99	90	88	79	77	74	73
1921	71	79	82	82	85	87	89	93	93	91	89	91
1922	93	93	92	87	87	89	93	97	100	101	103	105

4. Textiles

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1915	101	104	103	105	108	107	108	105	109	114	114	115
1916	118	120	118	120	112	116	117	111	114	116	120	123
1917	127	124	125	122	120	118	117	112	114	114	114	115
1918	113	115	116	115	114	113	115	113	110	98	104	105
1919	100	95	97	101	106	109	113	114	116	118	118	120
1920	122	121	123	122	120	116	107	105	104	100	89	80
1921	78	96	98	101	102	103	104	105	110	111	109	108
1922	108	111	107	103	102	101	101	104	108	111	113	116

5. Men's Clothing

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1915	.	129	121	105	124	125	128	110	105	111	116	107
1916	132	129	132	128	134	138	138	128	122	125	133	121
1917	141	141	145	145	149	155	149	142	136	133	137	141
1918	134	138	133	133	133	133	135	129	124	113	112	109
1919	100	105	106	109	111	117	125	125	131	136	144	136
1920	138	140	146	148	148	144	138	131	124	109	89	69
1921	76	94	100	106	105	114	124	131	130	129	125	128
1922	128	128	128	116	115	122	126	126	128	128	126	134

6. Silk and Rayon

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1915	115	118	118	114	114	114	113	115	116	119	123	124
1916	127	123	127	128	125	127	128	127	125	127	124	127
1917	127	125	124	123	120	118	118	115	113	111	111	111
1918	109	111	113	111	110	110	108	105	100	100	96	97
1919	100	97	100	108	111	108	111	112	105	108	114	117
1920	119	119	117	120	120	117	110	106	102	101	98	91
1921	86	91	98	102	104	106	108	106	110	110	108	108
1922	108	108	108	100	97	95	94	92	96	98	101	104

7. Iron and Steel

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1915	54	52	57	59	60	62	64	66	68	71	71	71
1916	74	75	77	76	79	80	81	83	85	85	86	87
1917	90	90	91	91	93	95	96	99	98	99	100	100
1918	99	99	101	100	101	102	101	101	101	101	99	101
1919	100	95	92	87	85	86	92	95	95	84	93	98
1920	102	103	105	104	98	101	101	99	100	98	94	84
1921	68	71	68	62	62	57	51	54	56	61	65	65
1922	62	66	68	73	75	79	80	81	81	85	88	90

8. Machinery

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1915	60	63	62	63	66	67	68	67	70	56	76	80
1916	81	85	87	89	91	91	91	90	92	93	98	99
1917	98	99	100	99	99	101	100	102	102	104	105	104
1918	111	113	114	112	113	116	117	112	110	105	112	108
1919	100	98	94	94	91	89	89	94	98	101	105	108
1920	112	110	112	111	109	110	111	108	106	102	98	92
1921	85	79	75	70	65	62	57	56	55	55	55	57
1922	59	59	62	64	66	66	66	67	72	74	77	81

Base: January 1919 = 100

Source: 1915-1918: 1,3,5,6,7 = *Monthly Labor Review*, 1919 I, p.1412/3

2,4,8: New York State Department of Labor, Special Bulletin No. 115, Sept. 1922. (Data for New York State only.)

1919-1922: 1-8: United States Bureau of Labour Statistics Bulletin No. 610.

Note: For furniture, textiles and machinery, figures for the United States start in January 1919. Earlier data are for New York State only. These show a high degree of correlation with the nation-wide figures over 1919/30.

Diagram 4

Prices

1. Wholesale, all commodity

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1915	68	69	68	69	69	68	69	69	68	70	72	74
1916	77	79	80	82	83	83	83	85	87	91	97	99
1917	102	105	108	114	121	122	123	125	124	122	123	123
1918	125	123	126	128	128	129	132	134	138	136	136	136
1919	134	130	131	133	135	136	141	144	141	142	145	151
1920	158	157	159	166	167	167	166	161	155	144	133	121
1921	114	105	102	99	96	93	93	94	93	94	94	93

2. Wholesale, textiles

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1915	51	51	52	53	53	53	53	54	55	57	58	60
1916	63	65	66	67	67	67	69	72	72	76	79	83
1917	84	84	85	88	92	97	103	107	107	109	113	117
1918	122	124	129	136	138	142	143	143	145	145	143	139
1919	127	119	114	114	120	131	140	144	145	149	157	165
1920	187	194	193	195	188	181	169	161	145	132	122	114
1921	102	96	93	92	91	92	91	90	95	97	97	98

3. Cost of Living

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1915	99	98	97	97	98	97	98	98	98	100	100	100
1916	102	103	103	105	105	107	107	107	109	110	113	114
1917	117	118	120	123	126	130	129	130	133	137	139	141
1918	146	148	148	147	151	155	158	161	165	168	169	170
1919	172	169	169	171	173	174	176	180	180	188	193	195
1920	203	203	204	210	211	211	212	206	207	205	204	195
1921	191	183	182	179	177	174	175	176	174	174	173	172

4. Industrial Stock Prices

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1915	39	39	41	46	46	47	50	55	59	64	65	67
1916	66	65	65	62	63	63	61	63	68	71	75	68
1917	67	63	66	65	65	67	64	61	58	55	50	49
1918	55	56	54	54	56	56	57	53	57	59	60	60
1919	60	61	63	67	72	76	80	75	77	83	80	78
1920	77	69	74	75	69	68	67	62	64	62	57	52
1921	55	54	53	53	53	49	48	47	48	49	53	56

5. Rediscount Rate of 12 Federal Reserve Banks (Unweighted average)

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1915	.	.	.	.	4.50	4.50	4.50	4.43	4.37	4.24	4.19	4.17
1916	4.17	4.17	4.17	4.21	4.21	4.21	4.21	4.21	4.21	4.21	4.21	4.21
1917	4.25	4.29	4.29	4.29	4.29	4.29	4.29	4.29	4.29	4.29	4.29	4.56
1918	4.62	4.63	4.63	4.75	4.78	4.84	4.86	4.85	4.85	4.85	4.85	4.85
1919	4.84	4.83	4.83	4.83	4.83	4.83	4.83	4.83	4.83	4.83	4.83	4.83
1920	5.06	6.00	6.00	6.00	6.00	6.33	6.33	6.33	6.33	6.33	6.42	6.42
1921	6.42	6.46	6.50	6.44	6.21	6.21	6.00	3.84	5.79	5.67	5.04	4.99

Base: 1-4: 1926 = 100. (5: Actual percentages).

Source: 1-2: United States Bureau of Labor Statistics.

3 : P. H. Douglas, *Real Wages in the United States*, page 57.

4 : *Standard Statistics*.

5 : *Standard Statistics*.

Diagram 5

1. Residential Construction

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1919	22	30	41	59	85	114	127	123	111	92	78	61
1920	54	48	50	53	52	45	44	43	44	37	31	27
1921	31	38	44	50	60	65	72	83	89	89	84	84
1922	83	83	85	92	103	111	114	111	106	104	102	106

2. Non-Residential Construction

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1919	70	72	83	102	145	180	210	199	215	224	259	258
1920	254	238	206	169	141	124	114	101	91	85	69	62
1921	57	54	57	57	63	64	68	71	78	80	79	74
1922	77	84	92	95	100	106	119	117	113	101	99	96

3. Cost of Building

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1919	81	81	80	81	84	89	85	100	102	104	106	111
1920	118	124	128	128	127	124	122	120	118	113	108	104
1921	100	97	95	93	92	90	88	87	87	87	87	87
1922	86	86	86	86	87	88	90	91	93	94	95	95

4. Rent

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1919	67*	.	68	.	.	.	71	.	.	.	77	.
1920	80	80	83	84	84	84	88	98	89	89	92	92
1921	92	92	95	95	95	99	94	94	94	94	94	94
1922	94	94	92	92	92	92	92	92	92	92	93	93

* Straight line interpolation between November 1918 and March 1919.

Base: 1,2: 1922 = 100
 3,4: 1923-25 = 100

Source: 1,2: F.W.Dodge data from National Bureau of Economic Research files (corrected for seasonal variation - three months moving average).

3: *The Engineering News Record*: (three months moving average).

4: National Industrial Conference Board.

Diagram 6
1-3. United Kingdom Imports
cwts (000,000's)

1. Wheat*	1913	1914	1915	1916	1917	1918	1919	1920	1921	1922
from United States	43	42	51	72	65	50	46	54	47	43
" Argentine	15	7	12	5	7	14	7	31	4	19
" Australia	11	12	-	4	12	4	17	22	22	19
" India	19	11	14	6	3	1	-	-	3	6
	45	30	26	15	22	19	24	53	29	38

2. Maize

from United States	7	-	2	7	11	8	1	2	8	15
" Argentine	39	29	44	21	10	4	14	29	16	13

3. Chilled and
Frozen Beef

from United States	-	0.1	1.0	0.9	0.9	3.6	0.9	.	.	.
" Argentine	7.2	6.0	5.1	4.0	2.7	2.0	3.9	.	.	.
" Australia & New Zealand	1.6	2.0	2.0	1.6	1.9	0.9	1.0	.	.	.
	8.8	8.0	7.1	5.6	4.6	2.9	4.9	.	.	.

*Grain plus flour in terms of grain

4. Wheat Stocks, August 1.
Bushels (000,000's)

	1909-13	1914	1915	1916	1917	1918	1919	1922	1923
(a) United States	106	110	70	226	53	21	61	107	134
(b) Canada	16	19	10	30	20	10	15	28	22
(a) plus (b)	122	129	80	256	73	31	76	135	156
(c) Argentine	27	12	23	56	15	77	114	43	40
(d) Australia	17	19	0	100	138	174	131	15	24
(c) plus (d)	44	31	23	156	153	251	245	58	64

Source: 1,2: *Statistical Abstract for the United Kingdom.*

3: *Annual Statement of the Trade of the United Kingdom and E.G.Nourse, American Agriculture and the European Market*, page 50.

4: *Food Research Institute, Wheat Studies*, XVI, pages 63,64,110.

Diagram 7

1. Controlled Prices

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1914	99	99	99	99	99	98	98	104	105	101	99	99
1915	101	102	101	101	101	100	103	103	101	101	103	107
1916	113	115	117	120	121	120	121	125	127	134	143	146
1917	151	155	164	183	192	201	209	204	205	198	200	193
1918	195	198	197	196	192	189	195	199	204	201	200	204
1919	202	196	201	206	209	.	.	.	.	.	.	.

2. Uncontrolled Prices

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1914	99	99	99	99	98	99	98	98	96	95	94	94
1915	97	97	98	99	101	102	103	102	103	106	109	111
1916	116	119	121	123	123	124	124	124	125	127	131	135
1917	140	142	142	146	149	152	160	162	163	167	172	174
1918	178	180	182	187	189	191	194	195	199	201	200	197
1919	194	190	191	187	192	.	.	.	.	.	.	.

Base: July 1913 - June 1914 = 100

Source: P.W.Garrett, *Government Control over Prices*, page 426/7 (1914-1918) and page 413 (January-May, 1919). The two indices are linked according to their average values for 1918.

Diagram 8

1. Money Wages

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1918	188	185	188	186	188	192	195	202	210	211	178	194
1919	227	225	235	233	240	241	236	240	238	237	214	225
1920	227	225	235	233	240	241	236	240	238	237	230	226
1921	211	206	209	205	207	205	.	.	.	.	.	.

2. Cost of Living

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1918	172	169	169	171	173	174	176	180	180	188	159	170
1919	203	203	204	210	211	211	212	206	207	205	193	195
1920	203	203	204	210	211	211	212	206	207	205	204	195
1921	191	183	182	179	177	174	.	.	.	.	.	.

3. Real Wages

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1918	111	111	110	110	109	110	111	113	113	113	110	110
1919	113	113	112	113	113	113	114	114	116	115	113	113
1920	113	113	112	113	113	113	114	114	116	115	115	113
1921	113	113	114	115	116	116	.	.	.	.	.	.

Base: 1914 = 100

Source: P.H.Douglas, *op.cit.*, page 240/1 and page 57 (3:three months moving average taken).

APPENDIX II

EMPLOYMENT STATISTICS FOR THE UNITED KINGDOM, 1918-1922

The following series are available (all published in the Ministry of Labour Gazette):

A. *Trade Union unemployment percentages, monthly, by industries.*

These are the oldest figures concerning employment; and they give a rough idea of the fluctuations of business. In the period under consideration, they seem to fail to give an exact picture, however, owing to:

1. The rapid change in membership of the unions;
2. The fact that the unions comprised largely skilled workers, among which employment was much better in 1919 and 1920 than among workers in general. The union percentages are, therefore, not even reliable indices for the general situation in the industries to which they refer; hence the re-weighting of these percentages according to the total number of persons employed in each industry¹ may fail to improve the representativeness of the trade union index.

B. *Unemployment insurance data, monthly, by industries.*

This series is available from 1912 on, with a break of 8 months in 1919 and of one in October 1920. The coverage of the scheme was changed various times.

1. Under the 1911 Act, it covered building, construction, ship-building, engineering, vehicles; ironfounding, and sawmilling, which industries employed 2.3 million workers in 1912.

2. Under the 1916 Act, the munitions, metal, chemical, rubber, leather, brick and some minor industries were added, bringing the total number of workers covered to 3.7 millions in 1916 and, owing to the growth of these industries, to 4.2 millions in July 1920.

3. In December 1918 a small group of "others insured under the 1916 Act" (233,000 workers) was excluded.

4. From November 1920 on, the insurance scheme covers all manual workers outside agriculture, numbering about 12 millions.

¹ See J. Hilton, *Journ. Roy. Stat. Soc.*, 1923, page 154.

From 1916 to 1920, the coverage seems fairly representative of the investment industries, the numbers covered in other industries being relatively small. But, owing to the fluctuations in the number of persons attached to these industries, the unemployment index does not give a good picture of the course of employment. The investment goods industries employment index given in Diagram II has been obtained by multiplying the total number of persons insured under the 1911 and 1916 Acts (excluding for October and November 1918 the small group of "others insured")—by (1 minus the percentage unemployed.) Since the number insured is given only quarterly, an interpolated figure had to be used for the intermediate months. The series should, therefore, be taken with some caution.

C. Employers' returns.

A considerable sample of employers in many industries furnished monthly data concerning the number of workers employed. These figures are published each month expressed as a percentage of the number of workers employed by the firms reporting in the previous month, and in the same month last year. From the series of percentages a chain index can be constructed. The employment series for textiles, ready made clothing, food preparations and cement in Diagram II have been obtained in this way. A total is also given for "Textile and other industries" which comprises practically only consumers' goods industries, and a considerable variety of them. A chain index based on the percentages for this total has been used as the consumers' goods employment index in Diagram II.

For coal mining and the iron and steel industry, figures are also given in the employers' reports concerning the number of shifts worked per week. The employment indices for those industries in Diagram II take account of this information, and are thus to be considered as a better indication of activity since they make allowance for short time.

Some indication of the extent of short time in the other industries may also be obtained from the data on earnings published with the employment figures, provided the normal hourly wage is known. On the basis of this information, an improved employment index has been calculated for the woollen industry by Mr. G. H. Wood.¹ It shows, as might have been expected that this corrected series has wider fluctuations and earlier turning

¹ *Journ. Roy. Stat. Soc.*, 1927, II page 284.

points than the ordinary employment index. It was not possible to perform this correction in the series shown in Diagram I₆, except as mentioned in the preceding paragraph.

D. Out-of-work Donation.

From the Armistice till November 1919 a non-contributory out-of-work donation was given to all unemployed. Weekly figures are published for the numbers claiming this donation, both civilians and demobilised soldiers. The breakdown of the claimants by industries is not comparable with that of the unemployment insurance statistics.

APPENDIX III

FIGURES USED IN DIAGRAMS IN PART II

Diagram I

	A. Production Index, 1913=100								
	1914	1915	1916	1917	1918	1919	1920	1921	1922
Total	93	94	87	84	77	89	91	62	77
Producers Goods	91	87	89	90	87	85	91	57	73
Consumers Goods	95	101	85	78	71	94	91	66	81

Source: Hoffman, *op. cit.*

B. Unemployment

(In the diagram, the figures shown below are deducted from 100.)

		Unemployment Percentages											
		Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1914	U.I.	5.5	4.4	3.6	3.3	3.2	3.5	3.5	6.2	5.4	4.2	3.7	3.3
	T.U.	2.5	2.3	2.1	2.1	2.3	2.4	2.8	7.1	5.9	4.4	2.9	2.5
1915	U.I.	2.6	2.0	1.4	1.1	0.9	0.9	1.0	0.9	0.9	0.8	0.9	1.1
	T.U.	1.9	1.6	1.3	1.2	1.2	1.0	0.9	1.0	0.9	0.8	0.6	0.6
1916	U.I.	1.0	0.8	0.7	0.7	0.6	0.5	0.6	0.5	0.5	0.4 ^a	0.5	0.6
	T.U.	0.2	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.3
1917	U.I.	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8
	T.U.	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.5	1.3	1.1	1.1	1.4
1918	U.I.	0.9	0.9	1.0	1.0	0.9	0.8	0.7	0.7	0.7	0.7	0.9	6.7
	T.U.	1.0	0.9	1.2	0.9	0.9	0.7	0.6	0.5	0.5	0.4	0.5	1.2
1919	U.I.	9.9	10.7										
	T.U.	2.4	2.8	2.8	2.7	2.1	1.7	2.0	2.2	1.6	2.6	2.9	3.2
1920	U.I.	6.1	4.4	3.6	2.8	2.7	2.6	2.7	2.9	3.8		3.7	5.8
	T.U.	2.9	1.9	1.1	0.9	1.1	1.2	1.4	1.6	2.2	5.3	3.7	6.0
1921	U.I.	8.2	9.5	11.3	15.0 ^b	17.3 ^b	17.8 ^b	14.8	13.2 ^c	12.2 ^c	14.9	15.7	16.1
	T.U.	5.9	8.5	10.0	17.6	22.2	23.1	16.7	16.3	14.8	15.6	15.9	16.5
1922	U.I.	14.0	15.5	14.4	14.4	13.5	12.7	12.3	12.0	12.0	12.0	12.4	12.7
	T.U.	14.8	16.3	16.3	17.0	16.4	15.7	14.6	14.4	14.6	14.0	14.2	14.0

a New Act - 1911 Act = 0.5

b Coal Stoppage

c Affected by exhaustion of benefits

U.I.= Unemployment Insurance percentages

T.U.= Trade Union percentages

Source: Hilton, *op. cit.*

Diagram II

Employment Indices, October 1918 = 100

	Consumers Goods											
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1918	103	103	102	102	102	101	100	100	100	100	99	100
1919	102	102	104	106	109	111	113	114	117	118	120	121
1920	122	123	123	123	124	124	123	122	121	117	117	114
1921	106	104	102	92	78	77	90	95	97	98	98	97
1922	94	95	96	97	99	.	.	.	.	.	.	.
	Producers Goods											
	1918	.	.	.	.	.	.	.	.	100	101	96
	1919	93	93	.	.	.	.	.	.	.	104	104
	1920	105	111	115	118	118	117	119	119	118	.	.
	Food Preparations											
	1918	101	101	100	101	101	101	100	100	100	101	104
	1919	105	109	115	120	125	129	135	137	141	142	145
	1920	143	143	140	139	138	139	137	135	136	135 ^c	135
	1921	126	126	125	124	122	126	128	132	137	137	136
1922	129	131	131	131	133	.	.	.	.	.	.
	Textiles											
	1918	104	104	102	102	101	99	100	100	100	99	101
	1919	101	99	99	101	104	106	107	103	111	112	114
	1920	116	117	118	118	119	118	118	117	116	111	112
	1921	96	93	91	81	64	58	74	80	81	84	84
1922	81	81	82	83	86	.	.	.	.	.	.
	Ready-Made Clothing											
	1918	101	100	100	101	100	100	98	99	101	100	99
	1919	98	97	96	99	101	100	103	101	103	104	102
	1920	102	102	101	101	100	99	97	95	93	88	85
	1921	78	76	77	76	69	71	66	68	69	67	68
1922	67	71	73	75	76	.	.	.	.	.	.
	Cement											
	1918	99	99	100	100	101	101	100	101	102	100	101
	1919	108	114	123	134	141	145	151	155	159	154	170
	1920	177	183	187	190	196	205	207	212	219	226	230
	1921	244	239	220	190	156	147	173	183	178	158	135
1922	115	118	117	112	119	.	.	.	.	.	.
	Coal Mining											
	1918	98	99	101	101	98	98	97	97	99	100	95
	1919	103	112	113	114	118	102	100	119	119	120	121
	1920	123	123	123	125	125	124	123	124	126	.	129
	1921	115	104	100	.	.	.	105	94	91	88	97
1922	101	105	103	106	97	90	92	107	107	111	113	
*Strikes												
	Iron and Steel											
	1918	101	102	101	102	102	100	99	100	100	99	94
	1919	93	94	96	97	101	100	85	95	91	92	100
	1920	99	107	109	109	108	110	110	109	117	70	100
	1921	85	72	63	32	13	12	53	63	61	60 ^c	56
1922	50	55	51	48	44	52	51	54	47	58	58	
	Working Days Lost in Strikes (000,000s)											
	1918	.	.	.	.	.	.	.	.	.	0.3	0.3
	1919	2.9	2.3	1.1	0.5	0.7	3.8	8.0	3.3	3.0	4.5	1.8
	1920	1.8	0.5	0.8	0.9	1.2	1.3	0.9	0.8	1.1	13.5	3.6
	1921	0.4	0.4	0.5	23.4	23.2	29.6	6.3	0.3	0.2	0.2	0.3
1922	0.2	0.3	3.4	5.8	7.2	2.1	0.5	0.3	0.1	0.2	0.1	

Source, Ministry of Labour Gazette; of. Appendix II.

Diagram III
Price and Wage Indices, July 1914 = 100

	1. Wholesale Prices (Statist)											
	Jan.	Feb.	Mar.	Apr.	May	June	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1914	101	102	100	100	100	99	100	107	108	109	107	111
1915	117	122	126	129	130	129	129	130	131	133	137	144
1916	150	154	158	163	164	159	158	163	163	172	183	187
1917	193	199	205	210	212	219	215	213	214	219	222	225
1918	226	227	228	230	231	233	234	238	239	240	237	238
1919	233	228	224	224	236	242	250	258	261	272	280	285
1920	298	316	318	323	316	310	309	308	302	291	272	251
1921	239	222	215	206	197	189	192	187	181	168	166	162
1922	161	160	162	164	164	164	163	157	155	158	159	157

	2. Cost of Living (Official)											
	Jan.	Feb.	Mar.	Apr.	May	June	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1914							100					
1915	112	115	117	118	120	125	125	125	125	130	132	135
1916	135	135	137	138	142	145	147	148	150	153	160	165
1917	165	167	170	172	175	177	180	180	182	178	185	185
1918	187	190	190	193	197	200	203	210	210	216	222	220
1919	220	220	215	210	205	204	208	215	219	220	225	225
1920	225	230	230	232	241	250	252	255	261	264	276	269
1921	265	251	241	233	228	219	219	222	220	210	203	199
1922	192	188	186	182	181	180	184	181	179	178	180	180

(During 1915-1919, the approximate average is taken when a range, instead of a precise figure, is given in the official source.)

	3. Wages (Weekly Earnings)											
	Jan.	Feb.	Mar.	Apr.	May	June	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1914							100					
1915							105-110					
1916							115-120					
1917							135-140					
1918							175-180					
1919	206	207	207	207	209	210	216	216	218	218	220	226
1920	229	229	234	235	253	261	264	266	270	270	274	276
1921	227	276	275	271	269	264	253	243	237	233	227	223
1922	217	214	214	206	202	197	194	191	181	180	179	178

Sources of wage index:

1914-1918: A.L.Bowley, "Prices and Wages in the United Kingdom, 1914-1920", page 106.

1919-1922: London & Cambridge Economic Service.

(The index is largely based on changes in time-rates and piece-rates; but it excludes increases in piece-rates given to compensate a simultaneous reduction in working hours - as was quite general in 1919. By 1924, this index underestimated actual earnings for a normal week by some 5 to 10% - cf. Memorandum no. 12 of the Royal Economic Society.)

Diagram IV

Exchange Rate of the £ in terms of United States Dollars

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1914	4.86	4.86	4.86	4.87	4.88	4.88	4.90	5.06	4.97	4.95	4.89	4.87
1915	4.84	4.82	4.80	4.79	4.79	4.77	4.77	4.69	4.68	4.67	4.72	4.75
1916	4.76	4.76	4.76	4.76	4.76	4.76	4.76	4.76	4.76	4.76	4.76	4.76
1917	4.76	4.76	4.75	4.76	4.76	4.75	4.76	4.76	4.76	4.75	4.75	4.75
1918	4.75	4.75	4.75	4.75	4.75	4.75	4.76	4.75	4.75	4.76	4.76	4.76
1919	4.77	4.76	4.72	4.66	4.67	4.62	4.43	4.27	4.18	4.18	4.10	3.81
1920	3.68	3.38	3.72	3.93	3.85	3.95	3.87	3.62	3.51	3.48	3.44	3.49
1921	3.74	3.88	3.91	3.93	3.98	3.78	3.65	3.65	3.72	3.87	3.97	4.16
1922	4.23	4.36	4.38	4.41	4.45	4.45	4.45	4.47	4.43	4.44	4.46	4.61

Diagram V

Quarterly Production and Export (Quantum) Indices.

	1913		1920		1921		1922		1923	
	P	E	P	E	P	E	P	E	P	E
I	101	127	105	91	83	68	76	85	89	95
II	99	130	101	95	48	50	79	84	89	105
III	96	134	102	98	77	62	85	93	85	95
IV	104	134	92	88	63	82	83	98	92	110

Production: 1913 = 100

Exports: revalued at 1913 prices, in £ (000,000's).

Sources: Production: London & Cambridge Economic Service.

Exports: Board of Trade Journal

Note: There is an annual export index figure for 1919 which works out as a quarterly equivalent of 72. The production index used does not go back before 1920, but the annual index used in Diagram I showed a figure of 2% below 1920 in 1919. Applying this to the annual average for 1920 of the index used in this diagram, we obtain 98 for production in 1919. Direct comparison of 1919 with 1913 on the basis of the index of Diagram I works out at 89; but it may be presumed that Hoffmann's index is a more reliable indicator for changes over a period of one year than over one of six.

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II. ECONOMIC AND FINANCIAL

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PREFACE

THIS brief study on relief after the last war is one of a series devoted to a consideration of the lessons that may be learnt from past experience and that may prove of value whenever, now or later, policies for the postwar world are formulated.

It may seem ungracious to subject the great humanitarian effort that was undertaken after the 1918 Armistice to this form of analysis. But progress can only be achieved if we are ready to learn from the facts of the past—both from the successes and the limitations to successful achievement, and from the difficulties foreseen and unforeseen that arose and may arise again. If this report furnishes any evidence of value, that is a proof that the benefits of the efforts made after the last war are not exhausted.

When reviewing what was achieved in these years, it is well to remember that international relief on a scale in any way comparable to what was required had never been previously undertaken. There was no past experience to serve as a guide save that of the Commission for Relief in Belgium during the war, which in fact proved to be of great value.

A. LOVEDAY
*Director of the Economic, Financial
and Transit Department*

*League of Nations
January 1943*

PRINTED IN THE UNITED STATES OF AMERICA
BY PRINCETON UNIVERSITY PRESS, PRINCETON, N.J.

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INTRODUCTION

The greater part of the relief afforded to Europe during and after the last war was effected by or through various American relief organizations. The essential figures concerning relief operations were as follows:

Table I.—Summary of Relief Operations.¹

	During the War	After the Armistice	Total
	\$(000,000's)		
Gross value of relief granted	573	1570	2143
Of which profit realized	—	53	53
Leaving net value	573	1517	2090
Of which: paid for by recipient			
countries in cash	117	403	520
paid for by "relief loans"	428	997	1423
paid for from private charity	30	80	110
paid for by United States			
Government, gifts	—	18	18
paid for by United States			
Government, profits on other transactions	—	19	19
	573	1517	2090

The loans were granted by the Governments of:

	\$(000,000's)
the United States	1001 ²
the United Kingdom	200
France	115
Norway	55
Italy	22
Netherlands	14
Other countries	16
	1423

¹ Table IV of the Annex, total *plus* amounts mentioned in note (1) to that table *plus* Table 8, A.

² This figure excludes credit purchases of foodstuffs in the United States by Allied purchasing agencies both during and after the war. In the period from December 1st, 1918 to November 1st, 1920, such purchases amounted to \$804.5 millions—United

Other postwar relief through private organizations in addition to the \$110 million mentioned above may be roughly estimated at \$230 million.¹ If this estimate is correct, the total value of relief, as distinguished from deliveries under the relief organization which were paid for in cash, may be classified as follows:

	\$(000,000's)
Received on credit	1423
Benevolence	377
Total	1800

The term *relief* normally conveys to the mind the notion of assistance tendered without a *quid pro quo*. This is not the sense in which the term is used below, for, in fact, as the above figures show, gifts only accounted for 20% of the relief deliveries, or if the ploughing in of the profits earned in relief operations is not included with other gifts, 18%. Indeed during the Armistice Period (the first half of 1919), out of total deliveries amounting to \$1,267 million, only 0.4% was on balance covered by gifts, while 32% was paid for in cash.

The term *relief* therefore, as used here, is divorced from its normal connotation and covers all those transactions of or through Governments, Government agencies or charitable organizations, and especially the American Relief Administration, by which deliveries of food and certain other goods were made to Europe. It covers, therefore, such straightforward business transactions as the sale of these products against gold or other assets. This is the sense in which the term was used at the time and the sense which reflects the principles on which relief assistance was actually afforded. On the other hand, the term does not cover transactions in foodstuffs, even on credit, which did not fall within the purview of these various agencies. The larger European Allies and the neutral countries in Europe were, of course, also in urgent need of food imports. As a considerable part of these imports were obtained from the United States, their requirements had to be brought into harmony with domestic American con-

Kingdom, \$451.5 millions; France, \$217.4 millions; Italy \$123.7 millions; Belgium, \$11.9 millions, (Cf. Annual Report of the U.S. Secretary of the Treasury, 1920, pages 345-8). All deliveries by the Commission for Relief in Belgium are, however, included in the figures shown in the text.

¹ Table 8, B. *plus* rough estimate^e (\$25 million) for other private organizations.

sumption and with relief shipments. This was achieved by the maintenance of export controls by the United States Food Administration. But these countries could and, in fact, did obtain large supplies from the Argentine, Canada and other sources, even though United States Treasury credits to finance food purchases by them continued.¹

I. ORGANIZATION

(i) *United States Government.*

The Food Control Act of August 1917 instituted the United States Food Administration, of which Mr. Herbert Hoover became the director, with the dual function (a) of economizing food supplies in the United States and (b) of creating a single selling agency to handle food deliveries to the Allied countries. In the same month, the Food Administration Grain Corporation was created as the agency for the Food Administration "to purchase, to store . . . and to sell for cash at reasonable prices, wheat, flour, meal, beans and potatoes."² "The primary purpose of the Grain Corporation was to provide a method of putting into effect the congressional guarantee of a minimum price for wheat."³ It bought any quantities offered at the minimum prices and sold them to the mills or for export to the Allied and Neutral Governments in so far as possible at a margin of profit. Gradually, the activities of the Grain Corporation extended over other commodities: other cereals, beans, pork products, etc. At the

¹ It may be worth noting that total food imports into Europe from other Continents in 1919 were as follows:

	\$(000,000,000's)		
	Continental Europe	United Kingdom	Total Europe
From the United States	1.9	1.2	3.1
From elsewhere	1.6	1.8	3.4
Total imports	3.5	3.0	6.5

² F. M. Surface, "The Grain Trade during the World War" [referred to below as "Grain Trade . . ."], pages 50/51.

³ F. M. Surface and R. L. Bland, "American Food in the World War and Reconstruction Period. Operations under the Direction of Herbert Hoover, 1914 to 1924" [referred to below as "American Food . . ."], page 17. The minimum price for wheat guaranteed by Congress was \$2.00 per bushel. By presidential proclamations a "basic fair price" of \$2.20 per bushel was established for the 1917 crop, and of \$2.26 for the 1918 and 1919 crops.

end of the war, the United States thus possessed a governmental agency buying and selling almost all important food crops.

The entire work of relief was directed and coordinated by Mr. Hoover, the United States Food Administrator.

(ii) *The Commission for Relief in Belgium.*

The Commission for Relief in Belgium, under the direction of Mr. Hoover, had been active in distributing relief to a population of 10 millions in Belgium and Northern France for four years preceding the Armistice. Extensive and valuable experience in the handling of relief had, in this way, been obtained. This Commission continued to function after the Armistice and maintained a close relationship with the wider organization that was then developed.

(iii) *Allied Governments.*

The Allied Governments had built up a large organization for the purchase of food supplies overseas and their transport and allocation to various countries. They had, moreover, a large technical staff from the Armies and Navies which could be employed advantageously in the distribution of foodstuffs, the reorganization of transport and the maintenance of communications.

(iv) *Charitable Organizations.*

Various charitable organizations had been operating in the war zone and were both prepared and well equipped to continue their activities after the armistice. Such were the American and the British Red Cross, the Quakers, the American-Jewish Joint Distribution Committee, the Y.M.C.A., the Near East Relief, and others.

(v) *Co-ordination, Armistice to the signing of the Peace Treaty (November 1918-June 1919).*

Immediately after the armistice—indeed even in the weeks preceding it—the need for a large-scale relief operation to almost the whole of the continent of Europe was realized. This required co-operation between the United States Government bodies, which would have to furnish the majority of the commodities; the Allied Governments; the Commission for Relief in Belgium, which continued to deliver food to Belgium and Northern France until August 31st,

1919; and, finally—in connection with questions of transport, warehousing, distribution, etc.—the countries receiving the foodstuffs.

The American authorities were unwilling to have the destination, and, particularly, the price of American foodstuffs, determined by an Allied majority on any international organ for this co-ordination of relief and, while the question of organization was still under discussion, Mr. Hoover sent experts trained in Belgium to examine the situation elsewhere and, upon receipt of their reports, prepared to send food to the countries in need of it. In the end, the Supreme War Council, in February 1919, virtually accepted the American point of view, and Mr. Hoover was made Director General of Relief and Chairman of the Food Section of the Supreme Economic Council. Since "the Supreme Economic Council possessed no executive powers . . . [and] never possessed independent funds . . . its work in connection with relief mainly consisted in the coordination so far as it was able of the expenditures of funds which various Allied Governments had voted for special and restricted purposes, with which it was very difficult for the Council to interfere directly."¹

In fact, only the United States and the United Kingdom were in a position to give relief of any consequence to Europe, the bulk of the deliveries necessarily being supplied by the former country. Through the Director General of Relief, the British and American programmes were dovetailed so as to secure the most effective distribution of supplies.² "The general policy followed was that Great Britain should, in all the countries where relief operations were undertaken, supplement the relief undertaken by the United States by furnishing such commodities and services as were outside the power of the United States."³

Owing to the organizational structure major decisions concerning relief policies devolved upon the body which was to handle the relief supplied by the United States Government. For this task the American Relief Administration (A.R.A.) was created in February 1919 with Mr. Hoover as Director-General. The A.R.A., with headquarters in Paris, outlined all relief programmes. It delegated its buying

¹ H. W. V. Temperley, "A History of the Peace Conference," Vol. I, page 299.

² Cf. Sir William Goode (British Director of Relief), "Economic Conditions in Central Europe," *Parliamentary Papers*, Misc., Series No. 1 (1920).

³ Temperley, *op. cit.*, page 307.

and shipping activities to the Grain Corporation which opened a London Office for this purpose.

The cooperation between the countries giving and those receiving relief affected, in the earlier period, mostly matters of transport. They are dealt with briefly in Section 6.

Various charitable relief organizations cooperated with the Director General of Relief. The Grain Corporation purchased certain supplies for them and arranged transport. The American Relief Administration covered in certain cases the cost of freight for relief goods supplied by these organizations. In other cases, the A.R.A. handed over foodstuffs to them in countries or districts where they had established distributing organizations. To a large extent, however, the activities of these relief bodies fell outside the scope of the A.R.A.

