

MAJOR FORCES IN WORLD BUSINESS DEPRESSION



NATIONAL INDUSTRIAL CONFERENCE BOARD, Inc.
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**MAJOR FORCES IN
WORLD BUSINESS DEPRESSION**

STUDIES OF INTERNATIONAL PROBLEMS

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PREFACE

THE whole world is in the grip of a depression the effects of which are still developing and the final stages of which the wisest man finds it difficult to foresee. While it would be futile to attempt to depict and interpret with any degree of finality the conditions of the moment, it is possible to go behind them and discover some leading forces that have produced the present ferment in the economic life of practically all nations. Moreover, the developments of the summer of 1931 have shed new light upon certain underlying causes the full significance of which was perhaps less clearly discernible when the Preliminary Study of Major Forces in World Business Depression was prepared in April of this year. The present publication is the revision of that preliminary study in the light of later developments. It embodies also certain suggestions made by eminent men of affairs in all parts of the world, who have courteously examined the original publication and given the National Industrial Conference Board the benefit of their views on various subjects treated in the pamphlet.

In recent years the National Industrial Conference Board has published at this season a volume on world economic conditions in the preceding summer. For the moment, when the economic life of the nations seems to have broken loose from its moorings, it does not appear advisable to attempt to paint a picture of world economic conditions. Instead, the present publication is offered as a substitute for such a picture and at the same time as a definite revision of the preliminary study bearing the same title that was issued in the early part of the current year.

Many forces have operated to produce the world-wide business depression. From country to country the character and the severity of the depression have been modified by such factors as geographical location, natural resources, character and size of the population, social and political

conditions, tariffs and subsidies, relations with foreign countries, and similar circumstances.

The purpose of the present study is to examine the major forces in the world business depression and to show how and in what degree different countries have contributed to this depression and are affected by it. In so doing it would not be practicable to give in detail the statistical material required to support the conclusions stated. This material is conveniently presented and analyzed in a series of books that have been issued semi-annually by the National Industrial Conference Board in co-operation with its Foreign Correspondents. The most recent of these is entitled "A Picture of World Economic Conditions at the Beginning of 1931." The present manuscript is in a sense and in part an outgrowth and a summary of those studies.

The picture here sketched is presented as it appears to American observers, although, as previously indicated, the Conference Board has had the benefit of the advice and counsel of men of affairs in many countries. With the aid of these leaders in industry, commerce, and finance abroad, the statements contained in the present publication have, it is believed, been more adequately fitted to the situations which they endeavor to describe.

There is no wish on the part of the Conference Board either to magnify or to minimize the difficulties from which business is suffering in practically all parts of the world. The economic problems of the modern world are international in scope. Year by year the economic ties that bind the United States to the rest of the world grow stronger, and year by year the need of American business for accurate information on world affairs grows more imperative. The Conference Board desires to call attention to the existence of numerous forces, seldom clearly recognized, which affect economic life in its various branches and to emphasize the almost bewildering interrelation of many economic and political factors in all parts of the world. A clear recognition of the obstacles to normal business conduct must precede the attempt to find solutions and remedies.

In the preparation of its studies the National Industrial Conference Board avails itself of the experience and judg-

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ment of the business executives who compose its membership and of recognized authorities in special fields, in addition to the scientific knowledge and equipment of its Research Staff. The publications thus finally represent the result of scientific investigation and broad business experience, and the conclusions expressed therein are those of the Conference Board as a body.