(vi) *Organization after the Signing of the Peace Treaty.*

With the signing of peace on June 28th, 1919, official inter-Allied relief came to a close. The activities of the Director General of Relief were terminated by the end of August. Most European countries, however, remained in urgent need of relief for some years and a great variety of relief bodies continued to furnish foodstuffs wherever the need was considered greatest. Governments, however, largely withdrew from relief. The British Government continued to make deliveries during the second half of 1919, but its relief funds were largely exhausted by the end of that year. The Grain Corporation, representing the United States Government, administered only two relief transactions after 1919—the sale of wheat flour to certain European Governments in 1921 and relief deliveries to Russia in 1922.¹

An endeavour was, however, made in April 1920, at the instance of the British Government, to rebuild a coordinated system for relief to Central and Eastern Europe (excluding Germany). The International Committee for Relief Credits was created for this purpose.² From the Governments of some of the ex-neutral countries this Committee arranged relief credits, largely for Austria and Poland, to a

¹ Cf. Section 6.

² Cf. League of Nations: International Financial Conference (Brussels), 1920, Paper X: "Relief Credits and the Promotion of Export."

total value of about 25 million dollars. It further standardized the loan contracts for some of the old as well as the new loans. This simplified the funding agreements for the loans involved.¹

Apart from the existing charitable organizations, the European Children's Fund (E.C.F.) was created in the United States in the summer of 1919 to distribute relief among children. Its funds were derived from American charity and from profits made by the American Relief Administration during the Armistice period, which were handed over to it. Its relief activities were carried out by the A.R.A., which was transformed into a private organization with Mr. Hoover as its chairman.

The cooperation of the E.C.F. with organizations in the recipient countries was much closer than had been the case in the Armistice Period. The commodities were distributed to the final consumers (undernourished children) in the form of meals. Consequently, storage, transport, cooking and eating facilities had to be provided. This was done by the countries receiving relief, which also provided volunteer labour to handle, cook, etc., the supplies. These transactions were supervised by an American staff.

(vii) *Finance.*

As we have seen, Government organizations capable of handling relief were in existence at the end of the war; but funds had to be mobilized to make large-scale relief transactions possible.

In the United States, a bill was introduced in Congress shortly after the Armistice for the appropriation of \$100 million for relief to the liberated countries; it did not become law, however, before the end of February 1919. But \$5 million were made available from the President's "National Security and Defense Fund" which enabled the Food Administration to proceed with its work pending the passage of this bill through Congress.

When it became evident that the sum of \$100 million would be inadequate, the President directed the United States Treasury to make loans to certain of the liberated countries under the war powers granted by Congress for Treasury loans to Allied countries.² The Treasury, it will be recalled,³ made advances to the United Kingdom,

¹ Cf. Section 4.

² "Grain Trade . . .", page 404.

³ Page 7, footnote 2.

France, Italy and Belgium, both before and after the Armistice for the purchase of munitions and raw materials as well as foodstuffs. Czechoslovakia received the first advance of \$5 million shortly after the Armistice on November 15th, 1918. Apart from two small advances made to Yugoslavia about the same time, that country and Roumania obtained no post-armistice Treasury advances before February 1919. None of the other liberated countries was granted Treasury credits.¹ Two wartime acts (of May 10th and July 9th, 1918) authorized the President to sell war materials "upon such terms as he shall deem expedient." It took some time, however, to get the sale of Army goods under way, the United States Liquidation Commission being created only in February 1919.

To obtain finance for relief to Austria, a roundabout procedure was followed. The \$100 million appropriation could not be used for ex-enemies. Relief for Austria was, however, urgent and could not be paid for in cash. A solution was found by the United States selling commodities on credit to the United Kingdom, France, and Italy to the value of \$16 million each, which these countries resold on credit to Austria.

The sources of finance during the "Armistice Period" were drawn on as shown in Table 2.

The British Government voted a £12.5 million credit for relief in February 1919.

2. VOLUME AND NATURE OF RELIEF

A description of the volume and nature of relief must be largely confined to those activities covered by the American Relief Administration Report. Relief falling outside its scope will be briefly mentioned in Section 3.

It is convenient to follow the A.R.A. Report and to divide post-war relief activities into two periods, the "Armistice Period" and the "Reconstruction Period."

I. *Armistice Period.*

The first period of relief activities after the war runs from the Armistice (November 11th, 1918) till shortly after the Peace (June

¹ Annual Report of the Secretary of the Treasury, 1920, pages 325 ff.

*Table 2.—Sources of Finance, United States Relief
during Armistice Period*

	\$(000,000's)
From the \$100 million appropriation	85 ¹
“ “ President's Fund	— ²
“ “ Treasury Loans to liberated countries	87
Relief to Belgium against credit	167
Sales against credit by United States	
Liquidation Commission	382
Total credit by United States	721 ³
Sales on credit to United Kingdom, France and Italy for Austria	48
Sales against cash	202
Profits used for United States Government gifts	23
Grand total, relief by United States Government in Armistice Period	994

28th, 1919), during which Mr. Hoover was Director-General of Relief. Shipments of foodstuffs, apart from those for the Commission for Relief in Belgium, did not reach Europe until January 1919. Prompt measures, however, were taken to obtain the release of United States Army stocks; and, from these and from the stocks of the Belgian Commission, small initial relief deliveries were made towards the end of December of 1918 in Serbia and elsewhere.⁴ But a regular flow of relief started only later. The first cargoes for the Northern relief programme (the Baltic region) which arrived in Europe in January 1919 were unloaded and stored in Rotterdam as the Baltic ports were still considered unsafe as a place of warehousing. Twenty-three vessels loaded by the War Department arrived in Trieste in January, February and March 1919, for the most part before definite relief programmes had been arranged for the individual countries.

¹ The balance of the appropriation was used for child relief in the Reconstruction Period.

² All relief during the Armistice Period was finally financed out of other resources. The Fund was, however, used in the Reconstruction Period.

³ In Table 1, total relief credits granted by the United States are given as \$1,001 millions. In this figure are also included loans granted during the war to Belgium and Northern France (\$223 millions) and loans granted in the Reconstruction Period (\$57 millions).

⁴ "Grain Trade . . .", page 401.

Most of these cargoes were unloaded into warehouses and only gradually used up for relief.¹

The deliveries in the Armistice Period continued up to August 1919.

During this period, the countries of Central and Eastern Europe not only lacked food; they lacked the foreign exchange to buy it and they had no way of obtaining transport facilities without the cooperation of the Allied Governments.

The American Relief Administration met those needs by buying foodstuffs in the United States, organizing shipping and overland transport, and delivering the commodities on credit wherever cash payments were impossible. Large deliveries, also on credit, were made from the United States Army Stocks in Europe. The Allied Governments and certain neutrals also furnished foodstuffs mostly (the United Kingdom was an exception) on a cash basis. Finally, there was the relief afforded by charitable societies which is, in part, covered in the report of the A.R.A. The value of relief from these various sources during the Armistice Period may be seen from Table 3.

*Table 3.—Relief during Armistice Period
(January-August 1919), by Origin.²*

	\$(000,000's)	%
Governments of	United States	994 ³ 79
	United Kingdom	120 ⁴ 9
	France	29 ⁴ 2
	Italy	37 ⁴ 3
	All other countries	52 4
Private charity, largely from United States ⁵	35 3	
Total	1267	100

¹ "American Food . . .", pages 128/9.

² According to the source of finance. This practically coincides with the origin of the commodities and services, though some purchases in neutral countries were made with funds obtained from United States credits.

³ Includes \$48 million credit to United Kingdom, France and Italy for relief to Austria.

⁴ Excludes \$16 million relief to Austria.

⁵ Charity by the United States Government during this period constituted a negative figure as \$53 million were accumulated in profits (which were used for further relief in the Reconstruction Period) while only \$23 million were given as Governmental charity. The total net charity during this period works out at only \$5 million, or 0.4%. (Annex Table IV).

The requirements of imported food may be estimated from the figures set out below (Table 4) representing the relief programmes as originally estimated, expressed in tons of food and in calories per head per day.¹

Table 4.—*Estimated Food Needs, Armistice Period*

Country ²	In tons (000's)	In calories (000,000,000's)	In calories per head per diem
Finland	69	245	809
Estonia	12	42	253
Latvia	8	30	136
Lithuania	5	18	148
Poland	273	999	216
Czechoslovakia	269	967	395
Yugoslavia	67	231	132
Roumania	209	698	239
Armenia	31	100	458
Total, Liberated Countries	943	3,331	261
Germany	1,470	5,872	810
Austria	307	1,075	931
Bulgaria	16	52	120
Turkey	25	82	38
Total, Enemy Countries	1,818	7,081	642
Belgium	959	4,587	2,581
Northern France	119	564	1,309
Total, Allies	1,078	5,151	2,333
GRAND TOTAL	3,837	15,563	598

Adult males doing light work need between 2400 and 3000 calories a day. For the population as a whole, taking women and children into account, the per capita figure is, of course, considerably smaller.³ In most of the countries receiving relief, at least part of the farm popu-

¹ From "American Food . . ." Table 13; total calories ÷ [number of months for which deliveries were projected × 30 × population].

² The classification of countries is that given in "American Food . . .".

³ The Commission for Relief in Belgium maintained the population of Belgium during the war on an average daily diet of 2000 calories per head. (Cf. C.R.B., "Statistical Review of Relief Operations," page 25).

lation was in a position to live on the produce of its own land. Hence it is clear that the relief programmes in some countries covered a very large proportion of the total food requirements of the urban population. In Finland, Germany, Austria and Northern France, the projected rations represented between forty and fifty per cent of the 2000 calories per head which would approximately satisfy the energy requirements of the whole population, while in Belgium it was planned to deliver as relief enough food to feed the whole population completely.

These plans were not strictly adhered to. In many cases the estimates proved too low, in a few too high. Table I of the Annex compares the final deliveries, by commodities, with the estimates.

The programmes were drawn up by four groups of commodities: (1) breadstuffs (grain and flour), (2) beans, peas and rice, (3) pork products and (4) milk. The final deliveries also included various other foodstuffs (*inter alia*, considerable amounts of potatoes) and United States Army Foods. For the latter, no details by commodities are available.

In all the liberated countries, the total deliveries exceeded the programme. In Germany, on the other hand, the estimates were not reached. In fact, Germany received only 40% of the cereals and 50% of the fats which, according to the Brussels Agreement with the Allies (March 1919), she was allowed to import during the blockade.¹ This was partly, if not wholly, due to her inability to pay cash for larger imports.²

Unfortunately, the lack of detailed information regarding the composition of the deliveries makes it impossible to calculate their nutritional value with any degree of accuracy. Table 5 on page 19 affords, however, a rough idea of their energy values.³

On the basis of 2000 calories per person *per diem*, these foodstuffs would have afforded sufficient calories for the whole population of

¹ This deficiency was partly compensated by miscellaneous foods, mainly potatoes.

² Cf. "American Food . . .", page 198.

³ Weight: Appendix Table II. Calories calculated on the basis of the average calorie content assumed in the relief programme ("American Food . . .", pages 32/3): for breadstuffs (3621 per kg.), rice and pulses (3550), milk (2425) and fats (7555); rough estimates used for sugar (3800), miscellaneous foods (mostly potatoes, 1000), United States Army Foods (4000).

Table 5.—Composition of Relief Deliveries, Armistice Period

	Weight Tons (000's)	Calories (000,000,000,000's)
Breadstuffs	3,103	11.2
Rice and Pulses	267	1.0
Milk	100	0.2
Fats	350	2.6
Sugar	57	0.2
Miscellaneous Foodstuffs	338	0.3
United States Army Foods	557	2.2
Total	4,772	17.7

the major European relief area (160 million)¹ for nearly two months.

The relief commodities were sold to the Governments, or, in some cases, to the cooperative societies, of the countries in need, which handled and distributed the supplies. A.R.A. officials made sure, however, that the supplies reached the people who were in distress. With respect to the foodstuffs sold to Germany, it was laid down in the Brussels Agreement that (i) a proportionate part should be distributed in the occupied territories and (ii) no Allied food should be distributed to "unemployed persons, who by their own fault or choice failed to obtain work."²

II. Reconstruction Period.

The diversity of the activities carried on in the "Reconstruction Period" (which runs roughly from the middle of 1919 to the end of Mr. Hoover's relief activities in 1924) by the American Relief Administration—assisted in some countries by other private organizations such as the American Friends Service Committee, the Y.W.C.A. and the Y.M.C.A.—makes it advisable to consider those activities under three headings:

(1) *Child Relief*. Early in March 1919 Mr. Hoover set up the Children's Relief Bureau as part of the American Relief Administration in order to meet the needs of undernourished children from gifts. The American Government provided food and clothing, which were supplemented by the Governments of the receiving countries in so far as

¹ "American Food . . .", page 31, excluding Bulgaria, Turkey, Italy, Netherlands and Denmark.

² Temperley, *op. cit.*, page 318.

they were able. These Governments also arranged for transportation, distribution being effected by national committees consisting mainly of women.¹ Meals were prepared and distributed to millions of children in central kitchens, schools, etc. The children fed were carefully selected according to their state of nourishment and health. Clothing was also distributed to those children who were most in need of it. After the termination of official relief from the United States, these activities were taken over and continued on a much larger scale by the European Children's Fund mentioned above.

(2) *Adult and miscellaneous relief.* This heading comprises:

(a) The "food draft" service. Mr. Hoover organized an ingenious system, whereby individuals in the United States (and other countries) could buy food drafts for a value of \$10 or \$50 and send them to relatives in Central European countries, and later in Russia, where they were convertible into specified quantities of food at the food warehouses of the A.R.A.

(b) "Bulk sales." From the same warehouses, large quantities of food were sold on the spot to various relief organizations. Under both systems, a small amount of clothing was also handled.

(c) In Russia, during the famine of 1922, the A.R.A. distributed food direct to adults in much the same way as to children. The commodities delivered were also partly destined for use as seed grain and the U.S.S.R. paid for part of the deliveries in gold. These transactions, therefore, overlap somewhat with group (3).

(3) *Grain Sales.* The United States Grain Corporation sold large quantities of wheat flour to certain European Governments on credit, having "exhausted every means to sell these stocks at home and abroad for cash."² The distribution of this flour to the final consumers lay outside the control of any United States agency.

The following table shows the geographical distribution of relief activities by value under these various headings. On account of the somewhat special character of the Russian relief, a distinction has been made between deliveries to that country and those to Central Europe.

¹ Cf. page 13.

² "Grain Trade . . .", page 417. e

Table 6.—*Deliveries during Reconstruction Period, by Activities.*

	\$ (000,000's)		Total
	Central Europe	Russia	
Child Feeding	53.3	12.6	65.9
Adult and Miscellaneous Feeding	12.5	46.0	58.5
Grain Sales	77.0	—	77.0
Total	142.8	58.6	201.4

The commodity composition, by quantity and estimated value,¹ of the deliveries during the Armistice and Reconstruction Periods—distinguishing, in the latter period, between child and other relief—is given in Table II of the Annex.

Further details concerning the magnitude of child relief are given in Table III. The total number of "feeding months" is found to be about 100 million which represents some 2,500,000,000 meals provided (one meal every weekday). On the average, every child of Central and Eastern Europe² was fed for one month by the American relief organizations. This was done at an extremely low cost. The cost of commodities imported from the United States was only 66 cents per head per month.³ Of this value, 17%, or 11 cents, was for non-food commodities,⁴ leaving 55 cents for imported food. Governments of the countries where the relief activities were performed in most cases contributed some foodstuffs free of charge. The aggregate value of these commodities was 14.5 million dollars which would raise the cost per child per month by 15 cents, giving a total cost of 70 cents for about 25 meals, or less than 3 cents per meal.⁵ The cheapness of these meals (notwithstanding the relatively high prices paid to the American producers in 1919/20) was due to the use of inexpensive types of food, bought at wholesale prices and to the fact that all warehousing, transportation, cooking and distributing was done without cost. Moreover the low cost in Russia brought down the average; it was

¹ Curiously enough, the Report of the A.R.A. activities ("American Food . . .") does not give total values of the deliveries by commodities. Prices had therefore to be estimated from such information as was available.

² Including Russia but excluding Bulgaria, Greece and European Turkey, which are not listed in Table III.

³ This figure is derived from a comparison of columns (2) and (8) of Table III.

⁴ Cf. Table II.

⁵ This does not include such other supplies as were provided by the local committees, e.g. vegetables ("American Food . . .", pages 85/6).

lower than elsewhere largely because the bulk of relief in Russia was carried out in 1922/3 when prices for farm products were very much lower than in the winter of 1919/20, the period of most of the Central European child feeding activities. Thus the average cost per child per month in Russia was only 36 cents as against about one dollar in all other countries.

The number of months during which children were fed necessarily varied from country to country according to the food situation obtaining; it was highest in Austria where, on the average, every child was fed for five months between the middle of 1919 and the middle of 1922.

Some idea of the nutritive value of the meals provided may be obtained from the following table:

Table 7.—Composition of Children's Meals Distributed in Reconstruction Period

Commodities	Estimated average for all meals*			Meals in Germany handled by Quakers†
	A	B	C	
Flour	47	32	79	70
Rice	14	0	14	16
Beans, Peas	14	1	15	27
Pork Products	8	1	9	11
Milk (condensed or evaporated)	25	1	26	38
Cocoa	4	0	4	4
Sugar	11	3	14	14
Corn grits and misc. foods	3	1	4	0

* A: American food: Quantities in Table II of the Annex divided by the number of meals, which are assumed to have been 2½ billion.

B: Commodities donated by relief countries, calculated per meal.

C: A plus B.

† L. M. Jones, "Quakers in Action," pages 53/4.

The meals in most countries are stated to have given about 670 calories. The standard daily requirements for children of 5-7 years are about 1400 calories and for young persons 12-17 years, 2000 to 3200 calories.¹ The one meal a day was not, of course, intended to suffice by itself. It may be noted, however, that the meals were de-

¹ League of Nations, "The Problem of Nutrition," vol. II, pages 26/7.

cidedly poor in animal proteins and fat, chiefly because of the small allowance of milk,¹ a deficiency which the other meals taken by these children probably did not meet.

There is no information about the amount of green vegetables and fruit supplied locally. In the German child feeding, none seems to have been included.² Diets were, therefore, probably deficient in most vitamins and mineral salts. The total deliveries of cod liver oil amounted to only 85 tons—a quantity sufficient to give about one per cent of the standard ration (3 grams) per meal supplied. With the very wide prevalence of rickets through a lack of vitamin D, this deficiency of the diet supplied is probably partly due to the state of nutritional knowledge at that time, when the function of vitamins was still far from being fully recognized.

It is not astonishing, therefore, to find that the child feeding programme—although it prevented a disastrous child mortality—was not adequate to prevent malnutrition. In Czechoslovakia, a medical enquiry by the American Red Cross in March 1921 showed that 60% of the children receiving meals still remained undernourished and lacking in vitality.³

3. FINANCE

Relief was financed in three major ways: (i) by cash payments made by the relief receiving countries; (ii) by credits extended by the countries furnishing relief commodities, and (iii) by gifts. Table IV indicates the share of each of these sources in financing the total gross value of relief commodities. The gifts represented contributions from private persons or charitable organizations, largely in the United States, and grants from the United States Government. The latter were, to a great extent, derived from profits made by the Government or its agencies on relief transactions.

Table IV deals separately with the Armistice and the Reconstruction Periods and distinguishes between Liberated Countries, Ex-

¹ The weights for milk refer to evaporated and condensed milk. In the case of Germany, each of the two forms accounted for half of the weight; for the total deliveries, no specification is available. Assuming the food content of condensed milk to be at twice, and that of evaporated milk to be five times that of fluid milk, the milk contained in the German meals is equivalent to 133 grams of fluid milk. (Cf. "American Food . . .", page 402).

² For menus in other countries, cf. "American Food . . .".

³ Annual Report of the American Red Cross, 1921/2, page 62.

Enemies, and Ex-Allies and various other countries. Differences in the methods of financing roughly correspond to these distinctions. It is broadly true to say that during the Armistice Period the liberated countries and ex-allies received relief on credit (85% and 93% of the total net value) whereas the ex-enemies paid cash (91%).

The amounts paid by Ex-Enemies to cover the difference between costs and the prices at which the goods were actually delivered to them exceeded the value of the gifts they received, while the liberated countries received a small amount of their relief (4%) as net gifts. But all countries taken together received hardly any net gifts during this period (0.4%). They received credits for 68% of the value of the deliveries and paid 32% in cash.

In the Reconstruction Period, the scale of relief was very greatly reduced. Twenty-five per cent of the total value of relief afforded during this period was derived from profits made earlier and ploughed in (classified in "American Food in the World War and Reconstruction Period" as "gifts"). From private charity and grants by the United States Government 31% was obtained, making the total percentage of gifts 56. Only 6% was paid in cash (almost entirely by Russia) and 38% was obtained on credit.

In the Reconstruction Period, the form of finance adopted was determined by the nature of the relief rather than by the war status of the country.¹ In almost all countries (the one notable exception being Russia) all meals were distributed on a purely charitable basis. The only credit transactions recorded are grain sales.

Thus it is clear that large-scale gifts were only made eight months after the armistice;² before that date, food was sold for cash or on credit. In their immediate effect on the financial reserves of the country receiving relief, purchases on credit do not differ substantially from gifts, especially if the service of the loans is kept low in the first years.³ From the point of view of immediate financial strain, the real

¹ Cf. Table 6.

² This statement refers to relief covered in Table IV. Some charitable organizations, such as the Red Cross, the Jewish Joint Distribution Committee and the Quakers, had been distributing relief during the war and continued this work after the armistice. It may be noted, in this connection, that the Quakers' work in Germany did not start before the end of 1919.

³ The actual service of the relief loans was, in fact, negligible till about 1923. Cf. Section 4.

distinction is between credit or gifts on the one hand and cash sales on the other.

That distinction is important for, if serious monetary trouble is to be avoided, countries must dispose of a certain stock of foreign exchange in order to meet a temporary passive balance in their international accounts. The sale of relief commodities for cash, if pushed too far, may involve the risk of unduly depleting such reserves and of entailing currency depreciation.

This depreciation did, in fact, take place. It would be a great exaggeration to attribute it entirely, or even mainly, to the way relief was financed. But this was one of its causes in the case of the ex-enemy countries, from which large reserves were withdrawn during the Armistice Period. For some of the liberated countries also, the termination of the sale of essential foods on credit after this period—when the need for relief had by no means passed—produced a considerable strain on the exchange rates.¹

Rapid exchange depreciation may well jeopardize the very purposes of food relief. It impoverishes those with fixed or slowly adjustable incomes and hence worsens the distribution of the food supplies. In undermining the value of small savings, it increases the risk of social upheaval which the food deliveries were intended to prevent. By lowering the price level, in terms of gold, of the country suffering from it, it leads to exchange dumping. Depreciation proved to be harmful both to the country whose currency lost value and to the world at large. "Stabilization credits" were, in most cases, granted to reconstitute a sufficient stock of foreign exchange; and the sale of relief commodities for cash was, increasingly, replaced by credit transactions and direct gifts. It is instructive to note that in 1924 Germany was given a stabilization loan of 190 million dollars after she had been obliged to pay 282 million dollars in cash for essential foods in 1919.²

As mentioned above, most tables in this study cover only the relief activities with which the A.R.A. and its subsidiaries were in sufficient contact to be able to incorporate them in their reports. Estimates of the

¹ The stoppage of relief loans is quoted as an important reason for the fall of the Czech Krone after the middle of 1919. (Rasin, "Financial Policy of Czechoslovakia during the first years of its history," page 67).

² The gold reserves of the Reichsbank fell from \$539 millions (2262 millions of Gold Marks) at the end of December, 1918 to \$266 millions (1116 millions of Gold Marks) at the end of June 1919.

value (but not, unfortunately, of the tonnage) of relief distributed by certain European Governments and the most important private organizations not, or only partly, covered in the A.R.A. report are given in Table V of the Annex. The totals are as follows:

Table 8.—Value of Relief other than that covered in Table IV

A. <i>Government Loans</i>	\$(000,000's)	
United Kingdom ¹	19.5	
Italy	4.0	
Netherlands	13.9	
Norway ²	55.3	
Switzerland	4.7	
Sweden *	1.3	
Germany	3.0	
	<hr/>	101.7
B. <i>Private organizations (gifts)</i>		
American Red Cross	117.1	
Near East Relief	40.6	
American Jewish Joint Distribution Committee	33.5	
American Friends Service Committee	7.1	
British Charitable Societies	7.2	
	<hr/>	205.5
A. <i>plus</i> B.		<hr/> 307.2
Gross value of relief shown in Table IV (agencies covered by the American Relief Administration's report)		<hr/> 1,468.1
GRAND TOTAL		<hr/> <hr/> 1,775.3

¹ Reconstruction Period only. Relief by the British Government in the Armistice Period is entirely covered by the A.R.A. report.

² The relief deliveries from Norway consisted of fish and fish products. The following figures are of interest in this connection:

	<i>Norway's export of fish in tons (000's)</i>				
	1913	1919	1920	1921	1924
Germany	46.3	158.3	222.7	108.3	95.5
Finland	0.6	12.3	0.7	0.3	0.7
Latvia	.	0.8	7.4	3.3	0.4
Lithuania	.	0.3	2.3	0.1	—
Estonia	.	1.5	2.6	1.8	—
Poland	.	8.8	24.6	0.7	4.0
Czechoslovakia	.	—	2.2	0.3	0.4
Austria	1.6	0.1	1.6	0.7	0.5

(Compiled from "Norges Handel," 1913, 1919-1921, 1924.)

4. THE RELIEF LOANS .

The total postwar relief debt of each debtor country to each of the creditor countries is set out below (Table 9). It will be observed that in every case (with the exception of Germany and Austria) by far the larger part of the total debt was owed to the United States.

Table 9.—Total Postwar Relief Loans from All Countries
\$(000,000's)

BORROWING COUNTRIES	LENDING COUNTRIES								PER HEAD ^j \$
	U. S. ^a	U. K. ^b	France	Italy	Nether-lands ^c	Nor-way ^c	Others	Total	
Finland	8.3	—	—	—	—	0.6	1.1 ^d	10.0	3
Estonia	14.2	1.8	—	—	—	—	—	16.0	15
Latvia	5.2	0.1	—	—	—	—	—	5.3	3
Lithuania	5.3	0.1	—	—	—	1.8	0.3 ^e	7.4	4
Poland	135.8	19.7	—	—	6.2	3.8	1.0 ^e	166.5	6
Czechoslovakia	78.6	2.5	—	—	—	—	3.0 ^f	84.0	6
Yugoslavia	33.7	9.6	—	—	—	—	—	43.3	4
Roumania	36.5	10.0	—	—	—	—	5.4 ^g	51.9	3
Armenia	11.9	0.7	—	—	—	—	—	12.6	.
Russia (non-Soviet)	13.5	—	—	—	—	—	—	13.5	.
Germany	—	—	—	—	1.0	48.7	—	49.7	.
Austria	24.1	46.3	20.5	22.0	6.7	0.4	4.7 ^h	124.7	20
Hungary	1.7	0.6	—	—	—	—	—	2.3	0
Belgium	196.4	—	—	—	—	—	—	196.4	26
France	213.1	—	—	—	—	—	—	213.1	6
TOTAL	778.3	91.4	20.5	22.0	13.9	55.3	15.5	996.9	
<i>Per cent</i>	<i>78</i>	<i>9</i>	<i>2</i>	<i>2</i>	<i>1</i>	<i>6</i>	<i>2</i>	<i>100</i>	

a Table IV of the Annex.

c Table V of the Annex.

e Sweden.

g Canada and Newfoundland.

j Population about 1920. See Annex Table VIII.

b Tables IV and V of the Annex.

d Denmark.

f Germany.

h Switzerland.

Nearly 80% of the postwar relief credits were granted by the United States. These credits, however, form only a small part of the huge amount of short-term debt owed to the United States Treasury after the war by the countries which had received relief. The total of such debt was as shown overleaf:¹

¹ Figures by countries are shown in Table V5 of the Annex².

	\$(000,000's)
Relief deliveries:	
• Advances under Liberty Bond Acts	473
Credit sales of surplus war materials	378
American Relief Administration and Grain Corporation loans	142
	<hr/>
Total	993
Loans for other purposes	3,396
	<hr/>
Total loans	4,389

The debtor countries concluded a series of funding agreements with the United States, mostly between 1923 and 1926, which considerably changed the terms of the credits. The main conditions of these agreements were as follows:

(a) To the capital amount of the debt was added the interest in arrears as at December 15th, 1922, recalculated at $4\frac{1}{4}\%$ instead of the 5% as originally stipulated.

(b) To the amount so obtained, interest was added up to the day of funding, in most cases at 3% .

(c) The total funded indebtedness so arrived at was to be repaid over 62 years.

(d) The interest on this debt was in most cases fixed at 3% for the first ten years and at $3\frac{1}{2}\%$ afterwards; a much lower rate of interest was agreed upon in the debt settlements with France, Italy, Belgium and Yugoslavia.

(e) For some countries, provisions were made for a largely reduced service during the period up to 1932, to be compensated by higher payments after that date.

The funding agreements pooled together all types of loans so that the United States relief loans became absorbed in the "War Loans." It is, however, interesting to estimate separately the total payments made on account of relief loans. The repayments of relief loans up to the day of funding amounted to only 0.6% of the principal, as against about 1.8% for war loans to the same countries. At the time of the funding agreements no repayments had been made at all on the loans for surplus war materials and the American Relief Administration loans, though most of them had fallen due.

The amounts paid to the United States in respect of service on the

relief debt prior to and after funding are shown in Table VII of the Annex. The totals are as follows:

	\$(000,000's)
Payments up to December 15th, 1923:	
Liberty Loans	18.0
Surplus Material Loans	35.8
A.R.A. and Grain Corporation Loans	0.6
	——— 54.4
Payments from December 15th, 1923 to March 1st, 1939	94.3
	———
Total payments from the Armistice to March 1st, 1939	148.7

Since hardly anything was paid after the 1931 moratorium,¹ the total payments of about 150 million dollars on a relief debt of nearly \$1,000,000,000 were made during about twelve years. A rough actuarial calculation shows that these payments—supposing them to have been evenly distributed over the whole period—represent the amortization and interest service of a 4¼%² debt of slightly over 100 million dollars. It follows that the United States, though on paper selling for about \$1,000,000,000 on credit, actually made a transaction equivalent to a cash sale of some 10%, plus a gift of 90% of the total amount of relief. To the recipients, however, an outright gift made at the outset would have presented obvious and in some cases vital advantages over the relief loans on which there was ultimate default.

The relief credits granted by the United Kingdom and France were not assimilated to war loans. The latter were considered as "political" loans.³ All relief credits were funded at various dates between 1922 and 1927,⁴ on terms which were less favourable to the debtors than those granted by the United States: accrued interest up to January 1925 at the rate of 6%, current interest thenceforth at 5% and repayment in from five to twenty years.⁵

The relief credits granted by the United States were, with two exceptions (Austria and Hungary), given without any specific security. There were only promissory notes of "Governments and

¹ Finland and Hungary have made payments.

² This rate is used in many calculations of the United States Treasury on this subject; it is the approximate rate of borrowing of the United States Government around 1926.

³ Cf. Moulton and Pasvolsky, "War Debts and World Prosperity," page 109.

⁴ *Ibidem*, pages 130 ff.

⁵ Apart from the special case of Austria, dealt with below, where the period was 40 years.

so-called Governments" (the term used in statistics of the United States Treasury). The funding agreements, with the same exceptions, did not pledge particular assets.

But the two ex-enemy countries (Austria and Hungary) which received relief credits had to pledge important state revenues (customs and State monopolies receipts) for the service of these loans. These revenues were assigned in favour of all countries granting relief credits to Austria and Hungary. The assets previously pledged to the service of the reparation loans were released by the Reparation Commission on behalf of Relief Loans, reparation payments remaining as a second charge.

This situation proved a very serious handicap when, after the food situation had been somewhat improved, the need for foreign loans for reconstruction purposes became pressing. To issue such loans, free assets were indispensable. In fact, however, (1) all state revenues were doubly pledged, and (2) there was no central organization empowered to decide on the release of the liens.¹ It was necessary, therefore, for the debtor countries to enter into long negotiations with the different Relief Bond-holding Governments,² several of which had to submit the matter to Parliament. The time involved actually brought Austria to the verge of collapse. The following time table³ shows that two years elapsed between the drawing up of the Austrian reconstruction plan and the issuing of the loan :

March 1921	Great Britain, France, Italy, Japan, agree (i) to release the assets pledged by Austria to Reparation and Relief Loans, in favour of a Reconstruction Loan; (ii) to ask the 13 other creditor countries (on relief and reparation account) to do the same; (iii) to ask the League of Nations to prepare a reconstruction scheme.
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¹ With respect to the relief loans—with respect to reparations, the Reparation Commission had this power.

² They were: France, Great Britain, Sweden, Norway, Denmark, Switzerland, Netherlands, the United States, in the case of Hungary; the same plus Italy in the case of Austria. Some of the loans given by the five smaller countries were only very small; since they were not given for relief proper but for the repatriation of prisoners of war, they are not included in Table V.

³ League of Nations, "The Financial Reconstruction of Austria: General Survey and Principal Documents." (See: L.O.N.P. 1926. II. 30).

- June 1921 League scheme approved by Council and forwarded to Allies. This scheme was not put into operation because the negotiations for the release of the assets proceeded very slowly.
- February 1922 To prevent an immediate crisis, France, Great Britain, Czechoslovakia and Italy grant credits and postpone their claims on account of earlier loans for a period of twenty years.
- April 1922 Act of United States Congress authorizing release of assets.
- August-October 1922 On appeal by Austria, reconstruction loan plans are elaborated by the Financial Committee of the League.
- August 1922 Reparation Commission released liens on certain Austrian assets to serve as security for the new Bank of Issue.
- October 1922 *idem* for service of provisional short-term loans under the League scheme.
- December 1922 By this date all countries holding Relief Bonds had notified the Reparation Commission of their willingness to release their lien for the two purposes mentioned.
- February 1923 Short-term loan granted.
- February 1923 Reparation Commission released liens on Austrian assets for long-term loan. Asked Relief Bondholding states to do likewise.
- June 1923 All countries holding Relief Bonds agreed to release liens.
- June 1923 Long-term loan issued.

Under the conditions of this loan, the Relief creditors abandoned their first charge on the Austrian assets for twenty years, and agreed to a suspension of the service of the loans during that period.

In 1928-30, however, Austria funded her relief debt on the basis of forty annuities from 1929 to 1967 with a provision that payments might be suspended at the demand of the Trustees of the League loan at any time up to 1943. Austria met her obligations till the Hoover moratorium.

In the case of Hungary, the negotiations took less time.¹ Hungary² first approached the Reparation Commission in April, 1923; the first reconstruction scheme was elaborated by the League in December of that year; the loan was floated in July, 1924.

The relief loans given by European creditor countries to Austria and Hungary were on the same conditions as those given by the United States. The service of the loans to the other debtors formed a first charge on any receipts accruing to the debtor Government by way of

Table 10.—Cash Payments for Relief, and Relief and Reconstruction Loans

\$(000,000's)

COUNTRY	Cash Payments ¹	Relief Loans ²	Reconstruction Loans ³	Total Loans ⁴	LOANS: \$ PER HEAD ⁵	
					Relief	Reconstr.
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Finland	18	10	51	61	3	15
Estonia	1	16	8	24	14	7
Latvia	—	5	6	11	3	3
Lithuania	—	7	2	9	4	1
Poland	1	167	148	315	6	6
Czechoslovakia	26	84	79	163	6	6
Yugoslavia	—	43	75	118	4	6
Roumania	—	52	120	172	3	7
Armenia	1	13	—	13	.	.
Russia (non-Soviet)	—	14	—	14	.	.
Germany	283	50	327	377	1	5
Austria	37	125	143	268	20	22
Hungary ⁶	—	2	98	100	—	12
Bulgaria	5	—	38	38	—	9
Belgium	—	196	311	507	25	40
France	5	213	233	446	5	6
TOTAL	377	997	1,639	2,636	.	.

¹ From Table IV of the Annex.

² From Table 9.

³ Nominal value of all long-term loans obtained by the Central and Provincial Governments of the countries in column (a) in the United States, United Kingdom, France, Netherlands, Switzerland and Sweden in the period 1919 to 1929 inclusive. For Austria, the value of the tranches of the League loan placed in Italy, Belgium, Czechoslovakia and Spain have been included. Source: League of Nations.

⁴ Sum of columns (c) and (d).