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

MAGNUS W. ALEXANDER

President

New York City
September, 1931

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Countries	Economic Forces								Political Forces		
	Industrial		Commercial		Financial				Faulty Economic Policies	Internal Political Difficulties	External Political Difficulties
	Overproduction in Primary Industries	Overproduction in Manufacturing Industries	Declining Export Prices	Reduced Export Markets	Currency and Exchange Difficulties	Credit Stringency	Internal Debts	External Debts			
Great Britain..	Great Britain	Great Britain	Great Britain	Great Britain	Great Britain	..	Great Britain	..	Great Britain	Great Britain	..
Germany.....	Germany	Germany	Germany	Germany	Germany	Germany	Germany	Germany	Germany	Germany	Germany
France.....	..	France	France	France	..	..	..	..	..	..	France
Russia.....	Russia	..	Russia	Russia	Russia	Russia	..	Russia	Russia	Russia	Russia
Italy.....	Italy	Italy	Italy	Italy	..	Italy	Italy	Italy	Italy	..	Italy
Belgium.....	Belgium	Belgium	Belgium	Belgium	..	..	..	..	..	..	..
Netherlands...	Netherlands	Netherlands	Netherlands	Netherlands	..	..	..	..	..	..	..
Sweden.....	Sweden	..	Sweden	Sweden	Sweden	..	..	..	..	..	..
Denmark.....	..	Denmark	Denmark	Denmark	Denmark	..	..	..	..	..	..
Switzerland....	..	Switzerland	Switzerland	Switzerland	..	..	..	..	..	..	..
Czechoslovakia	Czechoslovakia	Czechoslovakia	Czechoslovakia	Czechoslovakia	..	..	..	..	..	..	Czechoslovakia
Poland.....	Poland	..	Poland	Poland	..	Poland	..	..	..	Poland	Poland
Jugoslavia.....	Jugoslavia	..	Jugoslavia	Jugoslavia	..	Jugoslavia	..	..	..	Jugoslavia	Jugoslavia
Rumania.....	Rumania	..	Rumania	Rumania	..	Rumania	..	..	..	Rumania	Rumania
Hungary.....	Hungary	..	Hungary	Hungary	..	Hungary	..	..	Hungary	Hungary	Hungary
Bulgaria.....	Bulgaria	..	Bulgaria	Bulgaria	..	Bulgaria	..	..	..	Bulgaria	Bulgaria
Spain.....	Spain	..	Spain	Spain	Spain	..	..	..	..	Spain	..
Austria.....	..	Austria	Austria	Austria	..	Austria	..	..	Austria	Austria	Austria
United States..	United States	United States	United States	United States	..	..	..	..	United States	..	..
Canada.....	Canada	..	Canada	Canada	..	..	..	..	..	..	..
Cuba.....	Cuba	..	Cuba	Cuba	..	Cuba	..	..	..	Cuba	..
Mexico.....	Mexico	..	Mexico	Mexico	Mexico	Mexico	..	Mexico	Mexico	Mexico	..
Argentina.....	Argentina	..	Argentina	Argentina	Argentina	Argentina	..	Argentina	..	Argentina	..
Brazil.....	Brazil	..	Brazil	Brazil	Brazil	Brazil	..	Brazil	Brazil	Brazil	..
Chile.....	Chile	..	Chile	Chile	Chile	Chile	..	Chile	..	Chile	..
Colombia.....	Colombia	..	Colombia	Colombia	Colombia	Colombia	Colombia	Colombia	Colombia	..	..
China.....	China	..	China	China	China	China	..	..	..	China	..
Japan.....	Japan	Japan	Japan	Japan	Japan	Japan	..	..	..	..	..
India.....	India	..	India	India	..	..	..	..	..	India	..
Australia.....	Australia	..	Australia	Australia	Australia	Australia	Australia	Australia	Australia	Australia	..

MAJOR FORCES IN WORLD BUSINESS DEPRESSION

THE regularity with which periods of business depression have followed periods of prosperity has given rise to many theories purporting to explain the reasons for the upward and downward movements of business activity. The multiplicity of causes advanced by investigators as being mainly responsible for these fluctuations emphasizes the magnitude of the problem and its complex character, and seems to indicate the impossibility of developing a simple set of rules for business conduct that would operate in the direction of maintaining prosperity.

Economic studies, with the aid of painstaking statistical research, have established a number of laws which cannot be transgressed without giving rise to business maladjustments. Many of those engaged in business, however, do not know these laws, and those who do cannot follow them, because competition from the former carries the latter along often against their better judgment. There is little direction to economic life; it is largely the outcome of a composite of individual efforts. While every business man, for example, knows the law of supply and demand, in competitive business he cannot know what the actual supply will be at a certain time or at what prices his competitors will be willing to sell, while under any circumstances he can at best only make an intelligent guess regarding the future demand for his goods.

The rapid improvement of the means of transportation and communication has rendered the conduct of business more complex and more difficult by making the market for many commodities world-wide and thus increasing the economic interdependence of nations. This development has affected particularly those industries which market a large part of their production outside the national frontiers and those

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countries which derive a large part of their income from foreign trade and foreign investments. Grain-growing in the United States, Canada, Argentina, and Australia; cotton-growing in the United States, India, and Egypt; the raw silk industry of Japan; the wool industry of Australia and Argentina; the textile industry of Great Britain; the production of crude rubber in Malaysia and the Dutch East Indies; coffee-planting in Brazil; the nitrate industry of Chile—these are some examples of industries that sell their products in world markets and are peculiarly susceptible to the pressure of outside influences.