⁵ Population about 1920. See Annex Table VIII.

¹ Cf. League of Nations, "The Financial Reconstruction of Hungary: General Survey and Principal Documents." (Ser. L.o.N.P. 1926. II. 54).

² Hungary came to a debt settlement with the United States in 1924 which provided for a release of security—but not for suspension of payments—on behalf of Hungary's reconstruction, provided all other relief⁶ creditor countries acted similarly.

“compensation, reparation or indemnity from the enemy or ex-enemy Governments, or any of them, subject to any charges already created thereon in respect of previous loans.”¹

Table 10 compares the relief loans with cash payments for relief, and reconstruction loans.

5. PRICE POLICY: THE EFFECT OF RELIEF ON PRICES AND STOCKS

It was not the intention of the American Relief Administration and the other United States organizations engaged in relief to make profits from these transactions. Nor were they authorized to incur losses, except in the specific instances where the United States Government furnished relief as a gift. A careful balance had therefore to be struck to avoid either profit or loss arising from this very large-scale undertaking. As it turned out, the prices charged for relief resulted in a by no means negligible profit which, as mentioned earlier, was handed over for children's relief in the Reconstruction Period.

Unfortunately, precise information concerning the prices charged is not available; for instance, the total value of all wheat delivered, or of the wheat delivered to each country seems never to have been published. Some indication of the margins on which the Grain Corporation operated is given by the following figures:

	\$(000,000's)
Total deliveries by London Office of Grain Corporation, sales value	378 ²
Of which United States Army stocks in Europe, sales value	53 ³
	—
Commodities bought in United States, sales value	325
Value of purchases for London Office, f.o.b. New York	233 ⁴
	—
Difference	92

From this difference, which amounted to 40% of the value of the purchases, shipping charges had to be met. In the case of deliveries to

¹ International Financial Conference (Brussels), Paper X, page 6. This priority was maintained in the funding agreements, where, however, reparations in kind were specifically excluded.

² “Grain Trade . . .”, page 414. Tallies with data in “American Food . . .”. The great majority of these commodities was delivered during the Armistice Period.

³ “American Food . . .”, page 321.

⁴ “Grain Trade . . .”, Table 24, and page 411.

Austria by the United Kingdom and France of commodities bought in the United States, transportation costs amounted to 29% of the f.o.b. value. If we apply this same percentage, the remaining 11% would have left the Grain Corporation in its transactions with about 26 million dollars. This figure is in approximate accordance with the amounts which were eventually turned over to child relief activities, viz. 28 million dollars.¹

Prices charged varied greatly from one country to another. A system of margins was used to provide against all possible risks, including revolution and confiscation of stocks. An additional price margin on part of the deliveries had to be added for the following reason. For the deliveries under the \$100 million Congressional appropriation for relief, the receiving countries had paid the A.R.A. in promissory notes for the total gross value, inclusive of all overhead. The United States Treasury, however, was only willing to take over notes for the f.o.b. value of the commodities plus the net transport costs. The difference of about 25 million dollars had to be absorbed by the Grain Corporation, which decided to compensate this loss by an additional margin on other commodities delivered during the Armistice Period. The gross value of these other deliveries was \$266 million; these commodities were, therefore, about 10% more expensive for this reason alone. Since the Congressional appropriation could not be used for deliveries to enemy countries, the latter presumably suffered most from this margin.

The operating expenses of the A.R.A. were not high. These expenses, including the cost of the London Office of the Grain Corporation and all the expenses on the Continent attained \$2 million or slightly over $\frac{1}{2}$ % of the relief value handled by the A.R.A. (\$380 million).²

Another important source of relief was the sales on credit by the United States Liquidation Commission of goods in Europe to a total value of \$382 million, excluding non-relief commodities. The relief commodities consisted of:

(1) food "some of which by reason of its quality and condition

¹ i.e. \$3,200,000 donated to the European Relief Council and \$25,110,000 donated to the European Children's Fund ("American Food . . .", pages 78 and 145).

² "American Food . . .", page 43. The salaries of the officials of the A.R.A. and the Grain Corporation were "usually paid by other departments of the United States Government." (*Ibidem*, page 76).

and of the form of package . . . had comparatively small commercial value”;¹

(2) salvaged and repaired clothing which, “though decent and warm, had small commercial value.”²

These commodities were sold for their original cost price, including transportation to France, minus an allowance for deterioration amounting, on an average, to 25% for clothing and 16% for food. The price was considered “fair and just in the light of the quality of the securities and other circumstances associated with the transactions.”²

In the Reconstruction Period, the majority of the relief deliveries—including the sales on credit by the Grain Corporation—are recorded c.i.f. Where, however, the Hoover organization sold commodities from warehouses in the relief countries by means of “food drafts,” or in bulk, to American relief societies a margin of profit was added to costs in order to provide funds for further relief. In the case of Russia, this margin was very considerable and averaged 46% of the c.i.f. values of the deliveries affected.

Most of the relief provided by the various relief societies consisted entirely of gifts, and the value attributed to the commodities distributed is consequently only of bookkeeping interest. Where the commodities were purchased by these societies from the American Relief Administration or the United States Army stocks, they are automatically entered at the same f.o.b. prices as the A.R.A. deliveries. In some cases, where no price was available, they are recorded³ at estimated prices. Where the commodities were donated in the United States, the value attributed is quite arbitrary. Thus, of the total Red Cross shipments to Europe in the two years 1918/19 and 1919/20, about \$25 million represents the estimated value of the volunteer knitting and sewing labour incorporated in the commodities.

It is of interest to consider the effect of relief sales on the price situation for farm products in the United States.

During the war, the prices for American farm products had been kept high as a matter of policy. A minimum price of \$2.00 per bushel

¹ Final Report of the United States Liquidation Commission, page 39.

² *Ibidem*, page 30.

³ In “American Food . . .”.

for wheat was guaranteed by Congress up to the 1919 crop, inclusive.¹ In response to the high price of wheat, farmers had largely extended production as was required in order to assure adequate supplies for the Allies. With the Armistice, shipping capacity was released, and it was feared that prices would come down to those ruling in Australia and the Argentine (\$1.20-\$1.50 per bushel for wheat). A catastrophic loss seemed to threaten the American farmer, which would have fallen ultimately on the United States Treasury because of the wheat guarantee. Congress, in March 1919, appropriated one billion dollars to cover the loss to which this guarantee was expected to lead.

But this appropriation was not required. As stated above, in February an act was passed appropriating \$100 million for relief, and additional credits were opened by the Treasury to certain of the liberated countries. The deliveries made to Europe against these credits and, after the lifting of the blockade on enemy countries, at the instance of Mr. Hoover, against cash, helped to keep prices above the guaranteed minima.²

Thus, additional demand was directed to the United States market, almost irrespective of the prices obtaining in other countries, and the volume of relief loans was inflated accordingly. As shown by the following import statistics, the United Kingdom, being able to buy in the cheapest market, redirected her purchases to countries other than the United States after the Armistice:

		cwts. (000,000's)		
		1918	1919	1920
Wheat	{ from the United States	50	46	54
	{ from Argentina, Australia and India	19	24	53
Corn	{ from the United States	8	1	2
	{ from Argentina	4	14	29
Chilled and frozen beef	{ from the United States	3.6	0.9	.
	{ from Argentina	2.0	3.9	.

But the relief receiving countries were not in a position to do the same. They had no buying organization and could not dispose of shipping capacity; neither had they, as had the A.R.A., the authority to secure overland transportation through other European countries.³

¹ The average price received by farmers was 97 cents in 1914, \$1.43 in 1916.

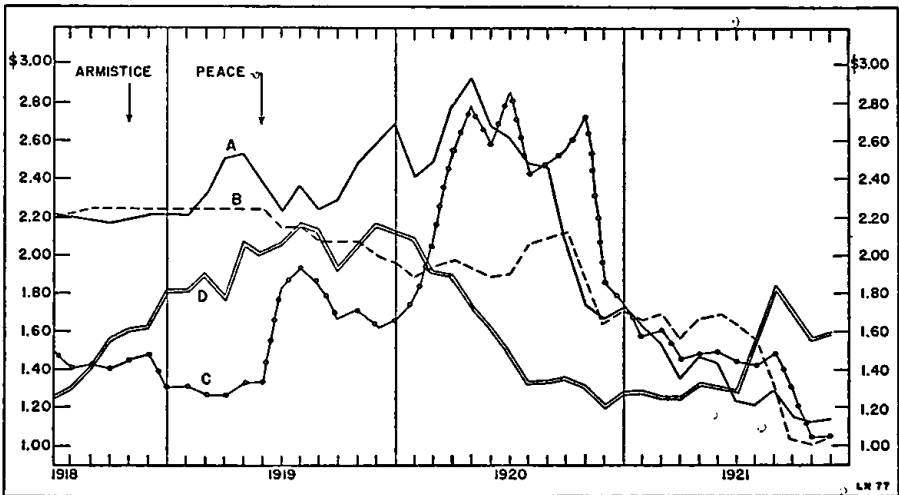
² Cf. F. M. Surface, "The stabilization of the price of wheat during the war and its effect upon the return to the producer," Washington, 1925, page 17.

³ Cf. Section 6 below.

And, most important, they could not finance their purchases themselves.

Diagram—Prices of wheat, in U.S. dollars per bushel
July 1918-December 1921

- A.* United States (weighted average of price for cash sales at Minneapolis, Kansas City, Chicago and St. Louis).
- B. Canada (No. 1 Northern, Winnipeg).
- C. Argentina (Barletta, Buenos Aires).
- D. India (Karachi).



* This index did not exist prior to July 1918.

That prices of wheat were higher in the United States than in the other producing centres is clear from the adjoining diagram, based on data compiled by the United States Grain Corporation.¹ During the period from January 1919 to May 1920 (the end of the Grain Corporation's activities), the average United States wheat price was \$2.48 per bushel as against \$2.08 for Canada, while the prices in the two countries were very near to one another before and after the operations of the Grain Corporation. The relief deliveries were instrumental in the maintenance of these relatively high prices and were thus of immense importance for the prosperity of the American

¹ Surface, "The Stabilization . . .", pages 76/7.

farmer, even though most of the relief credits proved valueless in the end.¹

It is difficult to determine to what extent the commodity composition of relief in the Armistice Period would have been different, if it had not been influenced by the actual surplus situation in the United States market. The fact was that, at the moment of the Armistice, the Grain Corporation had large stocks on hand, and had stimulated the production, of a variety of important foods: wheat, pork, beans, etc., each of which was suitable for relief. Hence, deliveries of foodstuffs of any kind for relief helped to provide the desired assistance to the American market.

During the Reconstruction Period, relief was less influenced by the situation of American agriculture. Two important cases, covering together almost half the value of total relief during this period, stand out, however. The first is the above-mentioned sale on credit to certain European countries of wheat flour unsaleable in the United States.² The other is the use of 18.7 million dollars profit of the Grain Corporation to buy relief commodities for Soviet Russia.

At the end of 1921, the price of corn declined to disastrously low levels. From about \$2.00 per bushel at the height of the boom, it had come down to some 60 cents in the first half of 1921; the December average was under 47 cents. The visible supply of corn in the United States and Canada was in excess of normal by some 10 million bushels. By an Act of December 1921, Congress authorized the President to spend out of the funds of the Grain Corporation a sum not exceeding \$20 million for relief in Russia. The commodities to be delivered were specified as corn (as the only food grain), seed grain and preserved milk. Under this arrangement, some 12 million bushels of corn (partly in the form of corn grits) were delivered. This relieved the market, and "resulted in raising the price of corn from the abnormally low level where it was being sold at a loss to the producer to a distinctly profitable level."³

¹ *Ibidem*, page 17; "Any failure in handling the European situation would have caused great losses both to the Government and the farmers."

² Page 20.

³ "Grain Trade . . .", page 422.

6. TRANSPORTATION

No measures were taken in advance for the provision of shipping facilities, nor was any agreement reached. On the contrary, a proposal of the Allied Maritime Transport Council designed to meet the needs of relief was not accepted by the American authorities. This was in line with the general unwillingness of the United States Government to continue international controls after the Armistice. But the coordination of the relief programmes for all countries did lead to an economical use of all tonnage available for this specific purpose.¹ Ships left from the United States for the Northern or Southern port of call (Falmouth or Gibraltar) and were redirected en route to the place where the cargoes were most urgently needed. For coastal traffic, use was made of American ships of the lake-boat type (a vessel of 2,000 to 3,000 tons developed for use on the Great Lakes). For the earliest deliveries, the United States War Department furnished vessels that had become free on the Armistice. Tonnage delivered by enemy countries was used for transportation of relief to them. When necessary, cargoes were stored in central ports (e.g. Rotterdam) for later re-shipment.

To make overland transportation possible, the Supreme War Council decided early in March 1919 that all States of the old Austrian Empire should contribute a definite amount of rolling stock to be operated under the Director General of Relief with complete priority over other services and complete freedom from inter-national limitations on railway transportation. At the same time, the reconstruction of the Central European railway system was directed by American engineers. Thus in contrast to shipping, a supernational organization was created for land transport as the only way to handle the delivery of relief effectively. The re-establishment of a working transport system not only facilitated the distribution of imported relief commodities but also in many cases rendered possible the mobilization for relief of resources available on the Continent.

¹ Cf. "American Food . . .", pages 128 ff.

7. CONCLUSIONS

It may be convenient to terminate this study with a summary of certain of the lessons that may be drawn from this past experience.

(a) *Urgency.*

The last war ended in the autumn when the need was greatest and the possibility of relying on domestic supplies, except for cereals, was least. Although the shipment and transshipment of goods to Europe was expeditiously carried out and great efforts were made to effect actual deliveries with the least possible delay, no substantial deliveries of foodstuffs were made, except in Belgium and northern France, before the end of January 1919. The major relief period, therefore, was confined to the period from February to August 1919. Amongst the initial difficulties that had to be faced during the three months between the Armistice and the start of regular relief deliveries, the following may be mentioned.

First, deliveries were inevitably impeded by the continuation of local fighting and the breakdown of internal administrative organization in many parts of Central and Eastern Europe. Partly as a result of these conditions, the system of communications had almost completely broken down, and land transport was consequently slow and uncertain.

Secondly, deliveries could not be undertaken without information regarding local needs; and time was required to obtain trustworthy reports of the situation in Central and Eastern Europe, the seriousness of which, indeed, few persons among the Allied and Associated Governments realized before the Armistice.

Thirdly, difficulties were encountered in coordinating the relief efforts of the United States and the Allies, and, notwithstanding the existence of various bodies which had been engaged in relief activities, it took time to create an adequate relief organization on the spot.

A fourth cause of difficulty was the delay in obtaining legislative approval of relief credits. Such approval was, in fact, not granted in the United States until the end of February 1919. This difficulty, however, was largely overcome by provisional arrangements and by the drive and initiative of Mr. Hoover; it could have been prevented if funds had been allocated during the war.

As mentioned earlier in this study, the stock situation in the United States at the end of the last war was not such as to put difficulties in

the way of large-scale export for relief purposes. The problem, indeed, was not to eke out supplies for relief but rather to dispose of surpluses. Had such surpluses not been available, it would no doubt have proved difficult to arrange at short notice for the large exports required.

(b) *Needs to be met.*

The real needs were obviously never completely met, nor were they fully surveyed. They were considered, indeed, almost exclusively in terms of calories. That was, perhaps, inevitable, but it is clear that the first action required in order to meet such a situation with any hope of producing an optimum result is to estimate insofar as possible in advance what the real needs of food (including protective foods) and such essentials as soap, medicine and clothing are likely to be and how far they can be met from the available resources.

(c) *The provision of goods to cover the needs.*

In order to contribute to the food supply of the Allies, and with a view to the need for food of Europe as a whole after the war, the United States Food Administration had greatly stimulated agricultural production. As a result the exportable surplus of foodstuffs in the harvest year 1918/19 was three times as large as the prewar annual exports. Large stocks of cereals and pork products existed in 1918 and this factor was naturally taken into consideration in drawing up relief programmes. Certain of the more obvious defects, from a dietetic standpoint, in the composition of the relief deliveries were due to the then state of nutritional knowledge and to the fact that, even if the need for vitamins had been understood, there was no way of manufacturing them. Today the resources of available food consist not only of the stock of provisions at any moment of time but also of the industrial equipment for preparing certain categories of protective foods in condensed form.

(d) *Transportation.*

It is both clear from past experience and obvious on the face of it that, if the tonnage available is to be utilized to the best advantage at a moment of extreme postwar urgency, a joint plan of allocation between the demand for the repatriation of troops, for transportation of foodstuffs, raw materials and other essentials requires to be made in advance.

(e) *Financial provisions.*

Almost 80% of the total relief not paid for in cash was granted in the form of loans. These loans fell into two classes :

- (i) those to Austria and Hungary which necessitated the pledging of certain revenues and specified a prior claim for service ;
- (ii) those to all other countries against which no, or no important, revenues were assigned. According to normal practice, however, these loans too involved a claim ranking prior to any loans subsequently issued.

The wisdom of loans of this sort requires very careful consideration. Their merit was that they could be, and were, effected without giving rise to undue delay. But the disposal of goods in this manner against credits bearing rates of interest which, although not very low, bore little relationship to the risks involved, constituted a compromise between the rival claims of finance and humanity that entailed, not unnaturally, unfortunate effects. The service ultimately paid on these loans was negligible, and at no moment of time could the majority of them have been considered a sound investment, except indirectly as a result of the contribution they made to the restoration of economic activity in Europe. Looking back now on the hurry of those months in the light of subsequent events, it is clear that, had it been possible, it would have been to the advantage of all concerned if a greater part of the relief had been given outright. All countries, including the donors, may well have reaped benefits from the relief delivered against these loans far exceeding in value their amount. In circumstances such as obtained in Europe at the end of the last war, it may well be sound financial and economic policy for governments in a position to do so to make contributions *à fonds perdu* in order to expedite the revival of economic activity in the stricken areas. Nothing is gained by dressing such relief in deceptive financial attire. Indeed, the effect of the relief loans granted in 1919 was, in at least one case, seriously to impede the vital work of reconstruction and thus to offset the very economic advantages that might have been gained from the relief afforded.

At the same time there is no *u priori* reason for assuming that loans

for the sale of foodstuffs urgently needed are socially undesirable or financially unsound. A country short of food at the end of a war may well require temporary accommodation and be fully competent to meet its obligations later. Food relief is, in fact, but the first step in general reconstruction and should be considered as part of the wider reconstruction problem. When there is reason to believe that the total reconstruction needs are so great that, if disaster is to be avoided, the country in question must obtain some direct assistance in the form of what ultimately becomes a gift, then it is probably wise to make the gift and to make it at once.

In any policy of relief and reconstruction, it is necessary to decide first what sacrifice is to be made on purely humanitarian grounds and what sacrifice it is desirable to make in order to prevent social disturbances and to establish such order in war-affected areas as will permit of the revival of economic activity. Such considerations should determine the amounts of direct aid that may be rendered, the cost of the first step in reconstruction. Beyond the limits of such aid purchases should be effected either against cash or credit on a sound financial basis with or without government assistance. If the first step is miscalculated and adequate direct aid is not granted to render the country credit-worthy, then any subsequent scheme for reconstruction may break down and the credit granted under such a scheme prove unrecoverable. Relief and reconstruction are two stages in an uninterrupted process of transition; and the distinction between them is determined not by the class of goods involved but by the conditions, or absence of conditions, for repayment.

It is obvious that one of the major difficulties after any great war is likely to arise out of the magnitude of fixed money obligations. To add further obligations the service of which cannot be met, must sooner or later have harmful consequences. The burden of such obligations is, of course, determined not simply by the capital sum involved, but by the rate of interest and the stipulations regarding amortization. Financial transactions, whether for the provision of food or raw materials or plant or bank reserves, if they imply repayment (as they must), can only be devised within the general framework of some agreed anti-depression policy—a policy for the maintenance of full employment. Relief, therefore, from the point where gifts cease, becomes part of the general problem of reconstruction.

(f) *Withholding of relief credits from enemy countries.*

The principle in force during the Armistice Period under which the enemy states, unlike the allied and liberated countries, were required to pay in cash so long as they had any assets with which to pay, gave rise in the long run to serious economic repercussions. It affords a further illustration of the basic mistake of failing to consider problems of reconstruction at the outset.

(g) *Machinery of relief administration.*

This existed before the Armistice and proved of very real value. The machinery required only to be expanded, not created. One fact that emerged from the actual working of that machinery was the great economy of effort, food, and money resulting from communal feeding. On the other hand, there was at least a partial failure to test the health effects of the food supplied.

(h) *Consideration of costs.*

After the last war there were considerable stocks of foodstuffs available in the United States, and large supplies were forthcoming owing to the wartime expansion of production. In considering what relief implies to any country granting it, in a situation such as prevailed in the United States at the end of the last war, it is necessary to take account not only of the accountancy cost of the supplies that may be furnished, but also of the real economic cost. When large surplus stocks of commodities are held by Governments, either owned outright or held in pledge against loans advanced to farmers, the real cost of gifts from these stocks is not the book value of those gifts. Any fall in price of the commodities held by the Government since the moment when it acquired them constitutes a loss and any rise a gain, which the Government incurs anyway. But the real cost of any gifts is not equal to the market value of the commodities donated. The real cost may be estimated narrowly or broadly. Narrowly estimated, it equals the market value of the stocks *minus* the new value which the remaining stocks acquire as a result of the disposal of part of the total. If, for instance, a Government held stocks of:

100 units at a market price of 5, total value 500, and gave away
25 with the result that the price of the remaining 75 rose
to 10,

then the government making this gift would derive a net gain of:

$$750 - 500 = 250.$$

If it disposed of 50 units with the same effect on the price of the remainder, there would be no profit or loss.

Viewing the problem broadly, it is necessary to consider the effects of such gifts not only on the value of stocks held, but on the whole market position and on the chances afforded to farmers and others to continue to produce at a profit. Any action taken to relieve the market of the depressing effects of excessive stocks will, of course, benefit those engaged in current production.

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TABLE I
RELIEF PROGRAMMES AND RELIEF DELIVERIES, ARMISTICE PERIOD
A. Deliveries **B. Programmes**

COUNTRY	QUANTITIES IN TONS (000's)									Total Value \$(000,000's)	
	Bread-stuffs	Beans, Peas and Rice	Pork Products	Milk	Cocoa, Sugar, Misc. Food	U. S. Army Food ¹	Total Food	Soap, Clothing, etc.	TOTAL		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
Finland	A	172.3	7.4	2.6	.1	2.2	—	184.6	.3	184.9	29.2
	B	60.0	3.0	4.5	1.5	—	—	69.0	—	—	.
Estonia	A	26.7	—	.7	.1	2.8	26.0	56.3	4.8	61.1	19.3
	B	10.0	.6	.8	.4	—	—	11.8	—	—	.
Latvia	A	11.2	.8	.7	.5	—	5.4	18.6	.9	19.5	6.0
	B	6.2	.8	.8	.4	—	—	8.2	—	—	.
Lithuania	A	2.6	.3	.4	.1	—	4.7	8.1	3.6	11.1	5.5
	B	4.0	.4	.4	.2	—	—	5.0	—	—	.
Poland	A	227.2	17.9	25.3	3.8	.7	44.3	319.2	83.8	403.0	135.0
	B	224.0	20.0	24.0	5.0	—	—	273.0	—	—	.
Czechoslovakia	A	354.4	12.4	40.0	3.4	50.5	34.5	495.2	7.8	503.0	105.5
	B	245.0	—	20.0	4.4	—	—	269.4	—	—	.
Yugoslavia	A	64.5	5.3	3.7	.9	.1	16.3	90.8	30.5	121.3	43.6
	B	55.0	5.0	3.4	3.1	—	—	66.5	—	—	.
Roumania	A	174.8	3.0	3.6	2.8	7.6	17.6	209.4	15.9	225.3	52.1
	B	200.0	—	4.0	5.0	—	—	209.0	—	—	.
Armenia	A	51.4	3.6	—	4.7	7.6	—	67.3	16.5	83.8	20.2
	B	30.0	—	—	.7	—	—	30.7	—	—	.
Russia (non-Soviet)	A	14.6	.4	2.3	1.1	—	—	18.4	7.9	26.3	15.0
Total, Liberated Countries	A	1,099.7	51.1	79.3	17.5	71.5	148.8	1,467.9	172.0	1,639.9	431.4
	B	834.2	29.8	57.9	20.7	—	—	942.6	—	—	.

(1)		(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Germany	A	591.6	129.9	149.3	28.1	206.3	—	1,105.2	109.8	1,215.0	282.4
	B	1,000.0	200.0	240.0	30.0	—	—	1,470.0	—	—	—
Austria	A	389.5	19.7	33.7	4.3	80.9	—	528.1	33.4	561.5	98.8
	B	275.0	12.0	16.0	4.0	—	—	307.0	—	—	—
Hungary	A	—	—	.3	—	—	—	.3	—	.3	.2
Bulgaria	A	22.9	—	—	—	—	—	22.9	—	22.9	4.9
	B	16.0	—	—	—	—	—	16.0	—	—	—
Turkey	A	20.3	—	—	—	—	—	20.3	—	20.3	4.3
	B	25.0	—	—	—	—	—	25.0	—	—	—
Total, Enemy Countries	A	1,024.3	149.6	183.3	32.4	287.2	—	1,676.8	143.2	1,820.0	390.6
	B	1,316.0	212.0	256.0	34.0	—	—	1,818.0	—	—	—
Belgium and Northern France	A	886.9	66.0	86.0	50.0	40.5	37.5	1,166.9	57.1	1,244.0	216.6
	B	776.0	115.7	145.2	39.9	—	—	1,076.8	—	—	—
France	A	32.1	—	—	—	0.8	370.2	403.1	149.5	552.6	218.1
Italy	A	15.0	—	—	—	—	—	15.0	—	15.0	2.8
Denmark and Netherlands	A	44.9	—	—	—	—	—	44.9	—	44.9	6.3
Others	A	2.7	—	0.2	—	0.6	—	3.5	—	3.5	0.9
Total, Allies and Neutrals	A	981.6	66.0	86.2	50.0	41.9	407.7	1,633.4	206.6	1,840.0	444.7
	B	776.0	115.7	145.2	39.9	—	—	1,076.8	—	—	—
GRAND TOTAL	A	3,105.6	266.7	348.8	99.9	400.6	556.5	4,778.1	521.8	5,299.9	1,266.7
	B	2,926.2	357.5	459.1	94.6	—	—	3,837.4	—	—	—

* No details by commodities are available for the food deliveries from United States Army Stocks.

TABLE II

RELIEF DELIVERIES BY COMMODITIES AND PERIODS

COMMODITY	ARMISTICE PERIOD (January to August, 1919)			RECONSTRUCTION PERIOD (Middle of 1919 to 1924)						TOTAL		
	Quantity	Estimated Value (f.o.b.)		CHILD RELIEF			ADULT AND MISCELLANEOUS RELIEF			Quantity	Estimated Value	
				Quantity	Estimated Value (c.i.f.)		Quantity	Estimated Value (c.i.f.)				
	Tons (000's)	\$ (000,000's)	%	Tons (000's)	\$ (000,000's)	%	Tons (000's)	\$ (000,000's)	%	Tons (000's)	\$ (000,000's)	%
Flour	1,330	170	15	118	8	13	87	6	10	2,017*	261*	19
Rice	150	28	2	34	4	6	16	1	2	200	33	3
Beans, Peas	117	23	2	36	7	10	8	1	2	161	31	2
Pork Products	350	224	20	20	7	10	8	2	4	378	233	17
Milk	100	37	3	62	22	33	41	12	21	203	71	5
Cocoa	4	2	—	9	1	1	1	—	—	14	3	—
Sugar	57	10	1	27	5	8	11	1	2	95	16	1
Corn Grits	—	—	—	6	—	—	97	4	7	103	4	—
Grain	1,773	138	12	—	—	—	389	18	30	2,162	156	12
Misc. Food	338	19	2	1	4	1	2	—	—	341	19	2
Army Foods	557	259	23	—	—	—	—	—	—	557	259	19
Soap	17	4	—	2	1	1	—	—	—	19	5	—
Clothing and Miscellaneous	501	233	20	5	11	17	7	5	8	513	249	19
Medicine and Hosp. Supplies	4	1	—	—	—	—	8	8	14	12	9	1
TOTAL	5,298	1,148	100	320	66	100	675	58	100	6,775	1,349	100

* Includes the third category of activities during the Reconstruction Period, Grain sales: 482,000 tons of flour at a value of \$77,000,000.

Notes to Table II

For the Reconstruction Period, the value figures are c.i.f., and the total is equal to that given in the text table 6. The values given in Table I of the Annex for relief in the Armistice Period are, however, partly f.o.b. and partly c.i.f.; and the latter are, in many cases, f.o.b. values with arbitrary margins added.¹ The only consistent way of estimating the values for that period seemed, therefore, to be on an f.o.b. basis. Consequently, the total reached (1148 million dollars) is considerably below the value of the deliveries (1267 million dollars) as given in text table 3 and in Table I. It is repeated that the value figures in the present table are only rough estimates; it is possible that, in a few instances, they may differ considerably from the values as actually invoiced.

Further details regarding the methods of calculation are given below:

I. Armistice Period.

(1) Prices used are the estimated f.o.b. New York prices charged by the Grain Corporation to its London office. The f.o.b. values, and the quantities, are given for all sales of the Grain Corporation combined, by commodities by periods. Of the deliveries to the London office, only quantities and the total value are given. The calculated average prices for all sales during the period in which deliveries to the London office occurred, multiplied by the quantities delivered, yielded a value a few percent below the total value as given. The general prices were somewhat increased to absorb this margin.

(2) No prices were available for the United States Army products. Since quantities and total values by countries showed no clear price difference between the foods and other articles, the same average price per ton (total value divided by total weight) was taken for both.

(3) Other miscellaneous food consisted, for a large part, of potatoes. The United States export price for potatoes has been used for this group.

II. Reconstruction Period.

(1) For the flour deliveries, c.i.f. values were given.

(2) For the other commodities, prices were determined from the total c.i.f. value and the weight of one-commodity cargoes. Large samples were taken in this way, but the great price fall during the period made many adjustments necessary. The prices found, multiplied by the quantities for child and adult relief in (a) Central Europe and (b) Russia, yielded too high values in the former case and too low ones in the latter. This was obviously due to the fact that relief in Russia was in 1922/3 when many prices were at half the 1919/20 level. In the four groups, prices were adjusted by such a percentage as to reach the correct total value for each group, after which the figures for (i) child relief and (ii) adult and miscellaneous relief were added together for (a) Central Europe and (b) Russia.

¹ Cf. Section 5 of the text.

TABLE III

CHILD RELIEF IN RECONSTRUCTION PERIOD

COUNTRY	VALUE OF COMMODITIES DONATED—\$(000's)			CHILD POPULATION (000's)	RELIEF, VALUE PER CHILD—\$		CHILD FEEDING MONTHS (000's)	FEEDING MONTHS PER CHILD
	<i>Imported</i>	<i>Supplied by Country in column (1)</i>	<i>Total</i>		<i>Imported¹</i>	<i>Total²</i>		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Finland	876	196	1,072	1,066	.82	1.01	1,187	1.1
Estonia	1,225	299	1,524	282	4.34	5.40	1,203	4.3
Latvia	1,506	65	1,571	446	3.38	3.52	1,368	3.1
Lithuania	463	—	463	624	.74	.74	257	.4
Poland	23,129	7,659	30,788	9,081	2.55	3.39	27,030	3.0
Czechoslovakia	4,745	693	5,438	3,989	1.19	1.36	7,759	1.9
Yugoslavia	1,656	534	2,190	4,068	.41	.54	2,320	.6
Roumania	477	1,024	1,501	5,968	.08	.25	411	.1
Armenia	746	—	746	453	1.65	1.65		
Danzig	48	9	57	104	.46	.55	63	.6
Germany*	7,092	2,392	9,484	17,196	.41	.55	13,109*	.8
Austria	9,863	1,348	11,211	1,646	5.99	6.81	8,231	5.2
Hungary	1,292	266	1,558	2,443	.53	.64	1,167	.5
U. S. S. R.	12,733	36	12,769	53,781	.24	.24	35,658	.7
TOTAL	65,851	14,521	80,372	101,147	.65	.79	99,763	1.0

* This Table excludes the second period of child feeding in Germany, from January 1924 to April 1925. The number of child feeding months during that period may be estimated at 10 million. (Cf. L. M. Jones, "Quakers in Action," p. 65/6).

¹ Column (2) divided by Column (5).

² Column (4) divided by Column (5).