Furthermore, the conduct of business is affected, not only by acts of producers, distributors, and consumers, but also by acts of politicians. The state is becoming an increasingly important factor through its power to tax, to conclude commercial agreements, to impose tariffs, to grant subsidies, to enact social legislation, and to make war and peace. Politics and economics stand in a most intimate relationship. Universal suffrage has given the people as a whole the power to vote on matters closely affecting business, but universal education has not yet overcome economic illiteracy. Hence, political leaders are in a position to abuse, and do abuse, the lack of economic understanding among the voters. The desires of the people can be easily stimulated and rapidly translated into political action, but the economic policies of nations cannot be quickly changed without producing serious business difficulties. The growing international character of modern business has tended to complicate the relationship between political and economic activities. In making their plans, business men must take into account the vicissitudes of politics. Importers and exporters of goods and services, and international bankers in particular, must keep in close touch with world political developments, and all must watch their local governments.

In view of the complex character of business, its intimate relation to politics, and the wide differences in the economic and political organization of the various countries, it is not surprising that business and professional economists are in disagreement concerning the fundamental causes of the ebb and flow of business which we call prosperity and depression.

They disagree in respect to the reasons for business crises, their periodicity, and their duration.

In this survey it is proposed, without attempting a discussion of the causes, to examine the contributory incidents to the prevailing depression of business, which seems to be nearly world-wide in extent. This type of treatment will bring into relief the major economic and political forces that have played a rôle in bringing the world to its present state of economic maladjustment and will show how many countries are suffering from similar difficulties. Developments of local importance are not considered here no matter how important they may be to the local situation. Attention is called only to those forces which are of broad international significance.

A comprehensive view of the various forces that have played a part in bringing about the most widespread business depression in modern industrial history cannot be obtained by a mere presentation of figures on production, foreign trade, wages, prices, and public and private finance. Such figures show primarily what the situation is and not why it came about. In order to understand the latter it is necessary to take account not only of the economic but also of the political forces that affect business in any one of its important branches. The approach to such an undertaking, however, must be made with an open mind. Each nation is the supreme master of its own destiny. So long as it fulfills its international treaty obligations, others cannot well interfere in its internal affairs.

The major forces in world business depression can be divided broadly into economic and political. Economic forces are divided into industrial, commercial, and financial. It should be constantly kept in mind, however, that this division is made solely for the sake of facilitating discussion. Economic and political activities are closely interrelated, and in very few cases can a precise line of demarcation be drawn between them. The effect of economic forces is reflected mainly in overproduction, declining export prices, reduced export markets, currency and exchange difficulties, credit stringency, internal and external debts; and that of political forces in faulty state economic policies and internal and ex-

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ternal political difficulties. In this study each country is classified with reference to these major divisions and subdivisions where they seem to be particularly and in outstanding degree applicable. It may be helpful, however, to point out that in determining what countries have been affected by overproduction of commodities, the criterion is not the total production of any one country, but the total world output of the commodity in question. As used here, the term overproduction means production in excess of actual consumption. There can be no general overproduction. There is perhaps no commodity in the world markets today for which the potential demand is not greater than the supply; but the effective demand is inadequate, because the potential consumers do not have the means to buy the things they need.

The line of division between financial and political forces is particularly tenuous. No other branch of economic activity is so sensitive to political action as is finance. Not only in the matter of credit and currency control, but also in regard to the safety or the profitableness of capital investment, political action may exercise a dominant influence. Under conditions of equal political security, the world supply of capital funds would tend to be distributed according to the degree of profitableness, and no marked differences in interest rates for investments of equal grade in the different countries would continue for long at a time. However, because of political difficulties, wars, revolutions, and national rivalries, great natural resources and enormous markets remain undeveloped. The people of many countries live in abject poverty, while others cannot consume all that they produce. Ordinarily, more limited in scope but not less serious are the difficulties produced by faulty governmental policies. Extravagant and careless expenditure of public funds, excessive public borrowing, arbitrary interference with the processes of production and distribution, and ill-considered social reforms have been disturbing influences in the economic life of many countries. Currency and exchange difficulties, credit stringency, and the burden of internal and external debts are some results of misdirected or unintelligent political action.