TABLE IV
VALUE AND SOURCES OF FINANCE OF RELIEF DELIVERIES—\$(000,000's)

RECIPIENT COUNTRIES	VALUE RECEIVED				SOURCES OF FINANCE											NET VALUE RECEIVED, PERCENTAGE DISTRIBUTION			
	Gross Total	Profits	NET		PAID IN CASH			RECEIVED ON CREDIT				RECEIVED AS GIFTS				CASH	CREDIT	GIFTS	
			Total	\$ per head	Total	TO		Total	FROM			GROSS			Net Total				
	U. S.	Others				U. S.	U. K.		Others	Total	Private Charity	U. S. Government							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	Direct Grants	From Profits	(17)	(18)	(19)	(20)
<i>A—Armistice Period</i>																			
<i>Liberated Countries:</i>																			
Finland	29.2	3.3	25.8	7.7	18.1	16.0	2.1	9.4	8.3	—	1.1	1.6	0.1	—	1.6	—1.7	70	37	—7
Estonia	19.3	—	19.3	17.4	0.7	0.1	0.5	16.0	14.2	1.8	—	2.7	0.1	0.1	2.5	2.7	3	83	14
Latvia	6.0	—	6.0	3.3	—	—	—	5.3	5.2	0.1	—	0.7	—	—	0.7	0.7	—	88	12
Lithuania	5.5	—	5.5	2.7	—	—	—	5.3	5.3	0.1	—	0.2	—	—	0.2	0.2	—	96	4
Poland	135.0	—	135.0	5.3	—	—	—	119.1	111.4	7.7	—	16.0	4.3	0.1	11.5	16.0	—	88	12
Czechoslovakia	105.5	10.4	95.1	7.0	26.1	—	26.1	77.2	75.7	1.5	—	2.3	0.4	—	1.9	—8.1	28	81	—9
Yugoslavia	43.6	2.7	40.9	3.5	—	—	—	43.3	33.7	9.6	—	0.3	0.2	0.1	—	—2.4	—	106	—6
Roumania	52.1	4.9	47.3	2.9	—	—	—	51.9	36.5	10.0	5.4	0.3	0.3	—	—	—4.6	—	110	—10
Armenia	20.2	0.1	20.1	16.6	—	—	—	8.1	8.0	0.1	—	12.1	9.5	—	2.6	12.0	—	40	60
Russia (Non-Soviet)	15.0	0.1	14.9	—	0.4	0.4	—	13.5	13.5	—	—	1.1	0.2	—	0.9	1.0	3	91	6
<i>Ex-Enemies:</i>	431.4	21.5	409.9	5.1 ^a	45.3	16.5	28.7	349.1	311.8	30.9	6.5	37.3	15.1	0.3	21.9	15.8	11	85	4
Germany	282.4	23.7	258.7	4.3	282.4	158.1	124.3	—	—	—	—	—	—	—	—	—23.7	109	—	—9
Austria	98.8	2.8	96.0	15.0	37.2	3.3	33.9	61.2	—	22.7	38.5	0.4	0.4	—	—	—2.4	39	64	—3
Hungary	0.2	0.1	0.2	0.0	0.2	0.2	—	—	—	—	—	—	—	—	—	—0.1	121	—	—21
Bulgaria	4.9	1.0	3.9	0.8	4.9	4.9	—	—	—	—	—	—	—	—	—	—1.0	121	—	—21
Turkey	4.3	0.9	3.5	0.2	4.3	4.3	—	—	—	—	—	—	—	—	—	—0.9	121	—	—21
<i>Ex-Allied & Various:</i>	390.6	28.5	362.3	3.8	329.0	170.8	158.2	61.2	—	22.7	38.5	0.4	0.4	—	—	—28.1	91	17	—8
Belgium & N. France ¹	216.6	—	216.6	23.5	—	—	—	196.4	196.4	—	—	20.2	20.2	—	—	20.2	—	91	9
France	218.1	1.0	217.1	5.5	5.0	5.0	—	213.1	213.1	—	—	—	—	—	—	—1.0	2	98	—
Italy	2.8	0.6	2.3	0.1	2.8	2.8	—	—	—	—	—	—	—	—	—	—0.6	121	—	—21
Neutrals ²	6.3	1.4	4.8	0.5	6.3	6.3	—	—	—	—	—	—	—	—	—	—1.4	121	—	—21
Sundry Others	0.9	0.2	0.7	—	0.5	0.5	—	—	—	—	—	0.4	—	0.4	—	0.2	71	—	—29
	444.7	3.2	441.5	4.6	14.6	14.6	—	409.5	409.5	—	—	20.6	20.2	0.4	—	17.4	3	93	4
TOTAL	1,266.7	53.2	1,213.7		388.9	201.9	186.9	819.8	721.3	53.6	45.0	58.3	35.7	0.7	21.9	5.1	32	68	9

(Table continued overleaf)

TABLE IV (Continued)

RECIPIENT COUNTRIES	VALUE RECEIVED				SOURCES OF FINANCE												NET VALUE RECEIVED, PERCENTAGE DISTRIBUTION		
	Gross Total	Profits	NET		PAID IN CASH			RECEIVED ON CREDIT				RECEIVED AS GIFTS					CASH	CREDIT	GIFTS
			Total	\$ per head	Total	TO		Total	FROM			GROSS				Net Total			
	U. S.	Others				U. S.	U. K.		Others	Total	Private Charity	U. S. Governmen		%	%		%		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)			(14)		(15)	(16)	(17)	(18)	(19)	(20)
<i>B—Reconstruction Period</i>																			
<i>Liberated Countries:</i>																			
Finland	0.9	—	0.9	0.3	—	—	—	—	—	—	—	0.9	—	0.5	0.3	0.9	—	—	100
Estonia	1.4	—	1.4	1.3	—	—	—	—	—	—	—	1.4	0.2	0.5	0.6	1.4	—	—	100
Latvia	1.5	—	1.5	0.8	—	—	—	—	—	—	—	1.5	0.2	0.6	0.8	1.5	—	—	100
Lithuania	0.5	—	0.5	0.2	—	—	—	—	—	—	—	0.5	—	0.3	0.2	0.5	—	—	100
Poland	58.2	—	58.2	2.3	0.9	—	0.9	32.5	24.4	8.1	—	24.8	4.9	4.8	15.1	24.8	2	56	42
Czechoslovakia	9.2	—	9.2	0.7	0.2	—	0.2	3.8	2.9	1.0	—	5.1	0.8	2.2	2.2	5.1	2	42	56
Yugoslavia	1.8	—	1.8	0.2	—	—	—	—	—	—	—	1.8	0.2	0.9	0.6	1.8	—	—	100
Roumania	0.5	—	0.5	0.03	—	—	—	—	—	—	—	0.5	—	0.4	0.1	0.5	—	—	100
Armenia	8.6	—	8.6	7.1	0.9	0.9	—	4.5	3.9	0.6	—	3.2	3.2	—	—	3.2	10	53	37
	82.6	—	82.6	1.1	2.0	1.1	0.9	40.8	31.2	9.7	—	39.7	9.5	10.2	19.9	39.7	1	51	48
<i>Ex-Enemies:</i>																			
Germany	9.6	—	9.6	0.2	0.4	0.4	—	—	—	—	—	9.2	4.2	—	5.0	9.2	4	—	96
Austria	45.1	—	45.1	7.0	—	—	—	32.1	24.1	8.0	—	13.0	4.3	3.1	5.6	13.0	—	71	29
Hungary	4.1	—	4.1	0.5	—	—	—	2.3	1.7	0.6	—	1.8	0.8	0.1	0.9	1.8	—	56	44
	58.8	—	58.8	0.8	0.4	0.4	—	34.4	25.8	8.6	—	24.0	9.3	3.2	11.5	24.0	1	58	41
U. S. S. R.	58.6	—	58.6	0.4	11.5	11.4	0.1	—	—	—	—	47.1	24.5	4.1	18.7	47.1	20	—	80
Sundry Others	1.4	—	1.4	—	—	—	—	—	—	—	—	1.4	1.4	—	—	1.4	—	—	100
TOTAL	201.4	—	201.4		13.9	12.9	1.0	75.2	57.0	18.3	—	112.2	44.7	17.5	50.1	112.2	7	37	56

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
<i>C—Total</i>																			
<i>Liberated Countries:</i>																			
Finland	30.1	3.3	26.8	8.0	18.1	16.0	2.1	9.4	8.3	—	1.1	2.5	0.1	0.5	1.9	— 0.8	68	35	— 3
Estonia	20.7	—	20.7	18.7	0.7	0.1	0.5	16.0	14.2	1.8	—	4.1	0.3	0.6	3.1	4.1	3	77	20
Latvia	7.5	—	7.5	4.1	—	—	—	5.3	5.2	0.1	—	2.2	0.2	0.6	1.5	2.2	—	71	29
Lithuania	6.0	—	6.0	2.9	—	—	—	5.3	5.3	0.1	—	0.7	—	0.3	0.4	0.7	—	88	12
Poland	193.2	—	193.2	7.6	0.9	—	0.9	151.6	135.8	15.8	—	40.9	9.2	4.9	26.6	40.9	—	78	22
Czechoslovakia	114.7	10.4	104.3	7.7	26.3	0.2	26.1	81.0	78.6	2.5	—	7.4	1.2	2.2	4.1	— 3.0	25	78	— 3
Yugoslavia	45.4	2.7	42.7	3.7	—	—	—	43.3	33.7	9.6	—	2.1	0.4	1.0	0.6	— 0.6	—	101	— 1
Roumania	52.6	4.9	47.7	2.9	—	—	—	51.9	36.5	10.0	5.4	0.8	0.3	0.4	0.1	— 4.1	—	109	— 9
Armenia	28.8	0.1	28.7	23.7	0.9	0.9	—	12.6	11.9	0.7	—	15.3	12.7	—	2.6	15.2	3	44	53
Russia (Non-Soviet)	15.0	0.1	14.9	.	0.4	0.4	—	13.5	13.5	—	—	1.1	0.2	—	0.9	1.0	3	91	6
	514.0	21.5	492.5	6.2 ^a	47.3	17.6	29.6	389.9	343.0	40.6	6.5	77.0	24.6	10.5	41.8	55.5	10	79	11
<i>Ex-Enemies:</i>																			
Germany	292.0	23.7	268.3	4.5	282.8	158.5	124.3	—	—	—	—	9.2	4.2	—	5.0	— 14.5	105	—	— 5
Austria	143.9	2.8	141.1	22.0	37.2	3.3	33.9	93.3	24.1	30.7	38.5	13.4	4.7	3.1	5.6	10.6	26	66	8
Hungary	4.3	0.1	4.2	0.5	0.2	0.2	—	2.3	1.7	0.6	—	1.8	0.8	0.1	0.9	1.7	5	55	40
Bulgaria	4.9	1.0	3.9	0.8	4.9	4.9	—	—	—	—	—	—	—	—	—	— 1.0	126	—	— 26
Turkey	4.3	0.9	3.4	0.2	4.3	4.3	—	—	—	—	—	—	—	—	—	— 0.9	126	—	— 26
	449.4	28.5	420.9	4.4	329.4	171.2	168.2	95.6	25.8	31.3	38.5	24.4	9.7	3.2	11.5	— 4.1	78	23	— 1
<i>Ex-Allies & Various:</i>																			
Belgium & N. France ¹	216.6	—	216.6	23.5	—	—	—	196.4	196.4	—	—	20.2	20.2	—	—	20.2	—	91	9
France	218.1	1.0	217.1	5.5	5.0	5.0	—	213.1	213.1	—	—	—	—	—	—	— 1.0	2	98	—
Italy	2.8	0.6	2.3	0.1	2.8	2.8	—	—	—	—	—	—	—	—	—	— 0.6	121	—	— 21
U. S. S. R.	58.6	—	58.6	0.4	11.5	11.4	0.1	—	—	—	—	47.1	24.5	4.1	18.7	47.1	20	—	80
Neutrals ²	6.3	1.4	4.8	0.5	6.3	6.3	—	—	—	—	—	—	—	—	—	— 1.4	121	—	— 21
Sundry Others ³	2.3	0.2	2.1	.	0.5	0.5	—	—	—	—	—	1.8	1.4	0.4	—	1.6	24	—	76
TOTAL	504.7	3.2	501.5	2.1	26.1	26.0	0.1	409.5	409.5	—	—	69.1	46.1	4.5	18.7	65.9	5	81	14
GRAND TOTAL	1,468.1	53.2⁴	1,414.9	.	402.8	214.9	187.9	895.0	778.3	71.9	45.0	170.5	80.4	18.2	72.0⁴	117.3	29	63	8

(Footnotes to Table IV overleaf)

Footnotes to Table IV

¹ Largely post-armistice deliveries of the Committee for Relief in Belgium. Pre-armistice C.R.B. deliveries to these countries were composed thus:

(2)	(3)	(4)	(5)	(6)	(7)	(8) ²	(9)	(10)	
373.4	—	573.4	63.1	117.0	6.3	110.7	426.4	223.2	
(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
109.0	94.2	30.0	30.0	—	—	30.0	20	75	5

² Denmark and the Netherlands.

³ Excluding relief to Russia (Non-Soviet).

⁴ Cf. General Note, (ii), below.

General Notes:

(i) Grants by the United States Government from profits earned by the Government or its agencies in relief transactions are shown in col. (16) and outright gifts by the Government in col. (15).

(ii) Profits are deducted from the gross value received to obtain the net value (col. (4)); this net value is then shown per head (col. (5)). The total amount of profit in col. (16) exceeds that in col. (3) by nearly 19 million dollars; to that amount profits earned during the war in transactions with the Allies and Neutrals were released during the Reconstruction Period for relief in Russia in 1922/3.

(iii) Total net gifts (col. (17)) are found by deducting from gross gifts received the amount paid in profits—i.e. col. (13) *minus* col. (3).

(iv) The profits deducted in this table to obtain a net value for relief are not given by countries in the sources from which the Table has been compiled. The total amount of the profits had, therefore, to be imputed on the basis of the value of the sales on which they were made. Profits made on the food draft and bulk sale activities were generally used in the country where they had been made. In this, as in all other tables, such profits have been deducted from the value of the food drafts and bulk sales, which are thus given as net values.

(v) The total value of the deliveries in the Armistice and Reconstruction Periods are given as \$1,104.5 and \$220.7 millions respectively in "American Food . . .". These figures may be reconciled except for small differences due to rounding with those of the present Table in the following way.

1. ^c Armistice Period.		\$ (000,000's)
Total, "American Food . . ."		1,101.5
(a) Addition, Belgium, C.R.B.		160.6
(b) Addition, Belgium, U.S. Food Administration		27.6
		<hr/> 1,289.6
(c) Deduction, United Kingdom	10.6	
(d) Deduction, Miscellaneous	23.1	
	<hr/>	33.7
(e) Deduction, Duplications		10.6
		<hr/> 23.1
Total, Table IV		<hr/> 1,266.5
Details of the adjustments made:		
(a) Deliveries C.R.B., fifth year, f.o.b. value		226.0
Of which to Germany and A.R.A.		48.9
		<hr/> 177.1
Returned		16.5
		<hr/> 160.6

Of this amount 20.2 represent charity, 140.4 was obtained on credit, which has been assumed to be provided entirely by the United States. (Cf. C.R.B., "Statistical Review of Relief Operations").

(b) See "American Food . . .", page 162.

(c) The commodities represented were delivered to Austria by the United Kingdom; this is corrected by an entry of the same value under duplications. Both are omitted here.

(d) Consists of 1.1 deliveries to prisoners of war which fall outside the scope of civilian relief, 17.5 miscellaneous transactions of the C.R.B. falling mainly or wholly outside relief and 4.5 transfer from the C.R.B. to the A.R.A. which would seem to have to be omitted to avoid duplication. (See "American Food . . .", Table 103).

(e) See (c).

2. *Reconstruction Period.*

	\$(000,000's)
Total Table IV	201.4
Value of food supplied by countries receiving relief (Table III, col. 3)	14.5
Profits used in same country (General note, (iv))	4.8
	<hr/>
Total, "American Food . . .".	220.7

TABLE V—VALUE OF RELIEF BY OTHER AGENCIES
in so far as not covered in Table IV. \$(000,000's)

COUNTRIES	TOTAL TABLE IV	GOVERNMENTS							PRIVATE ORGANIZATIONS*10					GRAND TOTAL	PER HEAD \$
		<i>United King- dom</i> ¹	<i>Italy</i> ²	<i>Nether- lands</i> ³	<i>Nor- way</i> ⁴	<i>Swit- zer- land</i> ⁵	<i>Swe- den</i> ⁶	<i>Ger- many</i> ⁷	<i>A.R.C.</i>	<i>N.E.R.</i> ⁸	<i>J.D.C.</i>	<i>A.F. S.C.</i>	<i>U.K.</i> ⁹		
Finland	30.1	—	—	—	.6	—	—	—	1.5	—	—	—	—	32.2	9
Estonia	20.7	—	—	—	—	—	—	—	2.1	—	—	—	—	22.8	21
Latvia	7.5	—	—	—	—	—	—	—	2.7	—	0.3	—	—	10.5	6
Lithuania	6.0	—	—	—	1.8	—	—	0.3	0.4	—	0.6	—	—	9.1	5
Poland	193.2	3.9	—	6.2	3.8	—	—	1.0	18.6	—	14.4	0.2	—	241.3	9
Czechoslovakia	114.7	—	—	—	—	—	—	—	1.2	—	0.7	—	—	119.6	9
Yugoslavia	45.4	—	—	—	—	—	—	—	5.5	—	—	—	—	50.9	4
Roumania	52.6	—	—	—	—	—	—	—	3.0	—	2.3	—	—	57.9	4
Armenia	28.8	—	—	—	—	—	—	—	0.1	14.7	—	—	—	43.6	36
<i>Total, Liberated Countries</i>	499.0	3.9	—	6.2	6.2	—	1.3	3.0	35.1	14.7	18.3	0.2	—	587.9	7
Germany	292.0	—	—	1.0	48.7	—	—	—	—	—	0.8	4.9	—	347.4	6
Austria	143.9	15.6	4.0	6.7	0.4	4.7	—	—	4.9	—	1.9	0.4	—	182.5	29
Hungary	4.3	—	—	—	—	—	—	—	3.9	—	0.9	—	—	9.1	1
Bulgaria	4.9	—	—	—	—	—	—	—	—	—	—	—	—	4.9	1
Turkey	4.3	—	—	—	—	—	—	—	0.3	18.7	0.6	—	—	23.9	2
Russia	73.6	—	—	—	—	—	—	—	16.7	—	9.5	1.6	—	101.4	1
<i>Total, Ex-Enemy Countries</i>	523.0	15.6	4.0	7.7	49.1	4.7	—	—	25.8	18.7	13.7	6.9	—	669.2	3
Belgium and N. France	216.6	—	—	—	—	—	—	—	2.6	—	—	—	—	219.2	24
France	218.1	—	—	—	—	—	—	—	33.9	—	—	—	—	252.0	6
Italy	2.8	—	—	—	—	—	—	—	12.8	—	—	—	—	15.6	0
Greece	1.2	—	—	—	—	—	—	—	4.0	6.3	—	—	—	11.5	2
Neutrals	6.3	—	—	—	—	—	—	—	—	—	—	—	—	6.3	1
Sundry Others	1.1	—	—	—	—	—	—	2.1	2.9	0.9	1.5	—	7.2	16.3	·
<i>Total, Ex-Allies &c.</i>	446.1	4.0	—	—	—	—	—	2.1	56.2	7.2	1.5	—	7.2	520.9	·
GRAND TOTAL	1,468.1	19.5	4.0	13.9	55.3	4.7	1.3	3.0	117.1	40.6	33.5	7.1	7.2	1,775.3	·

* Private Organizations:

A.R.C.: American Red Cross; N.E.R.: Near East Relief; J.D.C.: American Jewish Joint Distribution Committee; A.F.S.C.: American Friends Service Committee; U.K.: United Kingdom Charitable Societies.

Footnotes to Table V.

(1) Determined by comparison of the figures given as "Loans for Relief," amount outstanding on March 31st, 1921 or 1922 (whichever is the higher) (Statistical Abstract for the United Kingdom) and the figures of Col. (11), Table IV. The latter figures are equal to, or higher than, those of the first source, except in the cases of Austria and Poland. The excess for these two countries is entered in this table. Conversion rate: £1 = \$4.76 as in "American Food . . .".

(2) Lire 100 million (J. van Walré de Bordes, "The Austrian Crown," London, 1924, page 8). Conversion rate 100 lire = \$4.—, being the approximate rate in the latter half of 1920 and the first half in 1921.

(3) League of Nations, "Memorandum on Public Finance," 1922, page 120 (Poland, Austria) and 1922-1926, page 343 (Germany). The loan to Germany represents the utilized portion at the end of 1924 of a 60,000,000 Gulden loan granted in 1921 for the purchase of foodstuffs.

(4) League of Nations, "Memorandum on Public Finance," 1921, page 105. Part of the loan to Germany was repaid in the following years. Cf. also the same Memorandum, 1922-1926, page 360.

(5) de Bordes, *op. cit.*

(6) League of Nations, "Memorandum on Public Finance," 1922-1926, page 430.

(3)-(6) Loans by ex-neutral countries converted at par of exchange.

(7) Loan of 200 million Marks for purchase of flour (League of Nations, Memorandum on Public Finance, 1922-1926, page 156). Loan was granted before the end of 1921. Dollar value is approximate on the basis of rates prevailing in the latter months of 1920 and the first half of 1921.

(8) N. E. R.: Further \$18.4 million in Syria, Palestine, Persia and Mesopotamia.

(9) It proved impossible to find statistical information concerning the activities of British charitable societies engaged in relief. From June 1919, on, however, the British Government added £1 to every £ collected by relief societies. £750,000 were distributed in this way (Goode, *op. cit.*, page 16). Relief distributed by the United Kingdom, private charity, has therefore been taken at twice this amount. Distribution by countries is known in respect of less than a quarter of this amount; the whole sum has therefore been entered under "Sundry others."

(10) To arrive at the figures given in this table for relief deliveries by private American organizations, many rather arbitrary decisions had to be made to allocate expenditure between military and relief purposes, between relief and reconstruction purposes, between war and postwar activities, and, in some cases, to attribute expenditure to individual countries.

TABLE VI

TOTAL DEBT OF RELIEF-RECEIVING COUNTRIES TO THE UNITED STATES TREASURY

at day of funding or, if unfunded, on November 15th, 1926

\$(000,000's)

A—Original amount of indebtedness

B—Repayments¹

C—Amount outstanding

PURPOSE:	RELIEF DELIVERIES								ALL PURPOSES		
	Advances Under Liberty Bond Acts			Surplus War Materials	A. R. A. & Grain Corp. Loans	Total			TOTAL		
Type:											
Interest:	5%			5%	5%*	5%*			5%*		
Country	A	B	C	A, C	A, C	A	B	C	A	B	C
Finland	—	—	—	—	8	8	—	8	8	—	8
Estonia	—	—	—	12	2	14	—	14	14	—	14
Latvia	—	—	—	2	3	5	—	5	5	—	5
Lithuania	—	—	—	4	1	5	—	5	5	—	5
Poland	—	—	—	60	76	136	—	136	160	—	160
Czechoslovakia	49	—	49	21	9	79	—	79	92	—	92
Yugoslavia	9	—	9	25	—	34	—	34	52	1	51
Roumania	23	2	21	13	—	36	2	34	38	2	36
Armenia ⁴	—	—	—	—	12	12	—	12	12	—	12
Austria ⁴	—	—	—	—	24	24	—	24	24	—	24
Hungary	—	—	—	—	2	2	—	2	2	—	2
Russia ⁴	—	—	—	—	5	5	—	5	193	—	193
Belgium ²	286	2	284	28	—	314	2	312	379	2	377
France ²	106	2	104	213	—	319	2	317	3,405	64	3,341
TOTAL	473	6	467	378	142	993³	6	987	4,389	69	4,320

* Austria, Hungary: entire amount, Czechoslovakia: \$3 million, Poland: \$24 million at 6% interest.

¹ Where necessary, the total amount of the payments is distributed between relief and other loans in proportion to the relative magnitude of the loans in question.

² Figures for Belgium and France include credits for all deliveries made by the Commission for Relief in Belgium (Cf. footnote ¹ to Table IV). Separation of these loans between Belgium and France is according to C.R.B., "Statistical Review of Relief Operations", vol. II, page 6.

³ This figure is \$8 million less than that given in Table IV (Part C, total column (11) plus footnote ¹, column (11)) owing to the fact that a loan of that amount to the Ukraine government included in Table IV does not appear in the United States foreign obligations statistics.

⁴ Unfunded debt; the Austrian debt was funded in 1930.

General Notes:

- (i) War loans to non-relief countries (United Kingdom, Italy, Greece and Cuba) amounted to \$5,950,000,000 of which \$212,000,000, or 3½% had been repaid at day of funding.
- (ii) The advances under the Liberty Bond Acts were demand loans.
- (iii) The loans for the purchase of surplus war materials were for periods from three to six years with the exception of that to France which had a ten years' currency.
- (iv) The A.R.A. and Grain Corporation loans ran for periods from one to seven years.

Source: "Combined Annual Reports of the World War Foreign Debt Commission," page 81, and United States Congress, Senate Committee on Finance, "Refunding of Obligations of Foreign Governments" (67th Congress, 1st Session, Cal. No. 279), pages 4-5.

TABLE VII
 SERVICE OF LOANS FOR RELIEF PURPOSES
 granted by the United States
 \$(000,000's)
 Blank: no payments to be made
 —: payments in default

COUNTRY	PAYMENTS				TOTAL
	UP TO DEC. 15TH, 1923			Dec. 15, 1923 to Mar. 1, 1939 ¹	
	Liberty Loans	Surplus Material Loans	A. R. A. & Grain Corp. Loans		
Finland			.3	5.2	5.5
Estonia		—	—	1.2	1.2
Latvia		—	.1	.6	.7
Lithuania		—	—	1.2	1.2
Poland		1.3	—	17.7	19.0
Czechoslovakia	.2	—	—	16.9	17.1
Yugoslavia	.4	—	—	.8	1.2
Roumania	2.1	—	—	2.7	4.8
Armenia			—	—	—
Austria			—	.9	.9
Hungary			—	.5	.5
Russia			.2	—	.2
Belgium	9.6	5.3	—	25.8	40.7
France	5.7	29.2	—	20.8	55.7
TOTAL	18.0	35.8	.6	94.3	148.7

¹ Only payments during the last year (March 1st, 1938 to March 1st, 1939): Finland \$395,000; Hungary \$20,000.

TABLE VIII

POPULATION OF EUROPE, 1920 AND 1940

	1920 ¹	1940 ²
Norway	2.7	2.9
Denmark	3.3	3.8
Sweden	5.9	6.3
United Kingdom	44.0	47.7
Ireland	3.0	2.9
Netherlands	6.9	8.8
Spain	21.4	26.0
Portugal	6.0	7.6
Switzerland	3.9	4.2
Italy	38.7	43.9
Total, non-relief countries	<u>135.8</u>	<u>154.1</u>
Belgium and Luxemburg	7.7	8.7
France	38.8	42.0
Germany	60.4	69.3
Finland	3.4	3.7
Estonia	1.1	1.1
Latvia	1.8	2.0
Lithuania	2.0	2.4
Poland	25.7	35.1
Danzig	0.4	0.4
Czechoslovakia	13.6	15.3
Austria	6.4	6.7
Hungary	8.0	9.3
Yugoslavia	11.7	15.7
Greece	5.0	7.2
Bulgaria	4.8	6.1
Roumania	16.3	19.9
Turkey in Europe	1.0	1.4
Total, relief countries	<u>208.1</u>	<u>246.3</u>
Total Europe	343.9	400.4
U.S.S.R.	144.3	172.0
Europe and U.S.S.R.	<u><u>488.2</u></u>	<u><u>572.4</u></u>

¹ First post-war census, generally 1920.

² Statistical Year-Book of the League of Nations, 1940/41. Estimates as of the end of 1939. Figures relate to 1937 territories.

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Official No. : C.52. M.52. 1942,II.A'

Geneva, August 31st, 1942

LEAGUE OF NATIONS

ECONOMIC AND FINANCIAL
COMMITTEES

REPORT TO THE COUNCIL
ON THE
WORK OF THE JOINT SESSION

London, April 27th-May 1st, 1942
Princeton, August 7th-8th, 1942

Series of League of Nations Publications

II. ECONOMIC AND FINANCIAL

• 1942.II.A.4. •

PREFACE

At its session in December 1939, the Council of the League of Nations, foreseeing that circumstances might arise which would render the convening of international meetings difficult, and anxious to safeguard the framework of the League's technical organisations, renewed the appointment of members of League Committees until further notice. Since then neither the Economic nor the Financial Committee has met but as a result of consultations between certain members of both committees and the Secretary-General, it was decided, early this year, that the time had come to arrange for a meeting. A joint session of the two bodies appeared desirable as they are jointly responsible for approving the lines along which the economic and financial work of the League should proceed and arranging for the co-ordination of work, where necessary, with that of other organisations. Owing to the conditions of travel it was difficult to arrange a single meeting at which all available members could be present and it was accordingly decided to hold two meetings, one in England and the other in the New World. The first was held in London during the course of the week beginning April 27th, the second in Princeton, N.J., on August 7th and 8th. The following is a list of the members and corresponding members who were present at the two meetings, with an indication of their nationalities:

LONDON MEETING

- SIR FREDERICK LEITH-ROSS, G.C.M.G., K.C.B., (United Kingdom),
Chairman
- MR. R. M. CAMPBELL, (New Zealand)
- M. F. VAN LANGENHOVE, (Belgium)
- MR. F. L. MCDUGALL, C.M.G., (Australia)
- M. G. MANTAZAVINOS, (Greece) (representing the Fiscal Committee)
- M. J. NOWAK, (Poland)
- MR. W. W. RIEFLER, (U.S.A.)

DR. D. CRENA DE JONGH (Netherlands), who arrived in England after the close of the meeting, approved the draft report.

PRINCETON MEETING

HON. HENRY F. GRADY, (U.S.A.), *Chairman*
MR. W. C. CLARK, (Canada)
MR. T. JEFFERSON COOLIDGE, (U.S.A.)
DR. MANUEL R. EGAÑA, (Venezuela)
DR. L. S. HSU, (China)
SIR FREDERICK LEITH-ROSS, G.C.M.G., K.C.B., (United Kingdom)
M. HELIO LOBO, (Brazil), (replacing Dr. J. A. Lins de Barros)
M. MIGUEL LOPEZ PUMAREJO, (Colombia)
MR. F. L. McDUGALL, C.M.G., (Australia)
DR. A. H. PHILIPSE, (Netherlands), (replacing Dr. D. Crena de Jongh)
SIR FREDERICK PHILLIPS, G.C.M.G., C.B., (United Kingdom)

The Committees were fortunate enough to be able during the course of their deliberations, to secure the advice of the following persons who attended in their individual capacities for consultation:

LONDON MEETING

M. H. ALPHAND, (France)
DR. J. W. BEYEN, (Netherlands)
M. J. NECAS, (Czechoslovakia)
DR. A. RAESTAD, (Norway)
MR. F. J. DU TOIT, (South Africa)

PRINCETON MEETING

DR. RAMON BETETA, (Mexico)
DR. CONSTANTIN FOTITCH, (Yugoslavia)
SARDAR H. S. MALIK, (India)

Professor Lindsay Rogers and M. P. Waelbroeck attended the second meeting, and M. Waelbroeck the first meeting, on behalf of the International Labour Office. ●

REPORT TO THE COUNCIL ON THE WORK OF THE JOINT COMMITTEE

I. The Problem of Relief and Reconstruction

1. The present war will undoubtedly create far deeper and more widespread disruption of the economic and financial structure of society than did the war of 1914-18. The field of direct conflict is more vast; the social upheaval more profound; many more countries have suffered invasion and occupation and blockade. Moreover, before the war started, the process of disintegration was already far advanced. We shall be faced with the necessity of building a new system from the foundations.

2. Whatever may be the uncertainties of the future, two things are certain, that after the war there will be a great dearth of food-stuffs and raw materials both in Europe and in other areas, and that there will be a dearth of means, particularly in the countries which have suffered most tragically, to pay for the supplies which will be coming on to the markets in producing areas. Certain Governments of the United Nations have already inaugurated the preparation of joint plans to deal with the immediate needs of post-war relief. The possibility of restoring some degree of social organisation in many of the war-torn countries will depend not only on the efforts of the countries themselves but also on the effectiveness of these joint plans. It seems probable that any such plans can only be implemented if the countries whose productivity has not been directly curtailed by the ravages of war are able and willing to furnish supplies and services on the largest possible scale to meet post-war relief requirements. Such a policy is, we are convinced, in the long-term interests of these countries themselves, as only by the reconstruction of world economy can they hope to restore their former markets. One of the lessons of the 1914-18 war was the inadequacy of the relief available to the necessitous countries and the consequent

difficulties which they experienced in restoring a balanced economic position—difficulties which left a legacy of trade restrictions and controls in the importing countries and of unmarketable surpluses of production in exporting countries. History is bound to repeat itself unless effective measures can be taken to rebuild the post-war world on a basis of international collaboration.

3. The period of relief, however well it may be organised, cannot continue indefinitely, and the aim of every country will undoubtedly be to restore peacetime economic activity as rapidly as possible. Here lie both a danger and an opportunity. If in each area each country, acting by itself, bases its plans for reconstruction on its own efforts, restrictions—quotas, exchange controls, prohibitions, in addition to excessive tariffs—will be intensified and multiply like weeds on the battlefields; and new vested interests will be rapidly created which it may take years to overcome. If, on the other hand, the plans of reconstruction can be solidly based on prearranged schemes of international co-operation, a much more rapid revival of prosperity and of international exchanges can be assured. The disruption and upheaval caused by the war, and the resultant need to rebuild, will give an opportunity, such as may not recur, to plan the lines of future reconstruction on a new and sounder basis. But in order to take advantage of this opportunity, the framework, at any rate, of the plan ought to be settled during the period of the war. If everything is postponed until peace has been restored, it may well be too late.

4. It is not possible in this report to trace, except in the broadest outline, the features of any plan of reconstruction. The first condition, of course, must be political security and a general confidence in lasting peace. In the international sphere, the next steps are the restoration of an effective system of international payments and a reopening of multilateral channels for world trade. But these conditions, however necessary, are far from adequate. The war itself has created a general disequilibrium, and this disequilibrium must be remedied before any plans of reconstruction can become fully effective. The channels of international trade and payment which have been severed by the necessities of war must first be

repaired, and the current of exchange restarted and the distortion of prices and price levels readjusted. For these purposes, a much larger degree of international collaboration than anything yet achieved will be necessary. What alternative is there which offers any prospect but a long continuance of economic disorder? The whole world is linked together, for better or worse, and no country can long improve its position at the expense of others.

5. Concerted action will also be required with a view to preventing wide fluctuations in the prices of raw materials and foodstuffs, such as those from which countries suffered in the inter-war period. Aid to countries producing crude materials in achieving a better balance in their national economics, combined with joint international measures designed to secure greater stability of prices and markets for primary products and greater equilibrium between prices of primary products and those of manufactured products, would go far towards realising the objectives in view. But free access to raw materials and the benefit to all countries, including the raw material producing countries, which may result from such free access, can only be assured if multilateral trade is restored.

6. It is possible that for a time after the war the available supplies of many commodities may be inadequate to meet potential demand. In such conditions, demand may need to be controlled in order to prevent a further rise in prices beyond the level reached in the war. Such a rise, if not checked, could hardly fail to be followed by a collapse, as happened after the last war, intensifying any subsequent depression. This danger having been avoided, a point will be reached sooner or later when the conditions will be reversed; supplies may need to be regulated and demand stimulated. When this happens a state of great danger will have been reached unless adequate preparation has been made in advance. Under pressure of business depression and increasing unemployment, all Governments are bound to adopt any measures within their power which will stimulate internal productive activity. Many of the measures which are in fact adopted by individual countries faced by that problem, such as measures for the restriction of purchases abroad, are injurious to the rest of the world and spread depression farther and faster. If

the proposed restoration of the channels of world trade is not to be a temporary affair followed by a speedy relapse into the worst conditions of the thirties, it is essential that plans should have been drawn in advance, particularly on the monetary side, capable of applying throughout the world some strong expansionary impulse on the approach of a depression. The best security that international trade shall flourish is to be found not so much in treaties and agreements as in the maintenance of conditions under which all countries are willing buyers of foreign products for the reason that their own internal prosperity makes such acquisition desirable.

7. It follows from what has been said in the last paragraph that, in our opinion, the maintenance of various forms of economic control will be necessary, in certain cases for a considerable time, after the war. There is no doubt that the sudden removal of inter-Allied and national controls after the last war contributed to the run-away price movement in 1920, the slump in 1921 and the subsequent currency chaos in Europe, and that it was thus one of the decisive causes of the movement towards greater economic isolation that characterised the inter-war period. We feel convinced that if individual enterprise is to be preserved and multilateral trade restored, the transition from a war to a peace economy must be effected by a gradual and internationally co-ordinated process of decontrol.

8. The Governments of the United Nations have already announced the general principles which will govern their long-range plans of reconstruction in the terms of the Atlantic Charter, and the United States, the United Kingdom, the U.S.S.R., the Chinese and other Governments have amplified this statement, as regards commercial policies, in the terms of the Mutual Aid Agreements,⁽¹⁾ which expressly

⁽¹⁾ Article 7 of the Agreement between the United States and the United Kingdom reads as follows:

"In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom in return for aid furnished under the Act of Congress of the 11th March 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations. To that end they shall include provision for agreed action by the United States of America and the United Kingdom, open to par-

set forth "the elimination of all forms of discriminatory treatment in international commerce" and "the reduction of tariffs and other trade barriers" as objectives towards which their policies shall be directed. Inspiring both these declarations lies the ideal of the Four Freedoms pronounced by the President of the United States of America, and the intention to bring about the fullest collaboration between all nations in the economic field with the object of securing for all improved labour standards, economic advancement and social security. That collaboration is already in being, and we look forward with confidence to the practical application of the principles of these declarations. •

9. We believe that, had it been possible to bring these principles into effect twenty years ago, the economic dislocation and tension of the inter-war period might well have been sensibly alleviated. The issues of war and peace are in essence of a political nature, but economic difficulties help to create that atmosphere of international unrest and suspicion which facilitates the outbreak of wars, and it must be the aim of all right-minded men to seek every means by which these economic strains on international relationships may be eased. To-day the peoples of all countries look to their Governments to secure, after the present struggle, a just and durable peace which will free them from fear of aggression and give them the opportunity of social progress and the prospect of a more prosperous future. The final purpose of all production is to satisfy needs and we believe that if Governments base their policies in the first instance on a consideration of the needs of the consumer and on the ways and means by which those needs may be most readily and most amply satisfied, they will best promote the welfare, both of the producer and of the

ticipation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the Joint Declaration, made on the 12th August 1941, by the President of the United States of America and the Prime Minister of the United Kingdom. At an early convenient date, conversations shall be begun between the two Governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and of seeking the agreed action of other like-minded Governments. •

world as a whole. The Governments must be responsible for framing the necessary measures of international co-operation. The sacrifices which may be needed for this purpose are infinitely smaller than those which are willingly accepted for the prosecution of the war, and all the sacrifices made during the war will be in vain if the spirit of co-operation is allowed to lapse as soon as the fighting ceases.

II. Work Undertaken by the League of Nations

10. In preparing the way for the formulation of such plans for the future, the League has, we believe, an important body of experience to contribute and it has, in fact, organised its work since the beginning of the war with this consideration in mind.

11. In December, 1939, the Secretary-General reported to Members of the League on certain decisions regarding the current and future economic and financial work of the League which he had found it necessary to take owing to the postponement of the regular Assembly meetings and the new circumstances created by the outbreak of war.⁽¹⁾ He charted a broad field of studies on international economic problems which seemed useful and—in view of previous decisions of the Assembly and the special experience and equipment of the staff—proper for the Economic, Financial and Transit Department to undertake. To quote from his report:

“When war broke out in 1914, there existed a system of economic organisation in the world which functioned smoothly and which it was generally assumed would be re-established with necessary modifications once hostilities ceased. It never was fully re-established, and since the depression which began in 1929, there has been rather a state of quasi-permanent emergency than any general operative system. The problems of economic organisation that will have to be faced after the termination of hostilities will therefore prove to be extremely complex and grave.

“During the past ten years, these problems have constantly occupied the attention of Governments and of international bodies sitting at Geneva and elsewhere. Many proposals for their solution have been put forward. All these problems and these proposals require careful and constant re-examination.

⁽¹⁾ League of Nations document A.6(a), 1939.

Have the proposals put forward failed because of some inherent defect or because the political conditions—that have led to war—rendered their application impossible? Has there not been rather a lack of will to solve than of ability to find solutions? Have any deep-lying economic changes been overlooked? On all these subjects there is a vast mass of material at Geneva, and on them the Secretariat has a unique experience and contacts with persons all over the world whose concern they are. It is of the utmost importance that this experience and these contacts should be preserved; and that the material should be reduced to such a form as to render it of immediate use and value when the time comes.

“But the war itself is daily giving rise to structural changes and structural strains that will produce new problems for ultimate solution. It will be necessary, therefore, for those engaged upon the examination of the issues to which I have just referred to keep themselves constantly informed about current developments. This, with the aid of an active Economic Intelligence Service, they should be able to do.

“To one special aspect of this whole range of questions the Co-ordination Committee paid special attention in its last report.⁽¹⁾

“Whatever the final outcome of the state of political tension may be,” it observes, “. . . society will have to readapt itself sooner or later to a peacetime economy, and a difficult period of adaptation must be foreseen on account of the present diversion of plant and labour to armament needs and the growing dependence of business on Government spending. We do not think Governments can begin to concern themselves too soon with the problems to which that transition must give rise. . . . This whole question is one which should, in our opinion, be studied in close collaboration with the International Labour Office.”

12. The above report by the Secretary-General was submitted to the League Assembly at the brief session which it held in the middle of December, 1939. The Assembly took the necessary budgetary decisions to keep in being an efficient Economic Intelligence Service, adopted a resolution expressing the opinion that “the present condition of the world renders it all the more necessary that the economic and social work of the League . . . should continue on as broad a basis as possible” and approved the proposal to create a Central Committee to co-ordinate, direct and supervise the work of the League’s technical organisations. Circumstances rendered it impossible to constitute the Central Committee; but, a meeting of

(1) League of Nations document A.16, 1939.II.

an organising committee was held in February 1940 at The Hague, where the Secretariat was able to discuss with some of the members a preliminary plan of studies. The work which has been done in execution of this plan—subsequently revised and amplified as a result of conversations with officials and economists concerned with post-war economic problems in various countries—is referred to in paragraph 22 below.

13. In June, 1940, an invitation was received from Princeton University, the Institute for Advanced Study, and the Rockefeller Institute for Medical Research, suggesting that the technical services of the League might take up their work in Princeton and offering offices and other facilities. In response to this invitation, the Director and part of the staff of the Economic, Financial and Transit Department came to Princeton in August, 1940. The decision to accept this offer has been fully justified by experience. New and valuable contacts have been established, old contacts renewed, and it is possible for the League to conduct its work in touch with centres where decisions of policy are being taken day by day.

14. The work on current economic developments has been so divided that the Geneva staff specialise on European developments, while those on mission at Princeton follow the course of events in the rest of the world. *The Statistical Year-Book* and the *Monthly Bulletin of Statistics*—both of which have been published without interruption—are still printed in Switzerland. The *World Economic Survey, 1939-1941*, which appeared last autumn, was written in Princeton; there, too, the other publications referred to below and the great majority of studies on post-war problems are being prepared.

15. We take this opportunity of expressing our deep appreciation of the hospitality extended by Princeton University and the Institute for Advanced Study to the Economic, Financial and Transit Department, and of the generosity of the Rockefeller Foundation which voted a grant of \$50,000 for the years 1941-42 to aid the work of the Department in Princeton, and has since made a further grant to become available after the close of the current year.

16. The bulk of the economic and financial⁽¹⁾ work of the Department falls into two parts—first, the preparation of certain volumes dealing with current economic developments and, secondly, the initiation of studies likely to prove useful now or later in connection with the formulation of economic and financial policies. We shall consider each of these facets of the Department's programme in turn.

17. In regard to the first, we desire to record our satisfaction at the decision taken in 1940 and again in 1941 to maintain—in spite of very real difficulties—the pivotal publications of the Economic Intelligence Service, namely, the *Statistical Year Book*, the *Monthly Bulletin of Statistics* and the *World Economic Survey*. Many Governments have greatly curtailed their economic statistics and information concerning financial conditions has also been much reduced; but this very fact has increased the current—and the future—importance of the collection of such information as is available for different parts of the world. When the present conflict is over, the existence of the information contained in the statistical publications of the Department and of an organisation able to collate rapidly additional information from all over the world will be essential to those responsible for formulating the peace settlement and the economic policies of the future. An authoritative review of current economic developments and government policies, such as that furnished by the *World Economic Survey*, meets, we believe, a real need.

18. These three publications are to be maintained in 1942 and we are glad to note that they are being supplemented by a volume on Central and Commercial Banking statistics entitled *Money and Banking, 1939-42*, and a study on *Wartime Rationing and Consumption*. The importance to Governments and the general public of obtaining a clear picture of the present state of nutrition and food-rationing measures in various countries and of the curtailment of civilian consumption as a central problem of war economy requires no emphasis.

(1) Another part of its work is devoted more particularly to the study of problems dealt with by the League of Nations Organisation, for Communications and Transit.

19. The Secretary-General's latest report⁽¹⁾ describes the general range of subjects covered by the Department's programme of studies relating to post-war problems and the manner in which the work is being approached.

In the execution of this programme three guiding principles are being kept in mind:

- (a) before the future is planned and projected, it is necessary to learn and apply the lessons that may be deduced from the failures—and successes—of the recent past;
- (b) such evidence as to the past must itself be supported by an adequate basis of fact, so that those responsible for the formulation of policy may be able to frame their own judgment upon them;
- (c) Inherent in the organisation of modern society are dynamic forces conducive to instability, among which may be distinguished those that lead to fluctuations in economic activity with their train of depressions, stagnation and unemployment and those that have their origin in population pressure or the demographic pattern of society. Provided that political relations can be settled on a basis which assures the maintenance of peace, the core of the social and economic issues of the future is likely to be the problem of economic advancement with social security. The means by which this goal can be reached must therefore constitute the central thread of all constructive economic thinking for the future.

20. With this emphasis on the problem of economic advancement and social security we are in complete agreement. We approve, likewise, the approach indicated under (a) and (b) above and the care taken to avoid blueprinting for an uncertain future and entering into problems of executive detail. At the same time, the organs of the League should provide such expert guidance as they can to assist Governments in implementing the policies formulated in the Atlantic Charter—the enjoyment by all states of access on equal terms to the trade and raw materials of the world, the fullest col-

(1) "Report on the Work of the League, 1941-1942." League of Nations document, C.35, M.35, 1942.

laboration between all nations with the object of securing for all improved labour standards, economic advancement and social security, the assurance that all men in all lands may live out their lives in freedom from fear and want. In the work on these problems of free access to raw materials and to the world's trade, of the raising of the standards of living and of social security, the Economic and Financial Organisation of the League, with its committees have taken an active part in the past and will, we hope, continue to do so in the future. In this connection we would call attention particularly to the pioneering work on problems of nutrition initiated by the technical services in Geneva in 1925.⁽¹⁾ As a result of food shortages and rationing during the war, all peoples have become more conscious of their nutrition problems. We trust that the League will continue to furnish a point of focus for international consideration of these problems.

21. As the Secretary-General points out, it is essential that the programme of study be kept elastic and adaptable to changing conditions and the current requirements of Governments and national agencies concerned with reconstruction problems. There is, therefore, no advantage in indicating at any moment of time all the details of the plan since those details may be—are indeed likely to be—changed. It is, however, desirable to make known the broad lines of the programme upon which the Economic, Financial and Transit Department is engaged and the very considerable progress that has been made in its execution.

22. The general range of subjects covered by the programme is as follows:⁽²⁾

- (a) Problems of commercial policy;
- (b) Problems of raw materials;
- (c) Problems of relief and reconstruction;

(1) The paper by Drs. Burnet and Aykroyd on "*Nutrition and Public Health*" was issued in 1935, the study of the Technical Commission of the League Health Committee on "*The Physiological Bases of Nutrition*" the following year. The final report of the Mixed Committee of the League on "*The Relation of Nutrition to Health, Agriculture and Economic Policy*" appeared in 1937.

(2) The order in which these subjects are set out does not necessarily correspond to the order in which the individual studies are being undertaken.

- (d) Problems of agriculture;
- (e) International currency problems;
- (f) Problems of economic depressions and social security ;
- (g) Population problems.

(a) COMMERCIAL POLICY. This, throughout the whole inter-war period, was the main field of activity of the Economic Committee and its secretariat, and to the related work on trade statistics and analysis the Economic Intelligence Service has devoted particular attention. We have had before us a volume on *Europe's Trade*, published by the League in 1941, and two unpublished memoranda, the first containing an historical study of recommendations on commercial policy adopted by international conferences in the inter-war period, compared with the policies that were actually pursued, the second containing an analysis of the reasons of the failure—or success—of those recommendations. A companion to the volume on *Europe's Trade* dealing with the trade of the rest of the world is shortly to be published under the title "*The Network of World Trade*," which contains a careful analysis of the structure and functioning of the multilateral trading system. Other memoranda, dealing *inter alia* with the economic factors leading to the imposition of quantitative restrictions on trade, and with the possibility and means of maintaining effective trading relations between countries with a free price economy and those imposing exchange-control or maintaining a Government trade monopoly, are also in process of preparation.

(b) RAW MATERIALS. In the study of the problems relating to raw materials, the Department has also had long experience, dating from 1920.⁽¹⁾ The volume published by the League in 1940 under the title "*Raw Materials and Foodstuffs; Production by Countries*," provides the factual foundation for the work now being undertaken in this field. We have been informed that among the subjects on which work is being undertaken are the nature of the obstruction to free access to raw materials; the nature, objects, and effects of raw material controls; the proposals made in the course of the

(1) Cf. especially "Report of the Committee for the Study of the Problem of Raw Materials," Geneva, 1937, League of Nations document, A.27, 1937, II.B.

inter-war period to assure equal conditions of supply and to prevent violent fluctuations of price, and the extent to which these proposals are likely to prove adequate to implement the objectives of the Atlantic Charter.

(c) RELIEF AND FINANCIAL RECONSTRUCTION. The Department has made preliminary studies on post-1919 relief deliveries and relief loans, and these are to be followed by a critical analysis of the financial aspects of the reconstruction schemes of the 1920's. Studies are also in hand on the following subjects; the more immediate economic problems arising in connection with financial reconstruction; the broader issues of the effects of large international capital movements on economic stability; the effects of the various forms of international lending on the financial and commercial relationships of nations; the measures adopted by certain countries in the twenties with a view to stopping inflation without foreign aid.

(d) AGRICULTURE. A study has been almost completed on the effect of the First World War on agricultural production in Europe, the causes of the drop in production during the war, and of the slowness of recovery. This study is to be followed by an analysis of European trade in agricultural products. These and certain other background studies⁽¹⁾ are intended to lead up to an estimate of the probable nature and proportions of the immediate post-war agricultural problem, particularly in Europe, and a consideration of the forces that tend to influence long-term agricultural policies.

(e) INTERNATIONAL CURRENCY PROBLEMS. In this field—which, from the beginning, has been the particular concern of the Financial Committee, and on which much evidence from the past twenty years is available in the Department—the programme is designed to cover such questions as the advantages and disadvantages of fluctuating or fixed, free or controlled exchanges, the causes of the drift towards monetary autarchy, the principles of policy employed in the gold exchange standard in the twenties and the sterling

(1) A considerable documentation on agriculture was especially prepared for and published by the League in 1939 in connection with the proposed European Conference on Rural Life.

standard in the thirties, exchange equilisation funds as a contribution to currency machinery, the conditions essential for the successful operation of various currency systems. Considerable progress has already been made. We have had before us a study on exchange stabilisation funds and we understand that first drafts of studies on the principles employed in the Gold Exchange Standard System and the Sterling Standard System have also been completed.

(f) ECONOMIC DEPRESSIONS AND SOCIAL SECURITY. The Department's programme is a continuation of two closely related groups of enquiries on which the League has been engaged for several years, namely, the enquiry by the Economic Intelligence Service into the causes of the recurrence of economic cycles⁽¹⁾ and the study of the practical steps to prevent economic depressions or to mitigate their effects which has been under consideration by a Delegation of experts composed partly of members of our two committees. The work of that Delegation, which had reached an advanced stage, was interrupted by the outbreak of war; we have been informed, however, that a great part of the preparatory work for a revised draft has now been completed by the Department. This preparatory work covers not only long-term policies but also more immediate issues and problems connected with the transition from war to peace economy. In the execution of its programme, the Department has also completed and has communicated to us two memoranda on the economic fluctuations in the United States and the United Kingdom in the period 1918-22.

(g) POPULATION PROBLEMS. On these problems, too, work by a League Committee instructed to submit a report "of practical value to Governments in the determination of their policies" was suspended by the outbreak of war. This Demographic Committee had laid down a very extensive programme of preparatory work on the subject. An arrangement has been made under which this work is being undertaken by the Office of Population Research in Princeton Uni-

(1) One of the several published studies which have resulted from this enquiry, an analysis of business cycle theories entitled "*Prosperity and Depression*," by Professor G. Haberler, has been reprinted six times in English and translated into several other languages. A new and enlarged edition appeared last autumn.

versity under the direction of Dr. Frank Notestein and under the general editorship of the Director of the Economic, Financial and Transit Department of the League. We welcome this arrangement, and are glad to learn that a considerable part of the background work has already been completed by the Office. As the field of study is a vast one which has, up to now, been inadequately explored, it was decided to start with an examination of the European data, which are the most complete. The programme will be carried out as a series of independent but closely linked studies. It begins with a brief historical note and a general description of the relationship of population to resources in pre-war Europe, and moves from this to a consideration of the trends of population growth, the implication of these trends for the future and the economic problems associated with rapid population growth and with actual or incipient population decline. This work is being extended to other regions of the world.

23. The Department has confined its programme to certain groups of subjects on which it has specialised for many years and in regard to which the League has been the central organ of international action. The programme does not exhaust the subjects falling under this category or the aspects of the problems already under consideration that require study. We have made certain suggestions to the Director of the Economic, Financial and Transit Department regarding the extension of the programme of work outlined above and feel that the Secretary-General should be allowed full latitude not only to modify the plan of studies but also to extend the field of the Department's enquiries at his discretion. He will doubtless consider in this connection any requests that may be addressed to him by Governments or other international bodies such as the International Labour Organisation. In the execution of this programme it is, we feel, important that the Department should keep in constant contact with the various national reconstruction committees or government departments which are studying post-war economic and financial problems and preparing plans for the future.

24. Only two of the studies submitted to us have so far been published. In certain cases it is clearly advisable to postpone publi-

cation of individual memoranda until complementary studies in the same field have been completed. In other cases, it may be found advisable to consult with other bodies and national experts before drawing up a final text for publication. But we consider that, in principle, the results of the Department's enquiries should be published and made available to all interested with the least possible delay. This applies equally to the work in preparation for the Demographic Committee. In regard to the vital problems of mitigating cyclical movements in economic activity, we are of the opinion that an authoritative statement by the Delegation on Economic Depressions is now a matter of considerable importance, and we hope that it may be possible for the Delegation to meet and issue its recommendations without too great delay.

III. Collaboration with the International Labour Organisation

25. In the course of our discussions we considered a question which has arisen as a result of the Conference of the International Labour Organisation held in New York and Washington last autumn, namely, how to promote the fullest co-operation possible between the Economic, Financial and Transit Department and the International Labour Office in their work on reconstruction problems.

26. The principal resolution adopted by the Conference contained the following passages:

WHEREAS the close of the war must be followed by immediate action, previously planned and arranged, for the feeding of peoples in need, for the reconstruction of the devastated countries, for the provision and transportation of raw materials and capital equipment necessary for the restoration of economic activity, for the reopening of trade outlets, for the resettlement of workers and their families under circumstances in which they can work in freedom and security and hope, for the changing over of industry to the needs of peace, for the maintenance of employment, and for the raising of standards of living throughout the world; and

WHEREAS the International Labour Organisation, which possesses the confidence of the free peoples and includes in its structure the representatives of workers and employers, is for

these reasons peculiarly fitted to take part in this work in such a way as to minimise misunderstanding and unrest and to promote a stable and enduring peace:

THE CONFERENCE of the International Labour Organisation requests the Governing Body:

. . . to set up from its own membership a small tripartite committee, instructed to study and prepare (i) measures of reconstruction and (ii) emergency measures to deal with unemployment, which should be empowered to enlist the assistance of technically qualified experts and authorised to co-operate with governmental, inter-governmental and private agencies engaged in similar studies and with those agencies whose present activities in the social and economic field affect the conditions under which post-war programmes will be carried out. . . .

27. A meeting of the Emergency Committee, to which the powers of the Governing Body have been delegated, was held in London in April to consider the means of giving effect to this and other resolutions of the Conference concerning the planning and application of measures of reconstruction. At this meeting it was decided to set up a Committee composed of men of wide experience in the light of whose advice the Governing Body could feel that its own decisions were formulated with security and authority. In the report submitted to the Emergency Committee by the Acting Director of the International Labour Office, it is explained that:—

“The function of such a Committee would be to study what economic provisions should be included in the post-war settlement in order to make possible the implementation of the social objectives of the Atlantic Charter and in particular the provision of full employment and a rising standard of living. If such a Committee could be composed of outstanding personalities with the competence and experience necessary to deal with financial and economic problems from an international standpoint, not only would its views undoubtedly carry great weight but it would be invaluable in helping to direct the work of the Office on these vitally important subjects.

“A Committee of the kind suggested would act as an advisory body to the Governing Body for the purposes indicated above.

It is through the medium of a committee such as that suggested above that technical advice might be secured in connection with international financing and economic policy in its relation to social objectives.”

28. From what has been indicated in the earlier chapters of our report it is apparent that these objectives closely parallel our own. We are prepared to offer the International Labour Organisation the fullest collaboration in the interests both of accomplishing our common objective and of avoiding needless overlapping of functions or duplication of effort. Much of the preparatory documentation that will be required has already been prepared or is being prepared by the Economic, Financial and Transit Department of the League and certain League Committees.

29. Co-ordination of effort should not be difficult to achieve in practice, since not only have the two organisations essentially similar aims, but they are specialised in different and, in large measure, complementary branches of work.

30. We do not suggest that there should be a rigid allocation of subjects between the two organisations, that each should work in a water-tight compartment. On the contrary, it is of real importance that each group of problems to be studied should be approached both from the angle of the International Labour Organisation and from the governmental angle represented by the League organs. Every act of economic policy—for example, the removal or imposition of a restriction on trade or the adoption of a given currency or fiscal policy—has social consequences by which it must in large measure be judged. Every social measure, on the other hand, has economic consequences which may be beneficial or baleful and postulates certain economic conditions that may or may not be capable of fulfilment.

31. The effectiveness of the desired collaboration and co-ordination of functions will of course depend largely on close contact between the staffs at Princeton and Montreal. We are glad to note that contacts of this kind have been regularly maintained.

32. We for our part are ready to establish whatever form of collaboration may prove most appropriate once the proposed Consultative Committee of the Governing Body of the International Labour Office has been set up. With this object in view, we have

requested Mr. Henry Grady, Chairman of the Economic Committee, to make whatever arrangements he thinks best when the time comes; subject, of course, to the agreement of the Acting Secretary-General. Dr. Grady has been good enough to comply with this request.

IV. Fiscal Questions

33. We are glad to learn from the Acting Secretary-General's report that it has been possible to carry through an appreciable part of the programme of work drawn up by the Fiscal Committee of the League before the outbreak of war and that the work on the principles of taxation and the prevention of double taxation through income and property taxes, carried out by the meetings held at The Hague and Mexico City in 1940, has proved to be of particular value in several Latin American countries. We understand that it is proposed to convene a second conference on tax problems in some Latin American capital in the course of the present year, and we trust that this meeting may be arranged.

* * *

34. In concluding this report we wish to record our warm appreciation of the manner in which the Department and its Director have succeeded in maintaining so much of the essential work of the League Economic and Financial Organisation, despite the great difficulties of the present time, and of the good progress which has been made with the studies comprised in the programme described above. We trust that many of these may shortly be published as we believe that such studies will be of great value in the formulation of governmental economic policies for the future.

PRINTED IN GREAT BRITAIN
BY UNWIN BROTHERS LIMITED
LONDON AND WOKING

COMMUNICATED TO THE COUNCIL AND
THE MEMBERS OF THE LEAGUE · OFFICIAL NO.: C.I.M.1.1944.II.A.

FEBRUARY, 1944

ECONOMIC AND FINANCIAL
COMMITTEES

REPORT TO THE
COUNCIL
ON THE WORK OF
THE 1943 JOINT SESSION

PRINCETON, N.J., DECEMBER, 1943.

LEAGUE OF NATIONS · GENEVA

Series of League of Nations Publications

II. ECONOMIC AND FINANCIAL
1944.II.A.1.

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PREFACE

As a number of members of the Economic and Financial Committees and other persons who have recently collaborated with them were in the United States of America for the Atlantic City Conference on Relief and Rehabilitation, it was thought advisable to take advantage of their presence and arrange for a short session to review the work that has been carried out since the issue of the Committees' last report.¹ This meeting, which was held at Princeton, New Jersey, also afforded an opportunity to discuss the outlines of a report the Committees hope to issue later dealing with certain problems of commercial policy.

The following members and corresponding members were present:

Hon. Henry F. Grady (U.S.A.), *Chairman*
Mr. R. M. Campbell (New Zealand)
Mr. Mitchell B. Carroll (U.S.A.) (representing the Fiscal Committee)
Mr. W. C. Clark, C.M.G. (Canada)
Mr. W. Domaniewski (Poland) (replacing M. J. Nowak)
Mr. Fraser Elliott (Canada) (representing the Fiscal Committee)
Mr. Josias Carneiro Leao (Brazil) (replacing Dr. J. A. Lins de Barros)
Sir Frederick Leith-Ross, G.C.M.G., K.C.B. (United Kingdom)
M. Walter Loridan (Belgium) (replacing M. F. van Langenhove)
Mr. F. L. McDougall, C.M.G. (Australia)

Dr. D. Crena de Iongh (Netherlands), although prevented from attending, kept in touch with the Committees during the session and approved the report.

The Committees were fortunate enough to be able to secure the advice of the following persons who attended the session in their individual capacities for consultation:

M. Hervé Alphand (France)
Dr. Constantin Fotitch (Yugoslavia)
Dr. Josef Hanc (Czechoslovakia)
Dr. Kan Lee (China)
Mr. H. S. Malik (India)
Mr. Redvers Opie (United Kingdom)
Mr. Arne Skaug (Norway)

¹ Report to the Council on the Work of the Joint Session, London, April 27th-May 1st, 1942; Princeton, August 7th-8th, 1942. Document C.52.M.52.1942.II.A.

• The Committees have to record, with deep regret, that, since their last Joint Session, the death has occurred of two of the Financial Committee's most valued members: Sir Frederick Phillips, G.C.M.G., C.B., Representative of the British Treasury in the United States and Chairman of the League of Nations Delegation on Economic Depressions; and Dr. V. Pospisil, former Governor of the National Bank of Czechoslovakia.

*Post-War Problems: Recent Publications
of the Department*

IN our last report we gave a brief description of the programme of work relating to post-war economic problems which the Economic, Financial and Transit Department had in hand and expressed the view that the results of the Department's enquiries "should be published and made available to all interested with the least possible delay." In compliance with this wish nine publications have been issued, of which four deal with international trade and commercial policy, three with relief and reconstruction, and two with economic security.¹

(a) *Trade and Commercial Policy:*

The Network of World Trade;
Commercial Policy in the Interwar Period;
Quantitative Trade Controls: Their Causes and Nature;
Trade Relations Between Free Market and Controlled Economies.

(b) *Relief and Reconstruction:*

Relief Deliveries and Relief Loans, 1919-23;
Europe's Overseas Needs, 1919-20, and How They Were Met;
Agricultural Production in Continental Europe During the
1914/18 War and the Reconstruction Period.

(c) *Economic Security*

Economic Fluctuations in the U.S.A. and U.K., 1918-22;
The Transition from War to Peace Economy.

The last-mentioned document—*The Transition from War to Peace Economy*—is the first part of the Report of the special delegation which was charged by the Assembly in 1938 to report on measures that might be employed "for preventing and mitigating economic depressions." Based very largely on the findings contained in the other publications of the Department, it traces in broad outline the policies required to meet the major economic causes of disequilibrium in the future. All the other documents,

¹ In addition, the following documents issued earlier have been reprinted: Prosperity and Depression—Revised edition; Raw Materials and Foodstuffs; Urban and Rural Housing; and the following dealing with current events have been issued: World Economic Survey, 1941/42; Money and Banking, 1940/42; Wartime Rationing and Consumption; Monthly Bulletin of Statistics (since January 1943 published both in Geneva and in U.S.A.); Statistical Year-Book, 1941/42 (Geneva and U.S.A. editions, the latter containing an addendum, 1942/43).

some directly analytical, some partly historical in form, are, it should be observed, designed to throw the light of past experience on the problems before us and almost all contain a chapter summarizing the conclusions reached.

These publications provide, in our view, a very valuable and authoritative body of evidence as to the lessons that may be drawn from the experience of the past, and their conclusions deserve the attention of those responsible for formulating and carrying through policies for dealing with the vast problems which will have to be faced after the present war. We have thought it well, therefore, to attach, as appendices, the principal conclusions in these documents.

Four Conditions of Successful Post-War Economic Policy

We shall revert in the last section of this report to the question of commercial policy and to the work which has been and is being done on policies of full employment. It is not our intention to summarize the conclusions which have been drawn by the Department; indeed, it would be difficult to do so without repeating much that has already been said in *The Transition from War to Peace Economy*. But before turning to consider the work that the Department now has in hand, there are certain points brought out in these various publications that we wish to emphasize.

(1) The first, which is thrown into prominence no matter what aspect of economic life is under consideration, is the imperative necessity of effecting an orderly transition from the economy of war to the economy of peace; of supplementing measures of relief by rehabilitation and rehabilitation in its turn by orderly reconstruction; of maintaining controls imposed to meet conditions of shortages so long as shortages persist, lifting the controls gradually as supplies become more abundant; of preventing a sudden boom and collapse of prices, or a financial collapse in any single country, from taking place owing to the absence of concerted policies of reconstruction. As is stated in the pamphlet on *Europe's Overseas Needs*, after the last war "the problem of reconstruction, of reviving the economic activity of the war areas, was not faced as an international issue until the Brussels Conference met in the autumn of 1920 nearly two years after the Armistice."

It was then too late for the successful application of any general plan and when action was taken, after the collapse of currencies, "it inevitably assumed the form rather of curing one festering spot

after another than of attempting to restore health or vitality to the whole economic body of the Continent. . . . But the effects of inflation, still less of hyperinflation, cannot be eradicated. They influence not only, indeed not so much, the current volume of production, but the whole organization of society and its psychological equilibrium."

There are signs that these dangers are more widely realized today and that appropriate measures will be taken to avert them. The Atlantic Charter and the Mutual Aid Agreements have provided the broad foundations for post-war collaboration between the United Nations in economic as well as in other fields, and discussions are proceeding between the Governments in regard to measures for dealing with such questions as currency stabilization. The Conference at Hot Springs laid down the principles of constructive action in regard to food and agriculture, and a permanent organization is being set up to develop these principles. An agreement setting up the United Nations Relief and Rehabilitation Administration was signed in November last by all the United Nations, and at the recent Conference at Atlantic City agreement has been reached concerning the basic policies which the Administration will implement.

The difference between the prospects today and what happened after 1918 may be illustrated by the following figures showing the imports from overseas of foodstuffs and raw materials into various parts of Europe in 1919/20.

IMPORTS INTO CONTINENTAL EUROPE FROM OVERSEAS, 1919-1920
Values at 1927 Prices (in Billions of Dollars)

	Western Allies		Neutrals		Other Countries	
	Foodstuffs	Raw Materials	Foodstuffs	Raw Materials	Foodstuffs	Raw Materials
1913	.7	1.6	.8	.8	.7	1.6
1919	1.3	1.4	.5	.6	.6	.1
1920	.8	1.2	.4	.6	.5	.3

It will be noted that the imports of overseas raw materials into Central and Eastern Europe in 1919 were quite insignificant and in 1920 were less than one-fifth of the normal. This necessarily resulted in a very low level of economic activity and it was here that

the breakdown took place. Today it is proposed that the liberated Allied countries not in a position to provide foreign exchange for the relief and rehabilitation goods and services which they need shall be assisted by the United Nations Relief and Rehabilitation Administration (UNRRA) and shall not be required to assume the burden of an enduring foreign exchange debt in respect of those goods and services.

The Atlantic City Conference was not concerned with the third step in the road from war to peace, the stage of reconstruction, of rebuilding what has been destroyed—maybe in a new form—and of establishing a smooth working economy. This is under discussion between governments.

(2) But in a world grown so small, no economy will work smoothly in the absence of political security. All the efforts to restore order in the 'twenties were, as we can see now, rendered vain because the machinery established was not adequate to preserve peace or to avert the risk of new aggressions.

(3) Political security in its turn can never be attained in the absence of economic security. If a major disaster such as that of the great depression of the 'thirties occurs again, no matter how effective the measures to prevent war between states may be, social upheaval may well prove unavoidable and uncontrollable. Political and economic security are indeed mutually dependent and constitute the two prerequisites of progress after this war.

It is not for us to put forward suggestions regarding the manner in which political security may be assured. On the problem of economic security, the avoidance of depressions and the maintenance of the fullest possible measure of employment, the Department is now engaged. We shall revert to this aspect of its work shortly.

(4) But we want here to insist on a fourth fact of major importance, namely the inescapable interdependence of the various categories of economic policy. Agriculture and mining are dependent for their prosperity on industry at home and abroad and on the standard of living of the industrial workers. The depressions from which they have suffered in the recent past—and which spread from one country to another—are due rather to factors affecting industry than to factors directly connected with farming or mining; in 1938 89% of the trade of the world consisted of goods bought or

sold by the twelve major industrial states. But industrial activity in its turn is very largely dependent on the demand of the farmer for manufactured goods. When the demand of the farmer wanes industrial workers will be thrown out of employment; when unemployment is widespread agricultural prices must be depressed and surplus stocks accumulate. Agricultural policy, therefore, cannot be divorced from industrial and the policy of agricultural and industrial countries must be in accordance with one another. Economic policy must be conceived and formulated as a whole, and in economic must be embraced financial policy. The trading system of the world with its delicate mechanism for the settlement of claims along roundabout routes was strained to breaking-point when the flow of capital exports was checked in 1928, and broke down altogether when capital started moving in search not of profit but of safety. The collapse of the multilateral trading system led in its turn to the inevitable collapse of the monetary system, and once the international functions of money had been curtailed the international investment of capital became well-nigh impossible. Monetary systems cannot survive if they are based on principles differing from those of the trading system in force, and foreign investment will only take place if there is adequate assurance both of stability of exchanges and of prices.

While we welcome, therefore, the steps which have been taken and are being taken to establish international machinery to deal with special aspects of economic life, such as food and agriculture, and with exceptional and urgent problems such as relief and rehabilitation, the success of these mechanisms, especially of those of a permanent character will, in our opinion, necessarily be dependent on the existence of some over-all organization to coordinate policies. To assist in such coordination, there would seem to be need for a central investigating and fact-finding body which would watch the trend of events in every field of activity, throw them into their proper perspective, and draw the appropriate conclusions from them. This is all the more important as the existence of such general coordination would greatly enhance the prospect of securing effective joint action to maintain full employment, which must be the first object of all economic policy.

With the publication of the documents we have mentioned and the distribution of certain others in draft form, a considerable

proportion of the total programme outlined in our last report has been executed. Other parts are in an advanced state.

Industrialization of Undeveloped Countries

At our last meeting we suggested that it would be desirable to supplement the various studies on trade and commercial policy by an examination of the influence on the more economically advanced states of the development of industries in less advanced areas. This question is an important one and the views held on it are likely to have considerable political influence. We are glad to be able to state, therefore, that it is being studied with great care, and that the preliminary ground-work has now been completed.

A large amount of work has also been done on various aspects of the raw material problem, price stabilization, buffer stocks, etc., and we hope that it may be possible to complete this work in the course of the next few months.

Demographic Questions

No publications have yet been issued on two chapters of the programme, namely, those relating respectively to currency problems and to demographic questions.

The first volume on demographic questions, entitled, *The Future Population of Europe and the Soviet Union: Population Projections, 1940-70* is, however, now in the press. It contains an analysis and discussion of the prospective changes in the number and age distribution of the population and a discussion of the effects of war on population and the changes likely to take place in the age structure of the peoples in this area in the future. This analysis and discussion is followed by chapters on man-power, on demographic and economic policies affecting women, on the burden of dependency, and on the problems of demographic pressure and population decline. The volume thus covers a considerable part of the whole field of study mapped in the original programme.

In addition, a great deal of work has been completed on several other sections of this programme. In particular, a volume on the demography of Europe in the interwar period is nearly completed, which will take the form of an atlas with brief accompanying text showing the demographic, social, and economic characteristics of

some six hundred areas in Europe. It is designed to illustrate the intimate connection between demographic, cultural, and economic characteristics and trends.

Finally, data have been assembled and drafting begun on an analysis of the levels of living and agricultural production, in Europe and on the economic problems of agrarian regions of rapid population growth.

It will be recalled that this work is being undertaken for the League by the Office of Population Research in Princeton. Although it really falls within the competence of the Demographic Committee which was appointed under a resolution of the Assembly in 1938, we attach great importance to its economic significance, and hope to be able to comment on it at greater length when we have the first volume before us.

Monetary Policy

The study made by the Department of the currency experience in the interwar period is likewise almost completed, and a number of chapters have been distributed to governments and interested persons in draft form. The Department laid before us a brief summary of some of the conclusions reached. While we do not propose to reproduce these conclusions here, there are certain observations arising out of them which we desire to make.

(a) Exchange fluctuations were one of the major impediments, if not the major impediment, to recovery after the last war. When moderate in scope they constituted an element of risk which, even if covered, at a price, by forward operations, necessarily hampered international trade. When, as was frequently the case, they proved violent and persistent, no insurance against them was possible, and they involved, both in the country suffering from them and elsewhere, constant shifts of labour and other resources from production for the home market to production for export and uneconomic shifts of capital from one country to another. They gave rise, moreover, to the imposition of anti-exchange-dumping measures and high protective tariffs, from which trade never succeeded wholly in liberating itself. In their most extreme forms they involved the complete financial collapse of certain countries.

(b) On the other hand, the determination of the appropriate

equilibrium rate when stabilization was effected in a world of widely fluctuating prices and shifting trade routes proved, and must always prove in periods of post-war recovery, extremely difficult. The structural changes caused or necessitated by war do not manifest themselves at once, and the interwar period afforded many examples of disparities between price levels and the rates at which exchanges were stabilized—disparities which tended to depress business in one area or another and gave rise to import restrictions. The risk of such disequilibria arising again after this war will be acute, for wide divergences have developed between income levels and prices in different countries which have been cut off from one another during the war years. A period of trial and error would seem to be inevitable.

(c) But the uncertainties caused by such trial and error in the 'twenties were rendered unnecessarily grave because each country acted alone, and if not without reference to, without prior consultation with, others. Moreover, in some cases, owing to lack of support, exchange rates had to be fixed below the economic parity and constituted a temporary exchange export bounty. In other cases, efforts were made to restore the value of currencies even at the cost of what was equivalent to an export tax.

(d) Once costs in the majority of countries had adapted themselves to the exchanges or the exchanges had been adapted to the level of costs, the need for further adjustments naturally diminished, though in certain countries perfect adjustment was never achieved. Where a satisfactory adaptation had been achieved, adjustments necessary to meet unlike changes in the movements of prices in different countries could be, and were, for the most part, effected during the years of growing business activity within the limits set by the gold standard and gold exchange standard.

(e) But no means were devised to prevent a simultaneous fall in prices and economic activity; the need for coordinated policies for the maintenance of national incomes and good conditions of employment in all countries was never fully appreciated; and when the depression which started in 1929 gradually spread, striking country after country with varying violence, price and cost levels and exchanges were thrown once more into complete disorder. What should be the first object of our policy in the future was wholly lacking in this period.

(f) The gold standard grew up owing to the general recognition of a more limited objective—exchange stability—and was restored after the war with that primary objective in mind. If, as we believe it is, the new objective of maintaining economic activity and employment is generally accepted, then the monetary system will have to be adapted to it.

(g) This policy, if successfully carried out, would incidentally put an end to the paradoxical conditions in which countries endeavored to stimulate domestic employment by “improving” their trade balances through restrictive measures which inevitably tended to disrupt the equilibrium of international settlements and caused unemployment or agricultural depression elsewhere. When productive resources are being employed to the full, exports can no longer be viewed as a means to provide employment; they become the necessary means of paying for what is really required and consumed, namely, imports. Thus, the new objective of economic policy, if realized, should overcome many of the major impediments on the road to a saner commercial policy that have trammelled us in the past.

(h) After the breakdown of the international monetary system some countries established exchange stabilization funds as a cushion against the abnormal demand for their currency arising not only from uncertain trading conditions, but also, and indeed to a greater extent, from erratic capital movements. Even if coordinated policies for maintaining full employment are devised and courageously pursued after this war, it cannot be anticipated that they will, especially at first, be wholly successful, that serious balance of payments difficulties will not arise, and that disequilibrating short-term capital movements will not take place unless measures to check them are enforced. The need of each country for a reserve will persist, therefore, and so long as the distribution of gold is as uneven as it is today, such reserves can only be established by means of some form of exchange standard.

(i) No monetary system could resist the pressure of short-term capital movements of the sort that characterized the first years of the last decade, and until confidence in political security is fully restored and policies of maintaining employment have been fully and successfully tested, the risk of such movements recurring cannot be ignored. For a time, therefore, it would seem probable that

many governments will find themselves forced to maintain some control over all capital movements, despite the risk of such control impeding trade. If conditions permit of the lifting of this control, other measures such as mutual arrangements for reporting all capital imports and exports, for preventing fiscal evasion, etc., may well be required. But the real solution of the "hot money" problem lies, in our opinion, in political and economic security.

(j) Though hot money imposed a strain on the world's monetary mechanism which contributed largely to its collapse, it was not the initial cause of the breakdown. More important in the early stages of the depression and in the months preceding it was the cessation of capital export and the recall of money which had been previously exported abroad. Of major importance in the future will be, therefore, not only the amount but the steadiness of the rate of foreign investment. Equilibrium cannot be maintained in the world if capital moves in spells or sudden rushes.

Foreign Investment

Questions of currency cannot be considered apart from those of foreign investment. In addition to the work which is now in hand, the original programme included a section dealing with the question of long-term international investment. On one aspect of this problem, namely, the avoidance of double taxation, the Department is constantly engaged, and a regional tax conference was held last July in Mexico City to consider this and allied questions.

The discussions of that conference, which was attended by revenue officials and economic experts of fifteen countries, were centered on the tax relations between capital exporting and capital importing countries, and the full confrontation of views which thus took place resulted in three coordinated model conventions covering in a remarkably complete manner the various aspects of international double taxation and fiscal evasion. These model conventions, which are destined to serve as a basis of negotiations between national authorities for the conclusion of bilateral treaties, represent the synthesis of the studies concerning double taxation and fiscal evasion that have been made by the Fiscal Committee since the General Meeting of Government Experts on Double Taxation and Fiscal Evasion of 1928, and take account of the ex-

perience gained as a result of the numerous tax treaties concluded since then. The fundamental conception of these model conventions is to assure a reciprocity and equivalence in the sacrifice of revenue implied, for each contracting country by the suppression of double taxation and a balance between the taxing rights of the country of domicile or residence of the owner of property situated abroad, or the recipient of income from abroad, and the rights of the country where the property or source of income is located.

The conference also made recommendations concerning reciprocal assistance between tax administrations for the suppression of fiscal evasion which should prove of value for the development of international trade, not only because they render more acceptable to national treasuries the sacrifices involved in the elimination of double taxation, but also because they discourage flight of capital.

Important as these questions of double taxation and fiscal evasion are, it was felt at the conference that it would be desirable to extend the field of study and discussion so as to cover other aspects of the whole question of foreign investment. On the one hand, while foreign capital is both desired and is necessary in order to promote economic progress throughout the world, raise standards of living and reduce the present wide differences in national wellbeing, borrowing countries are concerned about the risk of uneconomic exploitation of their natural resources, about the export of their mineral or other wealth in crude form and about the risk of foreign companies acquiring excessive control or influence over their economic and financial life. On the other hand, the flow of necessary and desired foreign capital may be checked by institutional and legal conditions in borrowing countries relating to property rights, company organization and administration, export taxes, patent and concession regulations, or more generally by social conditions and business practices.

This question of the conditions conducive at once to the acceptance of foreign capital and to capital export was discussed on more than one occasion by the Economic and Financial Committees before this war, and we feel that it would be desirable to direct special attention to it today and to arrange for a sub-committee of members of these two committees and of the Fiscal Committee together, if necessary, with certain outside experts to consider, if the necessary authority can be obtained,

We hope that other aspects of the whole problem of long-term lending may be examined by the Department in the course of the next year. The Assembly of the League set up a committee a few years before the outbreak of the war to examine the means for improving contracts relating to international loans issued by governments and other public authorities. The report of this committee¹ on which both lending and borrowing countries were represented, was issued in the summer of 1939 and has consequently not received the attention it deserved. We believe that it should afford the starting point from which the further work required by the changes that have taken place since that date might with advantage begin. The Financial Committee has had a unique experience in the field of financial reconstruction, having been largely responsible for the reconstruction schemes carried out in a number of European countries in the 'twenties. We believe that a record of its experience would prove of value in the future and have accordingly requested the Department to prepare the necessary material for our consideration at a later meeting.

Relations with Governments

In our last report we drew attention to the desirability of the Department keeping in constant contact with the various national reconstruction committees or government departments which are studying postwar economic and financial problems and preparing plans for the future. This has been done, and the Department is now in regular correspondence with these various agencies. As its work on the more general problems which we have been discussing advances toward completion, we hope that the Department may be able to devote its attention to such regional problems as may be suggested by governments.

Relations with Other International Organizations

The Agenda of the Hot Springs Conference on Food and Agriculture related in part to problems of nutrition, in which the League has played a leading rôle. Immediately after its convocation, therefore, the conference requested the Economic and Health

¹ Report of the Committee for the Study of International Loan Contracts, C. 145. M. 95. 1939. II. A.

Departments to furnish documentation pertinent to its discussions. Certain of the resolutions of the conference requested the Interim Commission, which it set up, and later the Permanent Organization to undertake work which the Assembly of the League has already entrusted to the League Secretariat. The Director of the Economic Department accordingly drew the attention of the Chairman of the Interim Commission to this matter, which is now under joint consideration.

In August last, the Committee of the Interim Commission charged with preparing a plan for the Permanent Organization invited Dr. Alexander Loveday, Director of the Department, and Mr. Ansgar Rosenberg to serve on a panel of economic experts to advise in the preparation of such a plan. It is understood that, in the report of this panel, a suggestion is put forward regarding the manner in which this situation may be met. Subsequently, the Department was requested by the Chairman of the Committee to take part in its deliberations. We are glad to note that relations between these two international organizations have thus been so rapidly established and trust that the closest possible contact may be maintained and that both may work together with a common purpose in view.

The Department was also invited by the Council of the United Nations Relief and Rehabilitation Administration to send two observers to attend its first session at Atlantic City. At that meeting the following resolution was adopted:

“RESOLVED

1. That the Council reaffirms the principle of cooperation between the Administration and other intergovernmental agencies as set forth in the report of the Temporary Committee on Admission of Observers adopted by the Council on November 12, 1943.

2. That the Council invite representatives of the League of Nations Technical Organizations, the International Labor Organization, the Intergovernmental Committee on Refugees, and the United Nations Interim Commission on Food and Agriculture (or representatives from the Permanent Organization for Food and Agriculture now represented by the Interim Commission), to attend as observers and to participate in the meetings of the Council, its committees, and subcommittees, and in the meetings of regional committees and technical standing committees, in accordance with appropriate provisions in the Permanent Rules of Procedure.

3. That the Director General avail himself of the organizations mentioned in paragraph 2 above as the nature of the work and other circumstances make appropriate.

4. That the Director General, in pursuance of the principle set forth in paragraph 1 above, cooperate to such a degree and to such extent as he may deem desirable in the interests of the Administration with all other intergovernmental agencies whose operations and specialized services may be of value to the Administration, including the sending of his representatives as observers to the meetings of other intergovernmental agencies, as well as those mentioned in paragraph 2 above."

We welcome the invitation thus extended by UNRRA, as we believe that the Department can give valuable help by making available to the Administration the experience it has gained in economic and financial reconstruction, in transport and nutrition, and more generally in international relations and we trust that similar use will be made of the Department's services by any other new international organizations that may be created. We also propose that representatives of the organizations we have mentioned should be invited to attend future meetings of the Economic and Financial Committees of the League when questions of interest to them are coming up for discussion.

Commercial Policy

1. In our last report we referred briefly to the economic principles of the Atlantic Charter and their amplification in Article VII of the Mutual Aid Agreements. Two central objectives, or sets of objectives of United Nations post-war economic policy, are set forth in the Mutual Aid Agreements.¹ The first is "the expansion,

¹ Article VII of the Master Agreement between the United States and the United Kingdom reads as follows:

"In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom in return for aid furnished under the Act of Congress of the 11th March 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations. To that end they shall include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the Joint

by appropriate international and domestic measures, of production, employment and the exchange and consumption of goods"—an objective which should be read in conjunction with that propounded in the Atlantic Charter, of "securing for all improved labour standards, economic adjustments and social security." The international and domestic measures by which the achievement of stability in an expanding economy may be attained are, as we indicated above, under consideration by the League of Nations Delegation on Economic Depressions. Since the publication of the first part of its report on *The Transition from War to Peace Economy*, work has been pursued on the second part dealing with the long-term problem of promoting economic stability and full use of productive resources, once the difficulties of the early transition period have been overcome and war economy has given place to peace economy. It is understood that the Delegation proposes to issue this second part next year. It is unnecessary for us to stress the importance of this subject or of the work that is being done on it.

2. The second of these two objectives of post-war policy is "the elimination of all forms of discriminatory treatment in international commerce" and "the reduction of tariffs and other trade barriers."¹ One of the main lessons brought out by studies on commercial policy issued by the Department is the impossibility of attaining or maintaining a system of multilateral trade unhampered by arbitrary obstructions in the face of the risk of serious depression and unemployment. The two objectives of policy today are necessarily interdependent.

Declaration, made on the 12th August 1941, by the President of the United States of America and the Prime Minister of the United Kingdom. At an early convenient date, conversations shall be begun between the two Governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and of seeking the agreed action of other like-minded Governments."

¹ The corresponding clause in the Atlantic Charter reads:

"FOURTH, they will endeavour, with due respect for their existing obligations, to further the enjoyment by all States, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity."

The League of Nations Committee for the Study of the Problem of Raw Materials reported in 1937 that "the only general and permanent solution of the problem of commercial access to raw materials is to be found in a restoration of international exchanges on the widest basis." (Report of the Committee, Document A. 27, 1937. II. B. p. 30.)

During the greater part of the interwar period, the Economic Committee was largely engaged in preparing for intergovernmental action in matters of commercial policy and for attempting to promote those very aims which the United Nations are now pledged to pursue. In its studies on commercial policy, the Department has thrown light on the implications of these aims and on some of the problems which will inevitably be encountered in the pursuit of them. We think, however, that it may be useful for us to make available to governments the considered conclusions from our own experience. We accordingly propose, as stated in our introductory remarks, to draw up a general report on the subject and have requested the Department to prepare the necessary material for consideration at our next meeting, to be followed later by a report on the experience of the Financial Committee¹ in regard to financial reconstruction.

3. In our report on commercial policy, we intend to show (a) how we approached the problem of restoring normal international trading relationships after the last world war and what are the differences and the similarities between the conditions which then prevailed and those likely to prevail after the present war; (b) that while in certain directions the obstacles in the way of the achievement of relatively free and equal international trading may well be more serious after this war, much technical work has been accomplished that should facilitate the common task of governments in the future, given the will and the power to realize the aims in view; (c) what, in our opinion, are the fundamental conditions under which alone those aims can be realized.

Finally, we shall attempt to formulate a series of constructive proposals regarding the measures, both international and domestic, by which progress might be achieved, stage by stage, towards the establishment of trading relationships appropriate to a world of greater plenty and greater economic stability.

There are certain observations under each of these heads which, while they will be elaborated in our general report, we feel it would be desirable to make at the present time.

4. In 1920, when we began our work, trade in the greater part of Europe was still tightly controlled. The prewar commercial treaty system had largely broken down, with the result that not only was

¹ See page 18 above.

the application of maximum tariff rates the rule rather than the exception, but more important, the legal protection against tariff discrimination contained in the MFN clause had disappeared. The trader was exposed to constant changes both in duties and in the formalities and regulations normally covered by commercial treaties. Several important European countries were opposed to the restoration of MFN and wartime trade restrictions on the European continent were widely maintained and eventually developed into instruments of commercial warfare.

In line with the declared policy of the great majority of governments, we set ourselves the following main objectives:

- (a) The establishment of "equitable treatment" of the commerce of all countries, as provided in the League of Nations Covenant;
- (b) The restoration of that freedom of commerce that had existed before the war;
- (c) More specifically, the abolition of prohibitions and quantitative restrictions on trade;
- (d) The stabilization of tariff rates and classifications;
- (e) The conclusion of long-term commercial treaties, embodying the unconditional MFN clause;
- (f) The improvement and consolidation of the legal, administrative, and fiscal bases of trade.

Little progress could be made towards the realization of any of these objectives except the last until six or seven years after the Armistice. The process would inevitably have been gradual because of the time required to re-align prices and readapt production structures to new conditions—in many cases, to new frontiers. But in Europe the process was delayed and thwarted by the prevailing scarcities, not only of food but also of capital goods and raw materials, by the unemployment due both to those scarcities and to the consequential defensive measures taken by each country against every other, and above all by the collapse of currencies due in large part to the efforts to acquire the necessary foreign goods at any cost. It was inevitable in such conditions that unessential imports and exports of scarce products should be prohibited or restricted, that barriers should be raised against dumping, especially exchange-dumping, that the conclusion of long-term treaties and the stabilization of rates should have been impossible. Vested interests grew up behind the quantitative restrictions that were so

long maintained and when these restrictions were eventually removed, tariffs were raised in many countries in order that domestic producers might not lose the protection they had enjoyed.

5. Today whatever difficulties there may be in the restoration of a freer system of trade, the foundations of the legal structure within which trade can be conducted have been laid in a number of international conventions elaborated by the League Committees and either adopted by conferences or used as models in the conclusion of bilateral treaties.

Thus customs formalities were simplified and their application rendered non-discriminatory by the International Convention concluded in Geneva in October 1923, which has been ratified by 35 countries.

A body of principles concerning the treatment of foreign nationals and enterprises was worked out between 1923 and 1929. While an attempt to secure general adoption of these principles by international convention failed, the principles enunciated were widely used in bilateral and regional commercial agreements.

With a view to strengthening the safeguards against certain forms of unfair competition, a revised Convention for the Protection of Industrial Property, which has secured 32 ratifications or accessions, was brought about in 1925; the provisions of the Convention were further extended in 1934.

Under the international agreements of 1923 and 1927, a legal framework was erected in which international commercial arbitration could operate effectively. The Protocol of 1923 has been ratified by 31 States as well as numerous colonies, mandated territories, etc.; the Convention of 1927 has secured 25 ratifications.

Substantial progress was made as a result of six international conventions concluded in 1930 and 1931—which have been ratified by a considerable number of countries—in removing the discrepancies and conflicts in national legislation on bills of exchange, promissory notes and cheques which had long been an impediment to trade.

Between 1929 and 1939 over 100 important bilateral agreements for the elimination of double taxation, based very largely on models drawn up by League experts in 1928¹ were concluded. The significance of this achievement for the future international move-

¹ See pages 16-17 above.

ment of investment funds and promotion of business needs no emphasis.

Action may be required to put certain of these conventions, multilateral or bilateral, into force again; but the long and laborious preliminary work has been accomplished. The ground has been largely cleared for action on the major issues.

6. Of importance also are the results accomplished in two other fields. First, a standard simplified customs nomenclature was elaborated in the course of the ten years following the World Economic Conference of 1927; this standard nomenclature has been put into force in a number of countries either before the outbreak of war or since. The general adoption of this standard should greatly facilitate concerted action for the regulation or reduction of trade barriers. Secondly, a common doctrine with regard to the Most-Favoured-Nation clause covering its form, its interpretation and its application was elaborated by the Economic Committee and is now available for use as a basis on which a system of non-discriminatory trade agreements may be built once quantitative controls can be abolished.

7. But when we move to the second broad subject which our report must cover—a comparison between the conditions influencing commercial policy likely to prevail after this war and those that prevailed in the 1920's—there is no room for easy optimism. Many of the short-term problems are likely to be both more serious than after 1918 and to affect a far wider range of countries. The areas overrun by armies and the areas stricken by want are more vast than in the last war; the destruction to buildings, to factories, to docks and means of communication is already far greater; agriculture has been more seriously affected; not only troops but great armies of workers will have to be repatriated and absorbed into the economic life of their countries; the bitterness between peoples has reached a greater intensity; in view of the distortion which the economy of Europe and of Asia has suffered, a far greater degree of readaptation will be necessary.

Other reasons are likely to render the attitude of governments and peoples in certain respects less favourable to the abandonment of direct controls over trade than in the 'twenties.

In the first place, there was then a conscious desire to return to the international trading conditions of 1913—to a system of in-

dividual trading regulated only by tariffs; and this factor was of real importance in the formulation of national policies. But we cannot now return to 1913, nor can we wish to return to 1939 or any period in the 1930's. Foreign economic policies have, in large measure, to be developed afresh, and a new common basis sought on which they can be built.

In the second place, after the experience of the 1930's, commercial policy will inevitably be largely conditioned by the search for economic security. Governments may well be unwilling to expose their national economies to the hazards of a free world trading system until they feel assured that means have been found to insure relatively stable and high levels of production and employment.

Thirdly, in some countries, the continuation of a relatively high degree of direct control over trade may be desired as an instrument of national planning, especially during the period required for making good the physical damage caused by war.

8. In view of all these factors (a) it is clear that for some considerable time after the war direct control of trade is likely to continue in a large part of the world and (b) it is probable that thereafter in many countries the role of the state in the conduct of trade will be greater than it was before the great depression.

The fulfillment of the principles of the Atlantic Charter and the Mutual Aid Agreements, however, requires that a world-wide system of multilateral trading should be restored and hence that the bilateral balancing of trade and the discriminatory policies prevalent in the 1930's should be abandoned; and that the measures of trade control or regulation adopted by governments should be such as to impede as little as possible the free movement of goods. How far the continued existence of direct controls will be compatible with these objects depends on the extent to which, and the purposes for which, they are applied. Measures affecting only a small proportion of total imports or limited to special classes of commodities or even an extensive system applied in a liberal manner may be less restrictive of foreign trade and less dangerous to international trade relationships than a very high tariff.

But the experience of the 1930's has shown that all forms of quantitative trade control tend to involve, from the international

point of view, a number of serious disadvantages in comparison with tariffs:

(1) They lend themselves more effectively than ordinary import duties to the application of monopolistic methods in foreign trading operations;

(2) They tend to promote the bilateral balancing of trade and thus to prevent the consumer from acquiring foreign goods in the most favourable market and to disintegrate the world trading system on which national economies depend;

(3) They lend themselves to discriminatory treatment of the trade of different countries and in any case raise international economic rivalries and conflicts to the political level;

(4) Because of the relative disadvantage in which countries without a direct system of trade control are often placed, or as a result of retaliation for abuse of the monopoly power they afford, they tend to spread from one country to another.

Because of these disadvantages and dangers, it is clearly desirable that the scope and extent of quantitative trade controls other than those resulting from international agreement should be reduced as rapidly as is consistent with an orderly transition from war to peace economy.

9. It is furthermore of the greatest importance that while controls are in force, vested interests in their maintenance should be prevented from growing up. If such vested interests are allowed to develop and the trading community is placed in a situation under which its profits will be reduced by an expansion of trade or by the abandonment of direct controls, then the chances of realizing this second objective of the Atlantic Charter and the Mutual Aid Agreements will be seriously jeopardized.¹ Any system of restricting imports by means of licenses involves the danger of the recipient of the license making an abnormal profit on the goods he is allowed to place on the home market. After the last war, as we have seen, the problem was not solved; the vested interests were created and

¹ It is of interest to note, in this connection, the following resolution adopted by the Atlantic City Conference:

"That the government or recognized national authority which exercises administrative authority in the area should take appropriate measures to insure that insofar as the distribution within a liberated territory of relief and rehabilitation goods is done through private trade, the remuneration earned by private traders for their services is no more than is fair and reasonable." (Resolution No. 7, Relief and Rehabilitation Policies—Part II, Resolutions on Policy of the First Session of the Council, UNRRA.)

tariffs were raised in order to equalize the effect of quantitative controls when they were removed. It would be in flagrant contradiction with Article 7 of the Mutual Aid Agreements if action to raise tariffs in this way were to be taken after the present war.

There are three main methods by which this difficulty may be overcome. The first is to create or retain government monopolies which would in fact eliminate private trading profits. The second is to remove abnormal profits by taxation or other means. The third is to maintain domestic price control over all licensed goods.

The first of these methods requires but brief comment. The trader would under a state monopoly become in effect the agent of the government and occasion for abnormal profit would be effectively eliminated. Such a system involves, however, the risk of sapping the vitality of the trading community and thus rendering the reversion of functions to it difficult and hazardous. It involves also all those disadvantages and dangers to international relationships that we have just enumerated.

The second is theoretically attractive and has in fact been applied in the past in a number of countries. In practice, however, it is difficult to adjust the tax or fees so as to absorb all the abnormal profit that may be made.

It may be rendered unnecessary if the third method can be applied—that is to say, if domestic prices are through control kept aligned to c.i.f. prices port of arrival; and when this is not the case but domestic prices are controlled at some level above those abroad, the determination of the correct license fee is of course greatly facilitated.

No system is likely to prove perfect in practice; but we would urge that on the one hand every endeavour should be made to prevent the accrual of abnormal profits to the recipients of import or export licenses and on the other that governments should refrain from increasing their tariffs as the counterpart to relaxing trade controls. Only if such restraint is exercised and time afforded to formulate long-term commercial and tariff policies in the light of the post-war situation can we hope for the early realization of the agreed objectives.

The measures we have mentioned refer to the prevention of abnormal profits being derived from the granting of licenses for import or export. They would not, of course, prevent exceptional

profits being earned by producers within the various countries, protected by the quantitative controls and favoured by a marked shortage of supplies. That more general issue is discussed at some length in the report on *The Transition from War to Peace Economy* and we shall refer to certain aspects of it in our next report.

10. In the present report we have touched briefly on some of the factors affecting post-war commercial policy, particularly those resulting from government controls of trade. But there are, of course, many other factors of equal or even greater importance. All over the world the war has created new stresses and disequilibria which will call for special remedies or involve radical readjustments. Many of the countries which have been devastated by the war will have to rebuild their whole economic system and the future commercial policies of these countries will be largely determined by the degree of international cooperation on which they can rely for their relief, rehabilitation and reconstruction as well as for their future development. Other countries, which have not been so devastated, have lost, as the result of the war, assets and investments accumulated by past generations and their commercial policy will inevitably be influenced by the degree to which the gap in their balance of payments can be filled by the expansion of exports. Yet another group of countries have suffered little direct damage from war operations and have intensified their industrial development. These countries will wish not only to maintain these industries but to carry further the process of industrialization on which indeed the improvement of the standard of living of certain of them will undoubtedly depend. In all countries, there will be an immense readjustment of productive industry from war to peace-time requirements; and the more their respective policies can be coordinated, the easier will be the process of recovery and the better the prospects of restoring general business activity. There will inevitably be problems of interrelationships e.g. between those countries which seek to revive a trade system based on private enterprise and those which prefer to maintain a system of governmental control; but we see no reason why satisfactory solutions should not be found for these varying problems. Indeed, the situation in the immediate post-war period, when the shortage of goods will reduce the incentives to restrictionist policies, will be exceptionally fluid. In our view it is of cardinal importance that the governments

should formulate, as rapidly as possible, joint policies to mould this fluid condition before it has crystallized and to direct the trends during the transition period so as to establish an international system of maximum trade with rising living standards and the fullest employment of economic resources in all countries unhampered by unduly high tariffs, exchange controls, and quantitative restrictions.

APPENDICES

PRINCIPAL CONCLUSIONS FROM RECENT LEAGUE OF NATIONS PUBLICATIONS ON POST-WAR PROBLEMS

Trade and Trade Policy

THE NETWORK OF WORLD TRADE, pp. 7-10.

International trade is much more than the exchange of goods between one country and another; it is an intricate network that cannot be rent without loss. A major purpose of this study is to describe the pattern of that network as it presented itself before the present war and to consider how far that pattern was determined by the natural distribution of resources and how far by other factors of a more ephemeral or less unalterable character. Commercial policy, if it is to promote welfare, must be based on a knowledge not of the nature of the trade of the country formulating its policy only, but of the nature of the essential oneness of the trade of the world.

Some of the crucial facts and conclusions that emerge from the study are as follows:

1. Trade radiates from the industrial regions. Thus, in 1938 goods bought or sold abroad by the industrial countries of Continental Europe represented 46% of the trade of the world, by Non-Continental Europe (mainly the United Kingdom) 28%, by the United States 23%, by Japan¹ 7% and by all these countries together 89%. Hence, trade among all the remaining areas amounted to only 11% of the world total.

2. Trade in individual products is highly concentrated. This is true both of imports and exports, though naturally the concentration of exports is more pronounced. Thus, India supplied 99% of the jute entering into trade in 1938, South-East Asia 91% of the rubber, 81% of the coconut oil, 75% of the copra and 50% of the tin, non-tropical Latin America 80% of the linseed and Japan 78% of the silk. Similarly, the United Kingdom purchased 81% of the pork entering into trade, 80% of the beef and mutton

¹ Including Korea and Formosa.

and 78% of the butter; the United States 69% of the silk, 59% of the cottonseed oil, 56% of the bananas and 49% of the coffee.

3. The geographical concentration of trade in individual products is due in part to differences in the natural conditions, the uneven distribution of available mineral deposits throughout the world, differences in climate, differences in accessibility.

4. But even more important perhaps are the disparities in the relative supply of labour, capital equipment and productive land. Capital, for instance, is abundant but land scarce in the United Kingdom and certain industrial countries of Continental Europe; labour is normally scarce but land and capital abundant in the United States; land is abundant in certain countries of the temperate belts (such as the British Dominions and the Argentine) which have been recently settled; there is an abundant supply of cheap labour in certain tropical regions that are relatively poor in capital and equipment.

5. Natural conditions and the relative scarcity or abundance of land, labour and capital tend to determine the nature of each area's trade. Although the large area composed of the British Commonwealth of Nations, the United States and Latin America is rich in capital it is so diverse in resources and climate that it has export surpluses in the majority of the major crude products entering into world trade, and when an excess of imports is recorded that excess is often more apparent than real—thus, the net import of animal foodstuffs in 1938 represented only a small fraction of the net exports of feeding stuffs, the net import of vegetable fatty oils was much smaller than the fat content in the net exports of oil seeds, the net import of superphosphates represented only a fifth of the net exports of natural phosphates, etc.

6. The demand of the United Kingdom and the United States for primary products is rather complementary than competitive. The United Kingdom buys large quantities of foodstuffs (meat, cereals, fruit and tea), of cotton, wool, zinc, etc., which the United States does not import in large amounts (or in balance, exports); and the United States buys large quantities of silk, bananas, coffee, certain fatty oils, tin, rubber, etc., of which the United Kingdom does not import large amounts. But they both compete to a considerable extent with Continental Europe whose demand is normally much more evenly spread over different primary products.

7. The concentration of trade mentioned in (2) above prevents it from being bilateral; for the countries whose exports are largely concentrated on one or a few commodities are not likely to require, and do not require, the particular products of other countries in exactly the proportions in which these countries require their products. The same is true even in trade between countries with a more diversified trade; it is only less obvious.

8. Tropical regions, the production of which is largely complementary to that of the United States, normally furnished over two-fifths of that country's imports, but only took about one-fifth of its exports. The chief United States export markets were Continental Europe, the United Kingdom and the British Dominions.

9. In the trade of the United Kingdom tropical regions were less important as suppliers than as export markets: their share in imports was only 14% in 1928 and 18% in 1938, but in exports 25% and 20% respectively. The United Kingdom depended chiefly upon supplies from the British Dominions, Continental Europe and the United States. Trade with each of these three areas resulted in a heavy import surplus, although the first two took about half of the United Kingdom's exports; the United States only took 5% in 1938.

10. In Continental Europe, intra-trade accounted for 52% of imports and 57% of exports in 1938. Non-Continental Europe (chiefly the United Kingdom) supplied 18% of the imports from the outside world, and absorbed 34% of the corresponding exports. The resulting export surplus to the United Kingdom helped to finance the net imports from other continents upon which Continental Europe depended for its supply of primary commodities.

11. In the case of other groups too, there were remarkable differences in the geographical distribution of imports and exports. Of Africa's exports over four-fifths went to Europe, but Europe's share in imports was smaller (70% in 1938) as the United States was an important supplier to the Union of South Africa. Canada and Newfoundland traded chiefly with the United States and the United Kingdom; the United States accounted, however, for a much greater share in imports than in exports (60% and 32% respectively in 1938), while the reverse is true of the United Kingdom, which accounted for 17% of imports and 37% of exports. The tropical Latin American countries depended very largely on

the United States in both imports and exports; the non-tropical countries of Latin America, represented chiefly by the Argentine, depended principally upon the European export market while deriving a considerable share of their imports from the United States. India sold her goods all over the world, but depended very largely on the United Kingdom for her imports. South East Asia's chief export market was the United States, while imports were derived principally from Europe. The share of the United States was much greater in the imports of Oceania than in its exports: 14% and 2% respectively in 1938.

12. Japan's trade underwent a radical change between 1928 and 1938; towards the end of this period her exports became more focused on Asia. The share of the United States in exports fell from 42% to 16% and in imports rose from 28% to 34%—movements which turned the previous export surplus to the United States into a heavy deficit. Meanwhile Japan acquired by force a quasi-monopoly in a considerable part of the Chinese market so that the share of her exports going to China, including Manchuria, and Hongkong rose from 28% to 46%. But as the occupied areas were incorporated in the "yen bloc" the export surplus that resulted yielded no foreign exchange.

13. The differences in the geographical distribution of imports and exports of each country or group raises the question how claims arising from trading transactions were settled. Study of the trade balances shows that the cases of triangular or multilateral settlement within small groups of countries were relatively unimportant and that almost all balances belonged to a single world-wide system which also provided for the transfer, along round-about routes, of interest, dividends and other payments due from debtor countries to European creditor countries, particularly the United Kingdom.

14. This system is depicted in Diagrams 6 and 10,¹ which show the network of trade balances among five groups of countries representing together nine-tenths of world trade: (1) the tropics; (2) the United States; (3) other regions of recent settlement in the temperate belts; (4) Continental Europe; (5) Non-Continental Europe. Each of these groups had an active balance of trade with each successive group, and a passive balance with each preceding group.

¹ These diagrams are not reproduced in the present document.

(The tropics, however, had a passive balance with Non-Continental Europe in the 'twenties.)

15. This system, and accordingly the world economy which it rendered possible, came into being about 1870, largely as a result of technical improvements in production and transport. It gradually extended in scope until, at the beginning of the present century, it embraced almost all countries. After a temporary disruption during the 1914-18 war, multilateral trade governed by the system was resumed during the 'twenties and was supported by United States capital exports.

16. The functioning of the system was disturbed by the reduction of these capital exports from the middle of 1928 and the repatriation of liquid funds by creditor countries, initiated, it would seem, by France after the legal stabilization of the franc in 1928. For some time a breakdown of the system was avoided as countries exposed to strain were able to settle their international accounts by selling gold or drawing upon liquid assets abroad. Apparently the system of multilateral trade continued to exist; in reality it did not function.

17. The financial strain continued to increase, however, and after the financial crisis of 1931 many countries attempted to balance their foreign transactions by increased government control, particularly in the form of import restrictions. But while each country could generally restrict unchallenged imports from countries with which it had an import balance and could frequently oblige these countries to take more of its products, it exposed itself to retaliations if it attempted to restrict imports from other countries. The restrictions imposed were therefore largely discriminatory and for this and other reasons tended to balance transactions with each country separately rather than in the aggregate. Multilateral trade was thus reduced and replaced by bilateral trade.

18. The disturbances in the system of multilateral trade ever since the late 'twenties reduced the amount which certain countries could spend on purchases of staple products in the world market; hence arose the problem of "reduced commercial access to raw materials." This reduction in demand, only partly offset by increased demand on the part of other countries, depressed world market prices; this, in its turn, besides disturbing economic condi-

tions everywhere, reduced the yield on foreign investments, many of which became valueless, and discouraged capital exports.

Modern civilization is based on a world economy which functions through a system of multilateral trade of a specific pattern that embraces the whole world. The present war, and particularly the reduction of British overseas investments, is likely to modify that pattern in the future. But the need for a world pattern of multilateral trade will remain as long as climates and geological deposits continue to vary from one area to another, as long as the factors of production are unevenly distributed over the face of the globe.

Distortions of the original pattern, whether caused directly by the war, or by measures of commercial policy, must cause friction and may threaten the whole functioning of the system and the economic welfare of states dependent on it. Some distortion is obviously unavoidable; but only if commercial policy takes account of the universality of the pattern and of the interdependence of the various trading areas will a smooth transition from the restrictions of war to the expansion of peace be possible.

COMMERCIAL POLICY IN THE INTERWAR PERIOD:

INTERNATIONAL PROPOSALS AND NATIONAL POLICIES, pp. 156-164.

The first part of this study compares the commercial policies pursued in the interwar period with the recommendations made or the action agreed upon by conferences and other international bodies; the second part contains an analysis of the reasons for the frequent and striking discrepancy between proposals and policy and, in general, for the success or failure of specific recommendations made regarding tariffs, quotas, exchange control, M.F.N., preferential customs *régimes* and other aspects of commercial relationships. Finally, conclusions are drawn from this twenty years' experience.

These conclusions are of two distinct orders: first, the broad conclusions that may be drawn regarding the practicability and desirability of alternative policies and secondly, more specific conclusions regarding the suitability of possible procedures for attaining the objects in view. It is convenient to treat those two classes of deduction in this order.

1. *Conclusions Regarding Policy.* (a) The first obvious lesson

resulting from both studies is that the chances of getting generally adopted a commercial policy designed to promote rather than to restrict international relations as a whole may be jeopardized in the first post-war months if governments fail to agree in advance upon some orderly process of decontrol and some financially and economically sane system of reviving the economic life of countries impoverished by the war. Commercial policy was distorted at the outset after the last war by the violent reaction to the danger of exchange dumping. The depreciation in exchanges was due very largely to the failure to appreciate that relief and the restarting of the machinery of production were a single problem or to consider the effect of the relief policies actually adopted on the power of States to obtain what was required for industrial revival.

There was indeed a general failure to take any concerted international action to achieve an orderly transition from war to peace economy. But this is the first problem that arises and cannot be considered in terms of commercial policy alone.

(b) Another of the two or three major causes of the failure to get more liberal commercial policies adopted was the continuance of political insecurity—caused in large part by war-bred political passions. It is clearly not possible to prevent—though something may be done by governments to allay and much to promote—international mistrust. It follows that the first essential for the achievement of commercial policies designed to promote trade, is the establishment of a mechanism for the preservation of peace so adequate and sure as to create confidence despite antipathies or mistrust. Until this is done, governments are likely again to shun the world and seek a wholly insecure security in isolation.

(c) But after the experience of the '30's, apprehensions resulting from economic insecurity have become at least as important as fear of the risk of the recurrence of war. Governments faced by the social pressures caused by sudden and serious unemployment or rapidly shrinking farmers' income endeavoured to secure freedom of action for themselves by rendering their national economies as immune as possible from external economic influences. Commercial policy cannot be considered by itself therefore. It must be considered as a part of the more general, constructive policies agreed among governments for the prevention (or mitigation) of economic depressions and assurance of social stability.

(d) Failure to concert such policies will involve the risk of the revival of the type of autarkic commercial policies which developed during the '30's and the replacement of a commercial system by a mechanism for economic warfare.

(e) The dependence of commercial policy on

- (1) An orderly transition from war to peace economy
- (2) Political security
- (3) Economic security

are perhaps the three major lessons to be deduced from the commercial history of the inter-war period, but there are others of a somewhat different order that may clearly be ranked as of almost equal importance. Of these the first is the absolute necessity of adapting commercial policies to the circumstances influencing national balances of payments. Great wars inevitably affect many items in those balances, and the changes brought about may require a rapid and radical modification of commercial policies in order to allow the flow of goods to adapt itself to the new conditions. If creditor countries impede the import of goods with which their debts can be paid, if new obligations are created and no commodity provision made for their service, if debtor countries obstruct the export of the goods with which they may meet the service of their debts, disequilibrium must be caused which will influence the commercial policy of almost all states. In such a state of disequilibrium long-term commercial treaties cannot be concluded, and high tariff rates or quotas are likely to be employed with which to negotiate short-term bargains.

(f) The tendency after the last war for international bodies to take a restricted view of their right to concern themselves with the economic policies of States resulted in an arbitrary line being drawn between commercial policy and other aspects of economic policy and in the failure to consider the whole catena of problems—relief reconstruction, surplus capacity resulting from the specialization of industries working for the war, etc.—which arose immediately after the Armistice. It led to a failure also to put forward constructive proposals later to meet the need of countries anxious to promote industrial development. Adaptation to the longer term economic or demographic forces, some of which may be accelerated by war, cannot be accomplished by measures of commercial policy

alone. To consider such measures independently of other measures necessary for economic adjustment, as was frequently done especially in the '20's, is almost certain to fail to produce any useful results. Thus, planning for industrial development requires more than the imposition of high tariff rates; the execution of such plans may require external aid, technical or financial, and may afford an occasion for a careful revision of the aided countries' tariff schedules. Such a revision may necessitate the raising of certain duties to protect the new industries and the lowering of many others to reduce costs. Trade is more likely to be promoted if the economic structure and economic needs of each country are carefully considered, than by general declarations regarding commercial policy alone.

(g) During the '30's, the fact that commercial policy was an integral and inseparable part of economic policy as a whole gradually became self-evident. Indeed, there was a certain tendency towards the end of this decade for those responsible for commercial policy to claim that trade could not be released from its shackles until the international credit and money mechanism had been restored, until the difficulties arising from international indebtedness had been solved, and for those responsible for financial policy to maintain that no monetary reform or satisfactory debt arrangements could be made while quantitative restrictions on trade continued in force. This apparent logical *impasse* was in fact a phase in the process of understanding the essential unity of the economic and financial issues; and the failure to abolish the restrictions was in the end not due to a lack of understanding of the technical issues at stake, which were very thoroughly studied, but to the unwillingness of certain States to promote political security or to abandon the new system by which they exercised commercial pressure. The essential lessons to be learned from the experience of the '30's would seem then to be not the difficulty of emerging from the sort of *impasse* that was created—granted good will—but

1. that the pursuit of uncoordinated recovery programmes by great States is likely to involve a disruption of the whole mechanism of trade and economic relations in general and must inevitably do so if severe quantitative restrictions on trade are an integral part of such programmes;
2. that any important market can, if it desires to do so,

create price disequilibria between not only itself and the rest of the world but between markets largely dependent on it and the rest of the world, such as to set limits to the scope of multi-lateral trade; but

3. that these limits do not necessarily preclude the maintenance of a free price economy in international trade (such, for instance, as that of the Sterling Bloc) among countries not within the orbit of the determinate influence of any country pursuing an opposed policy.

(h) The growing appreciation of the need to consider commercial policy in a wider setting resulted in two, in a sense contradictory, types of recommendation concerning agriculture—the first in favour of restricting the output of certain agricultural products, the second in favour of expanding the demand for foodstuffs by raising national standards of living and of nutrition. Though to some limited extent both types of policy were applied, the problem of agricultural excess remained unsolved, and the friction caused by the growth of agricultural protectionism was but slightly mitigated. But there is no evidence to show that had peace been preserved and time been available for the development of these policies, agriculture would not have been materially assisted by them and the incentive to protect weakened. The first line of policy, however, is essentially restrictive, undynamic and unconstructive, while the second postulates and endeavours to promote a dynamic society and general welfare. The success of the second naturally lessens the need, if need there be, for the first.

(i) The M.F.N. clause, which should have been a means for spreading the benefits granted under trade agreements, tended to some extent at any rate, to check the granting of such benefits. This seems to have been due mainly to three distinct causes: (a) the half-hearted belief in the assumptions underlying the clause and the greater freedom of trade that it was intended to promote; (b) the reluctance of Governments to grant any benefits, even indirectly, to countries which enforced a non-negotiable tariff and high rates or to countries with which political relations were strained; (c) the employment of M.F.N. rights to prevent the formation of customs unions, or the formation of preferential areas in Europe, especially when preferences were being increased elsewhere.

A repetition of conditions in the future similar to those which obtained in the period under review is likely to have similar results. A whole-hearted belief in the beneficial effects of the clause is clearly once more likely to be dependent on the degree to which political security and economic security and activity are assured and on the removal of the other objections to the clause. The complete abolition of non-negotiable tariffs would no doubt go far to overcome the second of the objections mentioned; but so long as basic rates in any important markets are out of line with those of other countries or with the logic of a balance of payments situation, objections to the clause are likely to be raised.

The third group of objections, that connected with customs unions, raises still more complex issues.

A greater freedom of trade in the aggregate may be attained either by a given degree of universal tariff reductions or by a given degree (or varying degrees) of reduction within specific areas. But the effects of these two alternatives may be widely dissimilar. The Peace Treaties, by increasing the number, decreased the size of the free trade areas and gave some rather restricted scope for their subsequent enlargement. The opportunity offered was not seized, and gradually vested interests within the areas to which that opportunity was offered and external opposition acquired sufficient influence to prevent agreements being reached. One result of this fact was the growth of the scepticism about the M.F.N. clause just mentioned; but the lessons of major importance to be drawn from this experience are (a) that if wider free trade areas are to be established, they should be created before peace-time vested interests have time to develop, and (b) that if either complete customs unions or preferential areas are to be given a chance of developing later, it would seem to be necessary to get certain safeguarding principles agreed upon in advance. The first of these two lessons is obvious and requires no exposition. Certain principles concerning the latter were discussed about 1930 but never formulated in an authoritative statement. The suggestions under consideration were that preferential unions between contiguous States or States having close economic affiliations might be recognized if (a) these states formed them in order to reduce rates of duty *inter se* and did not raise the rates against other countries, and (b) any other (such) country whose rates of duty did not average demonstrably higher

than those of the contracting parties, could join the union by making concessions to those parties comparable to those which they had made to each other.

Were some such doctrine accepted as a generally recognized derogation from M.F.N., one of the grounds of objection against that clause would be removed. The acceptance of any such general derogation would not, of course, in any way preclude more radical derogations in specific cases.

(j) The last important point that falls to be mentioned here is one which forms a natural link between lessons regarding policy and lessons regarding procedure. The increased rigidity of the economic system in all industrial or semi-industrialized States results in any reduction in tariffs causing a greater shock and one more slowly absorbed than was the case fifty years ago. Consequently the opposition to changes is greater, and indeed the benefit that may be derived from a change must be greater than heretofore if it is to offset the increased disadvantages resulting from it. Those disadvantages are greatest in times of falling prices and unemployment. Hence the timing of tariff changes has acquired special importance and the procedure adopted is likely to affect not only the chances of success of any change in policy, but also the justification for success, to a greater extent than previously.

There was some tendency during the last twenty years to confuse the "young countries" argument with the "young industries" argument, and to assume that the latter only applied to "young countries." The actual force of circumstances went to show that highly industrialized countries were tending to reach a stage of economic evolution in which their dependence on capital goods industries made them peculiarly sensitive to economic depressions. These countries felt the need for protecting various forms of consumers' industries—"the light industries"—as an insurance against that risk. This tendency to seek greater stability in increased diversification may well make itself felt again and is indeed likely to make itself felt immediately after the war owing to the almost universal over-expansion of engineering and heavy industries.

2. *Conclusions Regarding Procedure.* (a) When applied to complex questions, which affected different countries in different ways and to varying degrees, and to problems affecting the central issues of national economic policies, the method of general diplo-

matic conference and convention revealed serious limitations. A lesson may be drawn from the experience of certain modifications of this method attempted by the League:

(1) The limitation of such conferences to States especially concerned in a particular problem and anxious to secure immediate results through concerted action and agreements limited to those States. The Wheat Agreement of 1933 and the Sugar Agreement of 1937 resulted from limited conferences of this kind.

(2) The framing of conventions which were not intended to be signed and ratified but to be accepted by Governments as models or standards in negotiating and drafting subsequent bilateral agreements. Where such a system can be applied, it has great advantages. Not only does it achieve exactly that measure of uniformity which is compatible with national peculiarities and differences in economic and financial structure, but it is also dynamic: as one country or another develops, it is able—and, *ex hypothesi*, likely to find it expedient—to apply to an increasing extent the common principles laid down. This method has been used with remarkable success in the matter of double taxation.

(3) The establishment of standards or norms for adoption, as and when changes in national legislation were undertaken, or merely to serve as a guide for the formulation of policy in the future. This method was used, for example, in the case of Tariff Nomenclature.

(b) For the purpose of achieving tariff reduction, negotiations between pairs or groups of countries were clearly shown to be more efficacious than general multilateral negotiations, and an extension of the bilateral method may be found appropriate in the future. This might take the form of simultaneous negotiations between numerous pairs or small groups of countries, directed and co-ordinated by an international authority and facilitated both by multilateral consultations and, as occasion required, by multilateral agreements on specific subjects.

(c) Diplomatic conferences on complex subjects cannot themselves work out solutions or produce agreement but can only adopt solutions the general lines of which have already been worked out and agreed upon between all—or, at any rate, the principal—parties concerned.

(d) The existence of non-negotiable tariffs in certain important countries was an obstacle to the realization of the programme of tariff reduction laid down by the Economic Conference of 1927. The adoption of freely negotiable tariffs by all countries would mark a useful advance.

(e) Under the system of specific tariffs commonly employed on the continent of Europe, the burden of duties is reduced in times of rising prices and increased in times of falling prices. That system thus tends to aggravate every depression and contribute to the forces making for greater commercial restriction.

(f) Another fact that is perhaps not quite immediately apparent from what has been said above relates to the international equipment for the preparation of Committee meetings, Conferences, etc. Each national administration had at its disposal an elaborate administrative machine at home and consular officers and commercial attaches abroad, whose function it was to study trading conditions with the object of promoting national trade interests. But there was no similar international organization. Trade and trading policy continued in fact to be regarded wholly in terms of rivalry.

The officials of the League dealing with commercial policy never numbered more than half a dozen; there was no attempt at—indeed no possibility of—studying in detail the position of different countries on the spot or of keeping, as was required, in constant touch with national administrations throughout the world. There was only a very limited possibility of following the development of trade as a whole and quite inadequate equipment for following the trade in different commodities. The tendency of international bodies to generalize reflected in part the inability of Headquarters in these circumstances to make, in advance, detailed studies of the real issues, broken down into their component parts. That failure in turn reflected a persistent underestimation by governments of the magnitude of the task involved in any attempt to view world trade as a world problem.

QUANTITATIVE TRADE CONTROLS:

THEIR CAUSES AND NATURE, pp. 39-45.

The purpose of this short study, prepared by Professor Gottfried Haberler of Harvard University in collaboration with Mr. Martin Hill of the League of Nations Secretariat, is to consider what are

the relative advantages and disadvantages of quotas and other quantitative trade controls compared with tariffs; what were the forces that induced Governments to adopt such controls, in the interwar period; whether, in the circumstances, such controls were the most suitable instruments; if so, why they were so generally condemned; if not, why they were so widely adopted; whether circumstances favourable to their adoption are likely to recur after the war and in that case, finally, what policies should be pursued. On this last point, the conclusions are as follows:

Implications and Effects of Quantitative Controls. (1) If the trend toward economic isolationism, autarky, regimentation and State control, characteristic of the nineteen-thirties in many parts of the world, were to be renewed after the war, quantitative trade controls would necessarily play an ever-greater rôle. Equilibrium in the national balances of centrally controlled trade would be maintained by rigorous exchange control, the means of economic pressure and discrimination furnished by which would be at the disposal of those states that had the power to use them. Quotas, a half-way house between a liberal and a centrally planned trading system, would tend to give place—as, in several countries, they tended to give place in the 'thirties—to public or semi-public monopolies. Being essentially a method of controlling the import activities of private firms, they are ill-adapted to a fully planned and socialized economy; nor is there any place in such an economy for the unearned profits which go to the receivers of import licenses under the quota system.

(2) A movement in this direction, however, would not only belie the intentions of the governments of the United Nations as expressed in the Atlantic Charter and the Lend-Lease Agreements as well as innumerable statements of national policies; it would also prevent the achievement of those basic economic and social objectives which most of them have proclaimed—greater human welfare and full employment, within the framework of a social system designed to preserve individual liberty. An expanding international trade is essential, not as an end in itself, but because these ends cannot be attained without it. And if an expansion of trade, though altogether unlikely, is nevertheless conceivable under a comprehensive system of quantitative controls or of State trading, a highly controlled trading system is incompatible, in the long run,

with a relatively free domestic economy. For quantitative controls introduce rigidities which undermine the functioning of both the price mechanism at home and the system of multilateral settlements; every control imposed tends to call for further controls, both of trade and of domestic industry. Such inherent characteristics are perhaps of small consequence when the restrictions affect only a small proportion of total imports or are limited to special classes of commodities. It is clearly impossible, however—except over short periods—to have generally regimented and socialized international trade and a domestic economy based on free enterprise.

Procedure for the Removal or Relaxation of Controls. (1) Many countries will no doubt find it necessary to maintain exchange controls for a considerable time after the war, at any rate as regards capital movements. But, if effective machinery is established to overcome the initial difficulties of financing the essential needs of countries left after the war without adequate means of external payment and to facilitate multilateral clearing, it should prove possible to liberate commodity trade rapidly from control *via* the exchanges.

Where quotas are maintained, some of their more injurious features might be removed. For example, the efforts frequently made in the 'thirties to divert to the national treasury part of the profit resulting from the price differences in importing and exporting countries might be extended and developed. A method commonly adopted was to charge a fee or impose a tax on the import license. An alternative method might be to sell licenses to the highest bidder at public auction. If quota profits were completely taxed away by some such method, the result would be practically equivalent to a system of sliding-scale duties so adjusted as to restrict imports to a pre-assigned level.

(2) Of the circumstances facilitating a removal of import quotas, perhaps the most common has been a growth in exports. Quotas have been successfully removed also (a) when owing to currency devaluation in the country concerned or a change in domestic demand or supply conditions, imports tended to fall short of the quota, which consequently ceased to serve any purpose; (b) when tariffs were raised to afford protection equivalent to the quota; (c) when owing to a revival in business and consequent growth in domestic demand, larger imports were necessary; (d) when recip-

rocal concessions were negotiated bilaterally or by agreements (e.g., Hague Convention, 1937) between small groups of countries.

Of these, (c) and (d) were the only circumstances in which the removal of a quantitative restriction had an appreciable effect on the movement of trade. (c) points to the basic fact, which is confirmed by the whole history of commercial policy in the interwar period, that the difficulties in the way of scaling down the barriers to trade are least formidable in times of rising prosperity.

Conditions of Avoiding Widespread Recourse to Quantitative Controls. An analysis of the reasons for the adoption of quantitative controls in the interwar period involves, on the one hand, the question why there was a movement toward greater economic isolationism, and, on the other, the question why quantitative controls were preferred to tariff regulation.

(1) Conditions of Avoiding a Revival of Autarkic Policies (cf. Conclusions from *Commercial Policy in the Interwar Period*, pp. 36-44 above).

(2) Conditions of Avoiding Recourse to Quantitative Controls.

(a) In both the periods we have been considering, the most clearly discernible factor leading governments to introduce quantitative controls was *currency instability* accompanied by exchange dumping. In the 'thirties, the situation was complicated and aggravated by the protracted disequilibrium in national price levels resulting from the unwillingness of important countries openly to adjust the value of their currencies. Of no less importance, however—and itself a primary cause of the currency instability—was the *breakdown of the mechanism of international trade and settlements* as a result, in the 'twenties, of the war dislocation and, in the 'thirties, of the catastrophic fall in prices. The first lesson to be learned from this experience is that an extension of the system of quantitative restrictions cannot well be avoided after the present war without international action aimed both at maintaining stability of the exchanges and at restoring the credit and the production and trade of the countries which have most suffered from the destruction and dislocation of the war.

(b) After the experience of the 'thirties, few countries will in future be prepared to undergo a severe internal price deflation, with its train of unemployment, in order to maintain or restore equilibrium in comparative price levels and the balance of pay-

ments. This equilibrium can be disturbed—and in a dynamic economy is likely to be constantly disturbed—by one or more of the following factors: rise in incomes and prices (which include costs) at home; a fall in incomes and prices abroad; a shift in international demand without previous expansion or contraction of incomes or prices; capital movements. Under an automatic gold standard, such disturbances, if they involve an over-valuation of the currency, are met by an outflow of gold and corrected by internal deflation. If the deflation required is too severe, the disturbances may be corrected by currency devaluation. In the 'thirties, they were, in many countries, met by quantitative trade restrictions and exchange control and were not (or very inadequately) corrected.

What other courses are open to meet the push and thrust of international economic life? This issue is fundamental to our whole problem. Discrepancies in national price structures can only be overcome by changing prices in terms of domestic purchasing power, that is, by deflationary or inflationary processes, or by changing the external purchasing power of currencies by a modification of the exchange rates. In the immediate post-war period national price and costs structures are likely to be so much out of gear with each other as to necessitate the latter course. This is one reason in favour of the establishment of special machinery by means of which credit may be furnished to meet changes in the balances of accounts, by which orderly changes in currency parities may, if necessary, be carried through, by which national monetary policies may be co-ordinated and kept in line, and multilateral trade and clearing facilitated.

But such machinery requires for its effective working concerted measures against economic depressions and for the maintenance of full employment, especially among the major creditor countries and the world's major markets. The importance for the whole world of the maintenance of prosperity in the world's great markets cannot be overemphasized. International supervision of commercial policies, and possibly some form of international veto, should also contribute to reducing disturbances. Finally, international machinery for facilitating industrialization or essential public works in backward countries and the economic reorganization of countries which found it necessary to undertake a radical readaptation to changing conditions would be of quite special importance.

(c) These various elements in a possible long-range plan for the preservation of an international economic system form a whole and together provide a challenge to the constructive vision and the co-operative spirit of our generation. A return to the old restrictive methods—the alternative which the forces of inertia and the forces of narrow nationalism will no doubt combine to favour—would be a disaster of incalculable magnitude.

This brings us to our final point. The failure to break down the system of quantitative restrictions in the 'thirties was in the end due not so much to a lack of understanding of the technical issues at stake as to the unwillingness of certain great States to abandon their designs for political aggrandizement or the methods by which they were able to exercise pressure on others. If wise concerted economic measures are one of the bases of a durable peace, they provide by themselves no solution of the political problem. And on the solution of that problem the success of all efforts to create a better economic world ultimately depends.

TRADE RELATIONS BETWEEN FREE-MARKET AND CONTROLLED ECONOMIES, pp. 85-92.

This study by Professor Jacob Viner of the University of Chicago deals with the post-war problem of the trading relationships between countries which do and countries which do not subject their foreign trade to extensive direct control. The problem is approached by an analysis of the difficulties with which countries maintaining a substantially free trading system were faced in the 1930's owing to the growth of quotas, exchange control and Government monopolies elsewhere. A critical appraisal of the attempts made to meet these difficulties leads to the formulation of the proposals for future policy reproduced below.

The three major types of direct governmental regulation of foreign trade are: exchange controls applied to commercial transactions; import quota systems; and government monopolies of foreign trade. (A closely-related type not dealt with in this memorandum is the regulation of foreign trade by governmentally-sponsored or tolerated cartels of private business membership.)

Against all three of these, though in different degrees, the charges can be made that:

- (1) They tie up diplomacy closely with the detailed conduct of

foreign trade and thus promote international controversy and facilitate the harmful injection of political and military considerations into trade relations;

(2) They lend themselves more effectively than ordinary import duties to the application of monopolistic methods to foreign trade, to the economic injury of the world as a whole;

(3) They promote bilateralism in foreign trade, at the cost partly of economically-superior multilateral trade and partly of the suppression of profitable foreign trade;

(4) They lend themselves to discriminatory treatment of the trade of different countries for economic or political purposes;

(5) They promote, or even require for their execution, the development of internal monopolies and the restriction of the field for private enterprise, and especially small-scale enterprise;

(6) By placing other countries not following similar practices in a position of relative disadvantage in trade-bargaining, once established in some countries they tend to spread to other countries.

Some attempts were made during the 1930's to check the growth of these methods, but they proved almost wholly ineffective. Most of the countries which did not welcome the new trends nevertheless felt themselves compelled to adopt some of them in self-defense. The attempt of the United States to check their growth by means of the Hull Trade Agreements Programme, under which concessions were made from the ordinary American tariff rates in return for, among other things, pledges to moderate existing direct controls or not to introduce new ones, or to administer them in such fashion as not to involve discrimination against American export trade, had only a very minor degree of success in obtaining a general amelioration either of the extent or of the discriminatory and restrictive character of the direct controls. Endeavours under League of Nations and other international auspices to obtain multilateral consideration of the situation with a view to finding a multinational solution came to nothing.

• Hope for better results from future attempts to obtain reform in this field must depend in part on the attainment, through provisions for collective security, of a reasonable expectation of a peaceful world and therefore on the lessening of the importance of military and political considerations in the determination of national trade policies. It must depend also on reduction of the levels

of ordinary import duties in high-tariff countries, on the attainment of substantial stabilization of currencies, on the establishment of procedures for concerted action to deal with the problem of mass unemployment, and on provision of reasonable facilities for international credit, short- and long-term.

Given assurance that the other measures necessary if the post-war world is to have good prospects of being a peaceful and prosperous world will be taken, it is probable that some countries will be willing on their own initiative or by bilateral or other forms of international agreement to abolish outright most if not all of the measures of direct regulation of foreign trade which they adopted during the great depression or during the war period. Other countries, however, appear to be too strongly committed to direct regulation of foreign trade, either for its own sake or as a corollary of their practice of direct regulation of their national economies as a whole, to justify any expectation that it will be possible to obtain anything like universal abandonment of direct foreign trade controls. It seems advisable, therefore, while aiming at as much movement in this direction as possible, to give consideration in advance to the procedures which may at the same time lead to the maximum possible degree of abolition of such direct controls and establish for countries not practising such controls on a substantial scale the most satisfactory basis attainable for their trade relations with each other and with countries which continue to subject their foreign trade to rigorous direct controls.

The grosser abuses and evils of direct regulation of foreign trade are, in theory at least, susceptible of elimination or of reduction to minor proportions without requiring total abolition of such controls. In the relations between countries which are anxious to return to multilateralism and to the conduct of foreign trade subject primarily to the regulation of free market forces, substantial progress in this direction should be feasible by means of bilateral negotiation, provided leadership in such negotiation is not left to a single major trading country. From past experience with bilateral negotiation, it seems clear, however, that there will be no ground for expecting substantial and rapid progress unless:

- (1) Greater success than has as yet been shown will be attained in formulating and obtaining acceptance of unambiguous

ous, rational, and readily enforceable criteria for determining the absence or presence of discrimination and of the illegitimate use of monopoly power in trade relations;

(2) The participating countries in their bilateral negotiations will give consideration not only to protection of their own export trade from discrimination or from monopoly pressures but also to the need for refraining from pressing for or even from accepting concessions which involve discrimination against innocent third countries; and

(3) There emerges from the bilateral negotiations a common pattern of policy with respect to relations with countries which continue to adhere to rigorous direct controls of their foreign trade.

There is scepticism in some quarters as to whether much progress can reasonably be expected from the method of bilateral negotiation alone in dealing with these aspects of the problem. This scepticism may be warranted. In any case, there would be much more ground for optimism if there could be reasonable hope that the countries at all inclined toward the elimination or substantial reduction of direct controls of foreign trade could be persuaded to attempt to deal with the problem through a multilateral conference. It would be an appropriate objective of such a conference to obtain a multilateral agreement binding the participating countries;

(1) To move toward elimination of direct controls on a mutually-agreed time-schedule;

(2) To define the practices which would not be permissible in the trade relations between participating countries;

(3) To formulate the procedures to be followed in common in trade relations with non-participating countries adhering to direct controls; and

(4) To participate in the setting-up of a continuing international agency, to which questions of violation of the convention, of needed revision of its terms, and of admission of new countries could be referred.

It is conceivable that the sense of mutual advantage from adherence to the provisions of the international convention would suffice to secure the continuance of the agreement and conscientious exe-

cution of its terms. It would be a wise precaution, nevertheless, to provide that adherence to the convention should bring with it valuable privileges confined to the adhering countries and that serious departure from its terms, if proclaimed by the international agency to be aggressive or otherwise objectionable in character, should bring costly penalties to participating or non-participating countries. There follow some suggestions as to possible privileges and penalties which might be provided for.

The convention should provide that every signatory country relinquish any claims on other signatory countries which it may have under existing treaties or agreements for most-favoured-nation treatment from other signatory countries, but without obtaining freedom from the obligation to grant such treatment itself, upon a finding by the international supervisory agency that it had resorted to any practice or practices in violation of the convention and of sufficient importance to warrant such penalty.

The convention should further require all signatory countries to terminate at the earliest possible moment consistent with the terms of the relevant treaties any outstanding obligations they may have to grant most-favoured-nation treatment to non-signatory countries and to refrain from establishing new obligations to grant most-favoured-nation treatment to such countries.¹

The convention should impose on the signatory countries the obligation not to seek from non-signatory countries, and perhaps

¹ Such provisions would be similar in principle to, but would go farther than, some proposals made in recent years for exempting the concessions exchanged in multilateral agreements of a "liberalizing" character from any obligations of extension to non-participating countries under most-favoured-nation agreements. Cf.: the Resolution presented by Secretary of State Hull to the Montevideo Conference of 1933 and adopted by it: "Art. 1, The High Contracting Parties, with respect to their relations with one another, will not, except as provided in Art. 2 hereof, invoke the obligations of the most-favoured-nation clause for the purpose of obtaining from Parties to multilateral conventions of the type hereinafter stated, the advantages or benefits enjoyed by the Parties thereto.

The multilateral economic conventions contemplated in this article are those which are of general applicability, which include a trade area of substantial size, which have as their objective the liberalization and promotion of international trade or other international economic intercourse, and which are open to adoption by all countries."

Cf. also, the discussion as to the desirability of a provision of this character in League of Nations, *Recommendations of the Economic Committee Relating to Commercial Policy*, Geneva, June 18, 1929. (League Document C. 138, M. 53. 1929. II, pp. 13-14), and in *Draft Annotated Agenda of the Monetary and Economic Conference*, January, 1933 [League Document C. 48, M. 18. 1933. II. Spec. 1. V, B. (a)], and the proposal submitted to the London Monetary and Economic Conference by Secretary Hull in July, 1933 (League Document M. E. 22 (1), 1933) p. 43).

even not to accept, any preferential privileges which would operate to the disadvantage of other signatory countries and which were of a kind which signatory countries would not be free to grant under the terms of the convention. In case any country makes use of direct regulation of foreign trade as a means of discrimination between other countries, to exploit a monopoly position as buyer or seller, or as an instrument of political aggression, to the serious injury of any participating country, the international agency to be set up, upon application of such country, should have the power to require all participating countries to take such measures as it prescribes to deal with the situation.

With respect to exchange control, specific safeguards against its use as an instrument of trade regulation, or at least against its use in a discriminatory fashion, could appropriately be provided in connection with the establishment of an international agency for monetary stabilization. Access to the credit facilities afforded by such an agency could be restricted to member countries, and avoidance of any restrictions, or of any discriminatory restrictions, on the use of foreign exchange for the purpose of paying for current imports might be a condition of membership.¹

The technical difficulties of framing and of administering a multilateral agreement of this kind would be comparatively moderate if wide acceptance could be obtained for definite and unqualified outlawry of the questionable practices, at least after a transition period had elapsed. If, however, as is likely, many countries will be willing to sign such an agreement only if made subject

¹ The draft plan for an international Stabilization Fund issued by the United States Treasury in April, 1943, contains the following relevant provisions:

VI. "Each member country of the Fund undertakes the following:

2. To abandon, as soon as the member country decides that conditions permit, all restrictions and controls over foreign exchange transactions (other than those involving capital transfers) with other member countries, and not to impose any additional restrictions without the approval of the Fund.

The Fund may make representations to member countries that conditions are favorable for the abandonment of restrictions and controls over foreign exchange transactions, and each member country shall give consideration to such representations."

In the British White Paper of April 8, 1943, presenting a plan for an International Clearing Union, it is proposed that:

"In any case, it should be laid down that members of the Union would not allow or suffer among themselves any restrictions on the disposal of receipts arising out of current trade or 'invisible' income."

to important reservations and qualifications, very serious difficulties will result. In the light of past experience, the greatest danger will be that an agreement will be reached with general provisions admirable in form and substance but almost totally deprived of meaning or of enforceability by the detailed reservations and qualifications incorporated in the agreement. A spurious agreement is likely to have even worse consequences than acknowledged failure to reach an agreement, since in the latter case general recognition of the existence of an unsolved problem is promoted, and sober second-thought may lead to a renewal of attempts to reach a genuine solution.

On the other hand, since it will in all probability be a prerequisite for general acceptance of a significant agreement that some provision be made for the particular situation or the special circumstances of individual countries, a rigid convention not allowing of any important exceptions does not appear to be an available alternative. The desirable and conceivably attainable solution of this difficulty would appear to be an agreement whose general provisions were fairly rigorous; but with provision for exemption from these provisions in particular cases upon application to the international supervisory agency and approval thereby.

It cannot too often be repeated, however, that progress in obtaining significant agreement in this field will certainly be difficult and will probably be impossible to achieve except in connection with the reaching of international agreement in other fields of international economic relations. In particular, in order to obtain substantial elimination or restriction of the application of direct controls to foreign trade in an objectionable manner, it will probably be necessary also to reach international agreement for the limitation of the heights of ordinary tariffs, for the establishment of international credit facilities both for monetary stabilization and for long-term investment purposes, and for international collaboration in dealing with the problem of the business cycle and of mass-unemployment. Slow progress in this, as in the other fields, will not necessarily be fatal, provided that there is early agreement on the direction in which movement shall take place and on procedures of negotiation which will assure that the achievement of one stage of reform will lead promptly to endeavours to accomplish the next stage.

Relief and Reconstruction

RELIEF DELIVERIES AND RELIEF LOANS, 1919-1923, pp. 40-45.

This study deals with the organization of government relief activities after the last war; the work done by charitable organizations; the cost of communal feeding; the composition of the meals provided to the undernourished children of Europe; the connection between relief and social and financial stability; the fate of relief loans; the effect of relief deliveries on the price and stock situation in the United States, etc. The conclusions based on the evidence afforded by this experience are set out as follows:

(a) *Urgency.* The last war ended in the autumn when the need was greatest and the possibility of relying on domestic supplies, except for cereals, was least. Although the shipment and transshipment of goods to Europe was expeditiously carried out and great efforts were made to effect actual deliveries with the least possible delay, no substantial deliveries of foodstuffs were made, except in Belgium and northern France, before the end of January 1919. The major relief period, therefore, was confined to the period from February to August 1919. Amongst the initial difficulties that had to be faced during the three months between the Armistice and the start of regular relief deliveries, the following may be mentioned.

First, deliveries were inevitably impeded by the continuation of local fighting and the breakdown of internal administrative organization in many parts of Central and Eastern Europe. Partly as a result of these conditions, the system of communications had almost completely broken down, and land transport was consequently slow and uncertain.

Secondly, deliveries could not be undertaken without information regarding local needs; and time was required to obtain trustworthy reports of the situation in Central and Eastern Europe, the seriousness of which, indeed, few persons among the Allied and Associated Governments realized before the Armistice.

Thirdly, difficulties were encountered in coordinating the relief efforts of the United States and the Allies, and, notwithstanding the existence of various bodies which had been engaged in relief activities, it took time to create an adequate relief organization on the spot.

A fourth cause of difficulty was the delay in obtaining legislative

approval of relief credits. Such approval was, in fact, not granted in the United States until the end of February 1919. This difficulty, however, was largely overcome by provisional arrangements, and by the drive and initiative of Mr. Hoover; it could have been prevented if funds had been allocated during the war.

As mentioned earlier in this study, the stock situation in the United States at the end of the last war was not such as to put difficulties in the way of large-scale export for relief purposes. The problem, indeed, was not to eke out supplies for relief but rather to dispose of surpluses. Had such surpluses not been available, it would no doubt have proved difficult to arrange at short notice for the large exports required.

(b) *Needs to be met.* The real needs were obviously never completely met, nor were they fully surveyed. They were considered, indeed, almost exclusively in terms of calories. That was, perhaps, inevitable, but it is clear that the first action required in order to meet such a situation with any hope of producing an optimum result is to estimate insofar as possible in advance what the real needs of food (including protective foods) and such essentials as soap, medicine and clothing are likely to be and how far they can be met from the available resources.

(c) *The provision of goods to cover the needs.* In order to contribute to the food supply of the Allies, and with a view to the need for food of Europe as a whole after the war, the United States Food Administration had greatly stimulated agricultural production. As a result the exportable surplus of foodstuffs in the harvest year 1918/19 was three times as large as the pre-war annual exports. Large stocks of cereals and pork products existed in 1918 and this factor was naturally taken into consideration in drawing up relief programmes. Certain of the more obvious defects, from a dietetic standpoint, in the composition of the relief deliveries were due to the then state of nutritional knowledge and to the fact that, even if the need for vitamins had been understood, there was no way of manufacturing them. Today the resources of available food consist not only of the stock of provisions at any moment of time but also of the industrial equipment for preparing certain categories of protective foods in condensed form.

(d) *Transportation.* It is both clear from past experience and obvious on the face of it that, if the tonnage available is to be

utilized to the best advantage at a moment of extreme post-war urgency, a joint plan of allocation between the demand for the repatriation of troops, for transportation of foodstuffs, raw materials and other essentials requires to be made in advance.

(e) *Financial provisions.* Almost 80% of the total relief not paid for in cash was granted in the form of loans. These loans fell into two classes:

- (i) those to Austria and Hungary which necessitated the pledging of certain revenues and specified a prior claim for service;
- (ii) those to all other countries against which no, or no important, revenues were assigned. According to normal practice, however, these loans too involved a claim ranking prior to any loans subsequently issued.

The wisdom of loans of this sort requires very careful consideration. Their merit was that they could be, and were, effected without giving rise to undue delay. But the disposal of goods in this manner against credits bearing rates of interest which, although not very low, bore little relationship to the risks involved, constituted a compromise between the rival claims of finance and humanity that entailed, not unnaturally, unfortunate effects. The service ultimately paid on these loans was negligible, and at no moment of time could the majority of them have been considered a sound investment, except indirectly as a result of the contribution they made to the restoration of economic activity in Europe. Looking back now on the hurry of those months in the light of subsequent events, it is clear that, had it been possible, it would have been to the advantage of all concerned if a greater part of the relief had been given outright. All countries, including the donors, may well have reaped benefits from the relief delivered against these loans far exceeding in value their amount. In circumstances such as obtained in Europe at the end of the last war, it may well be sound financial and economic policy for governments in a position to do so to make contributions *à fonds perdu* in order to expedite the revival of economic activity in the stricken areas. Nothing is gained by dressing such relief in deceptive financial attire. Indeed, the effect of the relief loans granted in 1919 was, in at least one case, seriously to impede the vital work of reconstruction and thus to offset the

very economic advantages that might have been gained from the relief afforded.

At the same time there is no *a priori* reason for assuming that loans for the sale of foodstuffs urgently needed are socially undesirable or financially unsound. A country short of food at the end of a war may well require temporary accommodation and be fully competent to meet its obligations later. Food relief is, in fact, but the first step in general reconstruction and should be considered as part of the wider reconstruction problem. When there is reason to believe that the total reconstruction needs are so great that, if disaster is to be avoided, the country in question must obtain some direct assistance in the form of what ultimately becomes a gift, then it is probably wise to make the gift and to make it at once.

In any policy of relief and reconstruction, it is necessary to decide first what sacrifice is to be made on purely humanitarian grounds and what sacrifice it is desirable to make in order to prevent social disturbances and to establish such order in war-affected areas as will permit of the revival of economic activity. Such considerations should determine the amounts of direct aid that may be rendered, the cost of the first step in reconstruction. Beyond the limits of such aid purchases should be effected either against cash or credit on a sound financial basis with or without government assistance. If the first step is miscalculated and adequate direct aid is not granted to render the country credit-worthy, then any subsequent scheme for reconstruction may break down and the credit granted under such a scheme prove unrecoverable. Relief and reconstruction are two stages in an uninterrupted process of transition; and the distinction between them is determined not by the class of goods involved but by the conditions, or absence of conditions, for repayment.

It is obvious that one of the major difficulties after any great war is likely to arise out of the magnitude of fixed money obligations. To add further obligations the service of which cannot be met, must sooner or later have harmful consequences. The burden of such obligations is, of course, determined not simply by the capital sum involved, but by the rate of interest and the stipulations regarding amortization. Financial transactions, whether for the provision of food or raw materials or plant or bank reserves, if they imply repayment (as they must), can only be devised within the

general framework of some agreed anti-depression policy—a policy for the maintenance of full employment. Relief, therefore, from the point where gifts cease, becomes part of the general problem of reconstruction.

(f) *Withholding of relief credits from enemy countries.* The principle in force during the Armistice Period under which the enemy states, unlike the allied and liberated countries, were required to pay in cash so long as they had any assets with which to pay, gave rise in the long run to serious economic repercussions. It affords a further illustration of the basic mistake of failing to consider problems of reconstruction at the outset.

(g) *Machinery of relief administration.* This existed before the Armistice and proved of very real value. The machinery required only to be expanded, not created. One fact that emerged from the actual working of that machinery was the great economy of effort, food, and money resulting from communal feeding. On the other hand, there was at least a partial failure to test the health effects of the food supplied.

(h) *Consideration of costs.* After the last war there were considerable stocks of foodstuffs available in the United States, and large supplies were forthcoming owing to the wartime expansion of production. In considering what relief implies to any country granting it, in a situation such as prevailed in the United States at the end of the last war, it is necessary to take account not only of the accountancy cost of the supplies that may be furnished, but also of the real economic cost. When large surplus stocks of commodities are held by Governments, either owned outright or held in pledge against loans advanced to farmers, the real cost of gifts from these stocks is not the book value of those gifts. Any fall in price of the commodities held by the Government since the moment when it acquired them constitutes a loss and any rise a gain, which the Government incurs anyway. But the real cost of any gifts is not equal to the market value of the commodities donated. The real cost may be estimated narrowly or broadly. Narrowly estimated, it equals the market value of the stocks *minus* the new value which the remaining stocks acquire as a result of the disposal of part of the total. If, for instance, a Government held stocks of:

100 units at a market price of 5, total value 500, and gave away 25 with the result that the price of the remaining 75 rose to 10, then the government making this gift would derive a net gain of: $750 - 500 = 250$.

If it disposed of 50 units with the same effect on the price of the remainder, there would be no profit or loss.

Viewing the problem broadly, it is necessary to consider the effects of such gifts not only on the value of stocks held, but on the whole market position and on the chances afforded to farmers and others to continue to produce at a profit. Any action taken to relieve the market of the depressing effects of excessive stocks will, of course, benefit those engaged in current production.

EUROPE'S OVERSEAS NEEDS, 1919-1920,
AND HOW THEY WERE MET, pp. 46-48.

The purpose of this study, which is a companion to "*Relief Deliveries and Relief Loans, 1919-23*," is to consider what were the effects of the lack of any international policy of reconstruction after the last war and how and to what extent, in the absence of concerted action, Europe was able to provide itself with the raw materials and other essential goods it needed. The post-armistice situation is briefly described, the value and the kind of purchases effected, both by the Continent of Europe as a whole and by various regions, are shown and an estimate is made of Europe's balance of payments during the two years 1919 and 1920. A summary of the findings and conclusions that emerge from the study are given below.

(1) *Summary of findings.* (a) At the end of the war productive capacity in Continental Europe was at an extremely low level; in 1919 industrial production was about one-half, agricultural one-third below normal.

(b) During the years 1919 and 1920, Continental Europe appears to have imported about \$17.5 billions' worth of goods for overseas, against an export of only \$5 billions. Foodstuffs and finished goods formed an unusually large proportion of these imports; the imports of raw materials were relatively small. Northern and Western Europe received proportionately much larger supplies than Central and Eastern Europe.

(c) The import surplus of about \$12.5 billions in the two years mentioned was met from the following main sources: shipping services (about \$1,800,000,000), emigrants' remittances (about \$1,400,000,000), expenditures in Continental Europe of the American and British armies (about \$1,000,000,000), yield on foreign securities (about \$700,000,000), intergovernmental loans (about \$2,800,000,000, of which \$900,000,000 were relief loans), liquidation of security portfolios and, to an amount very roughly estimated at \$2,500,000,000, from short-term credits.

(d) Food was supplied by relief organizations, mainly during the first half of 1919. Thereafter relief deliveries were on a much reduced scale.

(e) No international plan was evolved for the provision of the war areas with the other goods essential for the restoration of their economic life for nearly two years after the armistice. The ter Meulen Plan, presented to the Brussels Conference in October, 1920, for raw material credits came too late and failed to materialize, and States were forced to acquire raw materials within the limits of their own financial capacities.

(f) The absence of provision for raw material credits was an essential factor in the process of currency depreciation, inflation and hyperinflation.

(g) Inflation and currency depreciation in their turn caused a violent redistribution of national income and wealth and prepared the ground for social unrest and political agitation.

(2) *Considerations of policy.* As just stated at the outset international action was almost entirely confined to the provision of foodstuffs to starving populations. The problem of reconstruction, of reviving the economic activity of the war areas, was not faced as an international issue until the Brussels Conference met in the autumn of 1920 nearly two years after the armistice.

The Brussels Conference itself was more concerned with formulating principles of financial and commercial policy than with elaborating a general plan of reconstruction. These principles of policy in fact exercised a considerable and a beneficial influence and a plan for facilitating the purchase of raw materials was put forward. But, whatever the merits or defects of this plan, it came too late!

The acquisition of raw materials and other essential goods from abroad by countries with inadequate means for effecting foreign purchases at their immediate disposition was rendered still more difficult by the price boom that resulted from the removal of all wartime restrictions in the financially stronger countries and the indiscriminate rush to return to business as usual.

Governments in many parts of Europe, in which peace was only gradually restored, frequently uncertain of the boundaries of the states they governed, in possession of inadequate fiscal machinery, uncertainly controlling an instable political situation, were unable to meet their budgetary expenditures without recourse to the printing press. The failure of national production and therefore of income to revive owing to lack of raw materials and other essential goods kept their power to collect receipts either from taxation or from borrowing at a low ebb and thus contributed directly to currency inflation. Simultaneously the pressure on the exchanges resulting from the desperate attempts to acquire such goods at any cost, depreciated the external value of the currencies of these countries and thus contributed indirectly to further inflation.

Action was only taken when inflation and the threat of social upheaval rendered it an unavoidable political necessity. But the effects of inflation, still less of hyperinflation, cannot be eradicated. They influence not only, indeed not so much, the current volume of production, but the whole organization of society and its psychological equilibrium.

When action was taken after the collapse of currencies, it inevitably assumed the form rather of curing one festering spot after another than of attempting to restore health and vitality to the whole economic body of the continent.

The League scheme for Austria which, after protracted negotiations, came into effect in October 1922 was the first international action to deal, within a specific geographical area, with the post-war economic problem as a whole. It assumed the interdependence of reconstruction, currency stabilization, budget equilibrium and capital import and found a workable solution for each of these problems. The principles adopted were first applied in this most difficult case where a newly created state was virtually disintegrated.

ing, owing to the desperate disorganization of its economy—and were successful. So were similar international reconstruction schemes applied in the following years in Germany (1924), Hungary (1924), Poland (1927) and other countries. These schemes may be open to criticism on the grounds that they postulated that economic reconstruction and reorganization would result almost automatically from financial reform; that in consequence too little attention was paid to problems of economic reconstruction or re-orientation. But their real weakness was due to the fact that they came too late and only after irreparable harm had been done by the failure to formulate any general plan for reviving European industry and furnishing promptly the raw materials and other goods necessary for that revival.

It is impossible to compare the monetary cost of the reconstruction loans with what it would have cost to furnish Europe with a fair proportion of the raw materials and other goods that were available in the two first post-war years. It is more useful to recall the magnitude of the disaster that resulted from the absence of any general plan, the failure of production and trade to revive, the social and political effects of inflation and the extent to which these social and political effects were accentuated by the depression at the end of the first peace decade, and that depression accentuated by the burden of debt that Europe had assumed.

The depression of 1921 passed like a ripple over the inflating countries—but when the more serious depression of the 'thirties occurred, the weight of their external debt coupled with the dread of a recurrence of inflation undermined their powers, both of resistance and of recuperation.

The effects of the failure to face the problem of Europe's post-war requirements of raw materials and essential manufactured goods with any imagination or courage comparable to that shown in furnishing food relief, were no more local than transitory. The penury of European countries induced them to husband their resources by quantitative restrictions on exports and on imports and the fear of their lowered standard of living induced others to refuse to accept their products. Commercial policy was driven from the very outset down the wrong road and never found another.

AGRICULTURAL PRODUCTION IN CONTINENTAL
EUROPE DURING THE 1914-18 WAR
AND THE RECONSTRUCTION PERIOD, pp. 52-55.

This study surveys the changes of production which took place during the war and reconstruction years by regions, countries, and provincial districts, and examines the various factors responsible for these changes. As a background, a broad summary is given of the trends of production and consumption during the whole inter-war period. Comparisons are also made of the production and trade of Europe with those of the British Isles and Russia, treated as regions apart from Continental Europe, and with North America and a group of cereal-exporting countries of the Southern Hemisphere, the two last-mentioned regions being considered as sources from which Europe could cover her import requirements. The basic data are brought together in a set of appendices giving detailed tables and 44 map-diagrams.

The following summary is given of the conclusions yielded by the study, the points of similarity and dissimilarity between the position in 1943 and the position prevailing in the third or fourth year of the last war, and the implications for post-war policy that emerge:

1. In Continental Europe the production and net imports of cereals and potatoes fell off sharply during the war and remained low in the early post-war years. In 1919 the aggregate consumption of these commodities was about one-third short of the pre-war average.

The fall in the output of livestock products was probably at least as great, while livestock numbers declined by rather less than one-fifth—cattle by less than one-tenth—on the average.

2. The post-war recovery in cereal production was slow. The potato crop passed the pre-war mark as early as 1922, but the aggregate cereal crop had still not returned to the 1909-13 level by the middle of the 'twenties. Even in 1925-29 this level had not been fully regained in Western Europe.

The cereal imports of this region for the same period were, however, almost large enough to raise total consumption (though not consumption per capita) to the pre-war average. In Eastern Europe, which exported a much smaller proportion of its crops in the late

'twenties than before the war, total cereal consumption rose slightly above, and consumption per capita almost equalled, the pre-war figures. In the early 'twenties, Eastern Europe was a net importer of cereals.'

3. The fall in Europe's cereal production during the war was due in about equal measure to a reduction of the area under cereals and a decline in the yield per unit of area. The main cause of the area reduction was the shortage of man power, due to the calling of men to the colours. The decline in yield was due to a shortage both of labour and of important fertilizers, especially phosphates and natural manure. The shortage of draught power (as horses were taken by the armies) and the inadequate repairs and replacements of productive equipment were additional contributing factors.

4. The slow pace of recovery after the war was due to a number of factors, the relative force of which varied from one region or country to another. The main initial cause was undoubtedly the marked deterioration of the whole productive apparatus, including land, equipment, livestock and, perhaps, even man power, which had taken place, in neutral as well as belligerent countries, under the strain of war. Actual devastation through military operations was not a major factor.

Under the economic and social conditions which prevailed on the Continent during the early post-war period, a rapid restoration of normal production standards could hardly be expected. Agriculture, like industry, was suffering from the scarcity of capital and the general disorganization brought about by the inflation. War continued to be waged for some years after 1918 in Eastern Europe, and radical land reforms temporarily delayed recovery in some countries.

On the Continent as a whole the recovery in yield took place faster than the reconstitution of the area planted under cereals. The yield rose above the pre-war level for the first time in 1925 and, as the trend was upwards, it later reached a higher average than before the war. On the other hand, the cereal area was, in the middle of the 'twenties, still noticeably smaller than before the war. It was only towards the middle of the 'thirties that it climbed back to the pre-war average. And this was only as a result of the policy aiming at the preservation of the peasantry and at lessening the dependence upon imports, which was widely adopted in the

course of the great depression, and which largely restored pre-depression levels of profitability in cereal production.

5. Despite the rise in yields resulting from improved agricultural technique, including the extended use of synthetic fertilizers, there was still room at the end of the inter-war period, and there will be room after the present war, for further improvement. Increased industrialization of backward agricultural areas would be a means to that end, for high yields are achieved by intensive cultivation, by livestock farming and dairy production which can be remuneratively pursued in industrialized areas. In fact, the industrial regions of Continental Europe are more important agriculturally than are the primarily agricultural regions.

6. Industrialization, where it leads to a rise in the standard of living, is generally accompanied by a change in consumers' demand in favour of animal and other non-cereal foodstuffs. Indeed, the production of these foodstuffs proved, on the whole, to be more remunerative, and therefore expanded more rapidly, than cereal production during the inter-war period. Per capita consumption of cereals barely returned to the 1909-13 average in the cereal-exporting Eastern part of the Continent. In the cereal-importing Western part it never recovered the pre-war level. In fact, it declined considerably in the wake of the agricultural self-sufficiency drive (accompanied by a marked decrease in cereal imports) in the early 'thirties and, in the last quinquennium of the inter-war period, it was apparently almost one-fifth less than in the period 1909-13. The local production of cereals was some 12% short of the pre-war volume. Nonetheless, the average consumer in Western Europe was undoubtedly less inadequately nourished before the present war than before the last war. The change in diet accompanying the rise in the standard of living in cereal-importing Western Europe would appear therefore to have been one of the underlying causes of the unwieldy surplus situation which confronted the cereal producers of the exporting areas overseas during the 'thirties. The long-term trend here referred to should not be ignored in looking ahead to the world cereal situation that will have to be faced after the present war, once the urgent needs of relief and rehabilitation have been satisfied.

7. The relief and reconstruction needs of the Continent will depend very largely on the local agricultural situation as it exists

at the time the war is brought to an end in Europe. What, exactly, that situation will be cannot, of course, be accurately forecast at the present stage. If, however, we compare the general position in the third and the fourth years of this war—such as it appears from the somewhat inprecise and scrappy information available—with that of the corresponding years of the last war, the following points of similarity and dissimilarity emerge:

(i) The general course of cereal and potato production on the Continent as a whole has been fairly similar during the two wars and, climatic factors apart, for the same basic reasons, namely, a shortage of man power and draught power, the rundown condition of equipment and the lack of certain fertilizers. When complete and accurate data are made available, the relative fall in production, compared with the pre-war average in the two cases, may prove to have been not much smaller in 1942 than in 1917. The crop prospects in the summer of 1943 seem to promise an improvement. It may be recalled in this connection, that though the cereal crop (at any rate of Western Europe) was considerably larger in 1918 than in 1917, the first post-war year 1919 (under the impact of the factors referred to above) yielded a harvest that was even smaller than the poorest of the war period.

(ii) In contrast to the last war, the course of military events in the present war has led to the subjection of practically the whole of the Continent to the rigours of a tight blockade. It should also be noted that the destruction caused in Spain prior to this war, by the Spanish Civil War, was greater than that caused in South-Eastern Europe by the Balkan wars which preceded the last world war.

As a consequence of aerial warfare, the destruction of physical capital is much greater in the present than in the last war and, under the German occupation, the civilian population of Europe is also suffering greater hardship which may reduce its productive capacity for years to come. The population of the Continent as a whole has not necessarily had less (it may have had more) to eat in terms of calories, for the reduction in livestock (especially cattle) has been carried considerably farther in this war, and a considerably smaller proportion of the supply of cereals and potatoes, etc., has therefore, been taken away from human con-

sumption to be transformed into livestock products. But the distribution of the available supply of vegetable foodstuffs has been organized in a manner such as to benefit, in the first instance, the population of the ruling power, and there is little doubt that very large groups of the populations of the other nations are more undernourished than in the last war.

Further, transportation facilities are undergoing heavier and more widespread destruction and disruption than during the last war. It is also probable that fewer replacements and repairs of worn agricultural equipment are being made today, as the available industrial capacity has been concentrated in a higher degree on the production of implements of war. The heavy reduction in livestock means a loss of agricultural capital which cannot be made good rapidly and it entails, moreover, a reduction in the supply of natural manure. Especially since the conquest of North Africa by the Allies, the lack of phosphates, which are so important an element in the fertilizer diet that is necessary to keep the soil in good condition, must have become at least as serious as it was during the last war. Finally, the rural population of large sections of the Continent has been dispersed, a fact which is bound to react unfavourably on agricultural productive capacity.

(iii) When all of the above factors are considered, it is apparent that, fundamentally, the agricultural position of the European Continent is weaker at present than it was at the end of the last war and is bound to weaken further, the longer the war lasts. As nearly the whole of the Continent is now involved, the need for initial relief from overseas and for assistance in reconstruction will be the greater and the more urgent. Failing such assistance, the process of agricultural recovery may prove to be even slower and more painful than it was last time.

8. The task of alleviating the fertilizer shortage in Europe after the war may not prove very difficult, at any rate as regards synthetic fertilizers, since there will be no lack of industrial capacity, nor, in most cases, of the requisite raw materials for their production. But the import requirements of natural phosphates, the only important fertilizer raw material that nature does not provide in sufficient amount on the Continent, will have to be met and time is

always required before exhausted land can be got back to full fertility.

For the replacement of the agricultural equipment destroyed, worn out or rendered obsolete the engineering industries expanded during the war will, it may be assumed, prove adequate. The problem here is likely to prove to be one of purchasing power rather than of productive capacity.

A number of years will certainly be required to reconstitute the reduced cattle herds and to make good the serious deficiency of dairy produce. This livestock problem, which was perhaps the least difficult that presented itself last time, is likely to prove the most serious of those facing European agriculture after the present war and it therefore deserves particular attention in any comprehensive reconstruction programme.

Economic Security

ECONOMIC FLUCTUATIONS IN THE UNITED STATES

AND THE UNITED KINGDOM, 1918-1922, pp. 36-38 and 78-79.

This is a study of the process of adjustment to a peace economy after the First World War. An analysis is given of the course of production, employment and prices during the first short recession after the Armistice, the boom from the middle of 1919 to the middle of 1920 and the subsequent depression. The economic policies adopted in that period by the United States and the United Kingdom are examined with a view to assisting in the formulation of a policy to mitigate the risk of depression after the present war. The principal findings derived from the experience of the two countries considered are summarized as follows:

UNITED STATES OF AMERICA

- (1) Readjustment from war to peace production was accomplished very quickly after the Armistice; employment declined only very slightly for a few months, after which it recovered rapidly. There was no great difficulty in finding work for the demobilized soldier.
- (2) Production of both durable and non-durable consumer goods started to improve between December 1918 and February 1919.

(3) Activity in the heavy industries, on the other hand, declined, till the middle of 1919, when recovery set in.

(4) The building industry, greatly restricted during the war, showed a very sharp increase in activity from the beginning of 1919 in both residential and other construction; owing to the rise in construction costs, however, the movement was reversed later in the year.

(5) This expansion sprang from the accumulation of a back-log of requirements, on the one hand, and of financial assets on the other, which, though not liquid in form, could easily be turned into money owing to the banking policy followed. This policy also permitted a considerable expansion of commercial loans.

(6) Interest rates were not raised before the end of 1919, in order to facilitate funding of the Government debt at a low rate, and so credit expansion continued almost unchecked.

(7) The expansion was further stimulated by Government deficits, which continued for a year after the Armistice, and by credits, both official and private, granted to foreign countries.

(8) In view of the limited productive resources and in particular the limited supply of raw materials, the expansion quickly developed into a speculative price boom. For a short period (namely, for most commodities, the last quarter of 1919 and the first quarter of 1920) prices rose because demand was high, and demand was high because prices were expected to rise further.

(9) Wages increased with the cost of living. But the rising prices tended to curtail demand from other income groups, and in particular, it would seem, demand for goods of long durability.

(10) A boom such as this was bound to break. The tightening of credit early in 1920 was one of the factors directly contributing to this break.

(11) At about the same time the special factors tending to stimulate the United States economy after the war lost part of their force as Europe slowly resumed its exports, as stocks in overseas countries began to reach their normal markets thanks to the increase in shipping facilities, and as relief credits were discontinued.

(12) The ensuing depression remained moderate during the summer of 1920 but rapidly gathered force in the autumn. Production fell off somewhat earlier in the non-durable goods industries than in the heavy industries.

(13) The depression was, on the whole, steep but short, the year 1921 showing approximate stability in industrial production at a level about 30% below the 1920 peak.

(14) This stability conceals a decline in the output of durable goods continuing till July 1921 accompanied by a rather sharp revival of the production of non-durable goods as early as January 1921. Construction, too, revived early under the influence of a fall in building costs.

(15) With the agencies of war-time control disbanded almost immediately after the Armistice, the post-war boom went on practically unchecked by any form of control during its initial months. As the Federal Reserve Banks felt compelled to adjust their policies to the requirements of the Treasury, checks from the monetary side became impossible until the end of 1919.

(16) The restrictionist banking policy started at the end of 1919 continued after the 1920 turning point till well into 1921, and this fact may be held partly responsible for a parallel fall in money prices and costs, which tended to aggravate the depression.

UNITED KINGDOM

(1) The Armistice was not followed by a slump, but after a quite brief period of disorganization by an extremely rapid boom. The period of unemployment resulting from the demobilization on the one hand and the need to convert machinery from war to peace requirements on the other only lasted for a few months and towards the autumn of 1919 there was a state of almost full employment of available resources.

(2) This very rapid restoration of economic activity was due to the release of consumers' demand which had been pent up by rationing, priorities, etc., during the war, and to the demand for the adaptation of plant and rather later for the replacement of worn out machines.

(3) As measured by the employment statistics, the demand for consumers' goods would seem to have increased earlier (spring of 1919) than the demand for producers' goods, which did not rise much before the spring of 1920.

(4) Employment recovered most rapidly in the food and cement industries—and in coal mining where it was, however, affected by strikes. It fell off first in food and ready-made clothing (spring

1920), and in textiles (summer 1920). Not until December, 1920, did it fall off in the heavy industries, nor until the spring of 1921 in coal mining and cement. This is roughly the order that, on theoretical grounds, might have been expected.

(5) The release of consumers' demand, to become effective—that is, to allow physical needs to express themselves in actual purchasing power—implied some measure of inflation.

(6) The market after the Armistice was in fact very liquid, and the public tended to show a preference for equity investment.

(7) The need of the Government to convert its floating debt made it difficult to curtail the boom which resulted from these various circumstances and tendencies by stiffening rates of interest.

(8) The boom was in fact carried beyond the point of optimum economic activity and approximately full employment of resources, and developed into an inflationary price boom. The index of wholesale prices rose 25% between October 1918 and April 1920 and many individual prices reached peaks of 50% and more in excess of their level at the end of the war at various dates in the latter half of 1919 and in 1920.

(9) This boom in prices was accentuated *inter alia* on the supply side by lack of skilled labour in certain industries, initial transport difficulties, and coal shortages (caused in part by strikes) and on the demand side by speculative purchases of raw materials for stock which contributed to the fall in sterling, by the overseas demand for British goods, and by the widespread feeling of relief at the abolition of control and speculative optimism. It was rendered possible by the liquidity of the market, soldiers' bonuses, reduction in taxation, etc.

(10) There was a close correlation between productive activity and the quantum of exports (with a notable exception in 1919 when the domestic boom carried production to a relatively high level, notwithstanding low exports), the boom in prices favourably affecting the purchasing power of the raw materials producing countries.

(11) But even in 1920 the quantum of British exports of manufactured goods was only 76% of what it had been in 1913 and the quantum of total exports only 71%.

(12) Rent control prevented any recovery in private building in spite of the severe housing shortage. Preparations started by the

Government during the war to stimulate building did not lead to any substantial results until the spring and early summer of 1920.

(13) The price boom led inevitably to a subsequent collapse in 1921 and serious unemployment.

(14) The major problem of the transition from war to peace economy therefore proved itself to be not one of getting demobilized men and machines re-employed, but one of the cyclical effects of the perhaps unavoidably bumpy nature of post-war pent-up demand.

THE TRANSITION FROM WAR TO PEACE ECONOMY:

REPORT OF THE DELEGATION ON

ECONOMIC DEPRESSIONS, PART I, pp. 113-118.

This report is an attempt to map out the methods and measures, both domestic and international, by which a smooth transition from war to peace economy and the maintenance of production and employment after the war may be facilitated. Instead of attempting to summarize its numerous recommendations, the Delegation requested the Department to prepare as an annex to the report a brief analysis of the main issues discussed, section by section. This summary analysis is reproduced below.

INTRODUCTION

The report opens with a statement of the objectives of post-war economic policy. These objectives, it is suggested, should be to assure

(a) that the fullest possible use is made of the resources of production, human and material, of the skill and enterprise of the individual, of available scientific discoveries and inventions, so as to attain and maintain in all countries a stable economy and rising standards of living;

(b) that in so far as possible, no man or woman able and willing to work should be unable to obtain employment for periods of time longer than is needed to transfer from one occupation to another or, when necessary, to acquire a new skill;

(c) that in the use of these productive resources, the provision of goods and services to meet the essential physiological needs of all classes of the population in food, clothing, housing and medical care is a prime consideration;

(d) that society distribute, as far as possible, the risk to the individual resulting from interruption or reduction of earning power;

(e) that the liberty of each individual to choose his own occupation is respected and is promoted by equal educational opportunities;

(f) that the liberty of each country to share in the markets of the world and thus to obtain access to the raw materials and manufactured goods bought and sold on those markets is promoted by the progressive removal of obstructions to trade;

(g) that the benefits of modern methods of production are made available to all peoples both by the progressive removal of obstructions to trade and by courageous international measures of reconstruction and development.

However difficult such objectives may be to attain, their acceptance, it is felt, should make it easier to avoid or mitigate economic depressions in the future. Part II of the Report will deal with these longer term issues; Part I now published is confined to problems of the transition period.

The emphasis laid on maintaining employment does not imply that the disastrous effects of depressions on agricultural countries is overlooked. But the responsibility for securing greater economic stability and for accelerating economic development must lie primarily with the industrial countries.

The second objective is discussed at some length in a section of the Introduction entitled "The Right to Work." This term does not, it is pointed out, imply that no person should be unemployed while in search of a job, but rather that governments are responsible for avoiding large-scale and protracted unemployment. This they can only hope to do if they have adequate powers, the backing of public opinion, and especially the support of employers and workers in checking monopolistic practices.

The last section of the Introduction traces the struggle in the 'twenties to restore a working and world-wide economic system and the breakdown of that system in the 'thirties. Owing to that breakdown, statesmen will be faced with a triple task

(a) of reconstructing a world system;

(b) of assuring as smooth as possible a transition from war to peace economy;

(e) of seeing that forces giving rise to renewed depressions are counteracted.

The report is mainly concerned with the means by which a smooth transition may be effected from war to peace economy and conditions restored under which private enterprise may flourish; but no assumption is made regarding the socio-economic system or the degree of participation or supervision of the State in economic life that may be desired in different countries. It is, however, postulated throughout the report that peace is restored in such a manner as to revive confidence, and that therefore an effective system of collective security is established.

CHAPTER I

The first chapter describes those characteristics of war economy and those effects of the war itself that are likely to involve difficult problems of readjustment—the shifts in demand; the structural changes, national and international; the pent-up demand and purchasing power; the growth of debt; the changes in the international distribution of capital, the destruction wrought by war, etc.

CHAPTER II

The second chapter is primarily concerned with the problems of transition in countries in which the possibility of maintaining full employment after the war is not likely to be impeded by lack of raw materials or inability to buy them abroad. It opens with a consideration of the probable nature of post-war demand in these countries and the risk of this leading to a runaway price boom and subsequent collapse and unemployment. In view of this risk it is urged that measures taken to control prices and effect an equitable distribution of supplies, whether to the producer or to the consumer, should not be abandoned suddenly but relaxed gradually as shortages are overcome. The different types of control, financial and physical, and the different types of demand—for consumers' durable and non-durable goods, for machinery and other capital goods, for raw materials, etc.—are successively surveyed. In every case the main preoccupation is to get men re-employed and production redirected towards consumers' needs when the war demand falls off, as rapidly as may

be possible without causing a boom and consequential slump.

Although the shift from government to private demand will perhaps be a major characteristic of the transition period, government orders and public works are bound to play an important role in facilitating or impeding a smooth transition. Two major dangers are foreseen: the first is that projects indispensable for getting the whole national or international economic mechanism functioning again will not be ready; the second, that governments will hamper economic recovery by launching too many schemes or launching them at the wrong moment. In many countries, especially in Europe and Asia, the repair of damage suffered during the war will be an urgent necessity. But it is suggested that when projects can be postponed, governments should rather endeavour to fill gaps in demand than to compete with the market. When the first onrush of consumers' demand is spent, postponed government undertakings may exercise a useful stabilizing influence.

Stress is laid in this chapter on the importance of fiscal policies which will encourage enterprise and of government schemes for teaching new skills to meet the new needs that will arise and for helping workers find employment.

CHAPTER III

The third chapter deals with the international problems of transition and emphasizes in its first two sections the need for government action and international co-operation. The lack of any general international plan for getting business started in the war-stricken areas after the 1918 Armistice was, it is argued, an important cause of the economic breakdown in Europe and the collapse of currencies in the 'twenties. The difficulties after this war are likely to be even greater than they were in 1918 and the need for an agreed plan of action imperative.

Many of the countries whose needs of food and of raw materials and capital goods to reconstruct their economic life are likely to be most pressing will lack adequate means of making payments abroad. Their problem is obviously an international one, and, unless it is solved, the whole future of international economic relationships may be jeopardized.

Relief. In so far as relief is required, its purpose should not be

simply to feed and clothe starving populations but to enable them to produce and exchange what they produce and so feed and clothe themselves. Relief and reconstruction, it is urged, should be looked upon as a single problem, the problem of re-starting productive activity and world trade. It is a problem, therefore, in which all nations are concerned, the solution of which will depend upon the willingness of states, large or small, to participate in a common effort.

Effective programmes of relief and reconstruction will depend on the availability of the essential foodstuffs, raw materials and other goods and therefore upon the equitable distribution of supplies while supplies are short. For this reason an international understanding is advocated regarding changes in rations and in the maximum prices fixed for rationed goods in the early post-war period.

The International Demand for Crude Products. In order to prevent a scramble for raw products, tonnage, etc., it is recommended that governments should continue or institute a machinery for the purchase and international distribution of such products and for joint control of tonnage so long as serious shortages persist. As supplies of raw materials become more plentiful, this machinery might be employed to stabilise prices by co-ordinating supply and demand and, in some cases, by the creation of buffer stocks.

International Demand for Capital and Credit. International funds will be required for a number of purposes. There will be

(a) in the first instance, a demand for food, raw materials and certain finished goods to feed and clothe the populations and gradually to restart production in the stricken areas;

(b) a demand for capital, domestic and foreign, to repair the physical damage and make good the wear and tear suffered during the war;

(c) a demand for capital, for the reserves of Banks of Issue and for exchange stabilization funds adequate to permit of adjustments required on account of balance of payments difficulties;

(d) finally, a demand for capital for the development and reorganization of the industrial structure in countries where boundaries are modified, where the existing structure has been

rendered inappropriate to the post-war world distribution of productive capacity, in countries suffering from demographic pressure and in countries which are in the process of industrialization and are themselves poor in capital.

The availability of funds is likely to be dependent, *inter alia*, upon the relaxation of exchange controls and the possibilities of effecting multilateral clearing and conducting multilateral trade. For this reason among others, the recent United States and British Treasury proposals to establish some form of international clearing or equalization fund are welcomed.

Exchange Control and Multilateral Clearing. Amongst other objectives these proposals aim at establishing a system by which (1) multilateral trade may be resumed as rapidly as possible and blocked balances and bilateral clearings rendered unnecessary; (2) national price levels which are out of gear may be brought again into mesh with one another and (3) the disequilibria in balances of payments may be adjusted. These aims are discussed with reference to post-war problems, the general outline of which is already apparent.

The Control of Inflation. Attention is drawn to the risk that post-war inflation in the war areas may endanger the best laid plans unless effective steps are taken to halt it. Adequate assistance in the initial provision of foodstuffs, raw materials, etc., the institution of such a mechanism as that just mentioned for the revival of international trade on a multilateral basis, and appropriate commercial policies should, it is felt, do much to diminish this risk.

Various measures have been taken in Continental Europe to prevent the currency inflation which has already taken place from having its full effect on prices, and measures of this kind will no doubt continue to be required after liberation. But much will depend on the policies adopted in these areas as they are liberated—on the rate of exchange fixed for their currencies, on the extent to which pay received by the Allied armies is expended on local goods, on the extent to which liberation is accompanied by economic aid and that aid can be employed for mopping up part of the surplus currency. But the ability of countries to check inflation will depend above all on the authority

ity of national governments, on political security and on the availability of foreign markets.

- *Long-term Lending.* Certain principles regarding foreign lending are formulated which anticipate to some extent Part XI of the Report, as the question of lending is considered primarily in connection with the long-term problem of the maintenance of economic stability.

(a) While it is taken for granted that direct government lending will probably be indispensable, it is pointed out that lending on an equity basis, or failing this by some form of income debentures, would impose a less severe strain on the balance of payments of the borrowing country when prices fall.

(b) When loans are made to governments, they should be at as low a rate of interest as possible and allow contractually for the possibility of suspension of amortization in bad times.

(c) Preference should be given to capital expenditures required for the purchase of reproductive commodities, such as machinery or locomotives.

(d) When such preference proves impossible, careful control should be exercised over the import of what to the receiving country may be fairly classed as luxury goods.

(e) Adequate labour standards in the borrowing countries should be required.

Commercial Policy. However important the contribution of an international clearing fund towards the restoration of world trade, that restoration can, the Report points out, neither be complete nor permanent if commercial policies run counter to the fundamental factors in the balance of payments situation. The war is producing profound changes in the structure of international claims and indebtedness which could best be met by such changes in commercial policy as will permit a substantial increase in the purchase of foreign goods by those countries whose creditor position has been strengthened.

Bilateralism and autarky have been largely the product of economic and political insecurity. But for several reasons the system of multilateral trade based on M.F.N. became somewhat discredited in the inter-war years:

- (a) Countries have been unwilling to extend concessions to others which made no such concessions.

(b) The M.F.N. clause was on certain occasions used to prevent the conclusion of special customs arrangements between small countries.

(c) One reason for the discriminatory tariff specifications which often rendered the clause of little value to third parties was the fear of competition from countries with low standards of wages and of living.

The first of these difficulties might be partly solved by the total abolition of non-negotiable tariffs. There is, it is submitted, no single or simple solution of the others; but a very real service might be rendered by an international body with adequate authority which might help governments devise commercial policies conducive to economic stability in three different ways:

(a) by studying and analyzing the facts concerning the development of trade, the interdependence of different trading areas, the trade in different groups of commodities, the movement in prices, and the changes in the terms of trade;

(b) by giving advice about means for promoting trade, for clearing blocked channels of trade, about the difficulties arising from sudden changes in production or in the competitive power of different areas, etc.;

(c) by mediating, when so requested, in connection with both direct disputes between states, and on such wider issues as the formation of customs unions.

International Organs. Two points are emphasized in conclusion: first, that means must be found for co-ordinating the policies of the various international organs which may prove necessary; secondly, that economic policy must be correlated with political. Military security cannot be devised in an economic vacuum nor economic security in the face of the threat of war.

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