EVIDENCES OF WORLD BUSINESS DEPRESSION

DECLINE OF PRICES

THIS survey shows many diverse manifestations of a depressed state of business, but there is one evidence that is almost universal, falling prices with the disturbance and readjustment that inevitably accompany them. Table 1 shows the index numbers of wholesale prices in 24 countries for July, 1926, July, 1929, and July, 1931. From July, 1926, to July, 1929, most of the changes in prices were moderately downward. In some countries, prices actually increased during this period, while in others the decline was very marked. These exceptional cases, however, are to be explained largely by such factors as monetary, credit, tariff, and fiscal policies of the governments. From July, 1929, to July, 1931, on the other hand, wholesale prices show a marked decline for all countries, with the exception of China, Russia, and Spain where prices show an upward movement. In Russia, this was due to governmental price manipulation; in China, to the decline in the price of silver; and in Spain, to currency depreciation.

Table 2 shows the actual market prices of 8 important agricultural commodities and raw materials in 1913, the high point since 1924, and the averages for December, 1929, and July, 1931. The prices of wheat, coffee, raw cotton, and crude petroleum in July, 1931, were more than 70% below the high point reached since 1924. The prices of all these commodities, with the exception of coal and lead, were considerably lower in July, 1931, than in the year 1913. The greater part of this decline occurred in 1930 and 1931. In addition to the commodities shown in the table, violent declines during this period occurred in prices of raw silk, raw wool, sugar, flax, jute, rubber, zinc, tin, and silver. Among the semi-manufactured and manufactured commodities, drastic price declines affected particularly textile materials, iron and

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steel products, leather, wood products, and paper and pulp. Without making this list more specific, it is clear that a marked price decrease affects practically every branch of business and is felt in all parts of the world. The highly developed economic system of the United States with its extensive agriculture, its powerful mining industry, and its diversified manufacturing production has succeeded as little in escaping the effects of this price recession as the remote Malayan Peninsula, which depends for its prosperity on the prices that it receives for its tin and rubber.

TABLE 1: INDEX NUMBERS OF WHOLESALE PRICES

Country	Base	Average, 1926	July, 1929	July, 1931	Per Cent Change	
					1926 to July, 1929	July, 1929, to July, 1931
Germany.....	1913	134.4	137.8	111.7	+2.5	-18.9
Austria.....	Jan.-July, 1914	123	132	114	+7.3	-13.6
Belgium.....	April, 1914	744	858	635	+15.3	-26.0
Denmark.....	1913	163	149	110	-8.6	-26.2
Spain.....	1913	181	169	169 ^a	-6.6	..
France.....	July, 1914	718	626	466	-12.8	-25.6
Italy.....	1913	603	440	324	-27.0	-26.4
Norway.....	1913	198	152	127	-23.2	-16.4
Netherlands.....	1913	145	141	97	-2.8	-31.2
Poland.....	Jan., 1914	105	113	87 ^a	+7.6	-33.0
United Kingdom....	1913	148.1	137.4	102.2	-7.2	-25.6
Sweden.....	July 1, 1913 to June 30, 1914	144	133	105	-7.6	-21.1
Switzerland.....	July, 1914	144.5	142.8	114	-1.2	-20.2
Czechoslovakia.....	July, 1914	139	134	112	-3.6	-16.4
Russia.....	1913	185	180	188 ^a	-2.7	+3.7 ^b
Jugoslavia.....	1926	100	99.7	74.4	-0.3	-25.4
United States.....	1926	100.0	98.0	70.0	-2.0	-28.6
Canada.....	1926	100.0	96.0	71.7	-4.0	-25.3
Peru.....	1913	203	187	179 ^a	-7.9	-4.3
China.....	Feb., 1913	164.1	162.7	187.7 ^a	-0.9	+15.4
Japan.....	1913	178.9	166.0	113.9 ^a	-7.2	-31.4
India.....	July, 1914	148	142	93 ^a	-4.1	-34.5
Australia.....	1913	168.4	166.6	130.9 ^a	-1.1	-21.4
New Zealand.....	1913	153.6	147.6	134.3 ^a	-3.9	-9.0
South Africa.....	1913	123.3	114.6	99.1 ^a	-7.1	-13.5

¹ June. ² April. ³ January. ⁴ December, 1930. ⁵ July, 1929, to December, 1930.

The decline of prices has reduced the income of the producers of these commodities; of the owners of capital through reduction of profits, and of the workers through reduced employment and lower wages and salaries. Furthermore, the decline in the price level has profoundly affected the relationship between debtors and creditors. The latter

have benefited by the increased purchasing power of money, while the former have seen their debts greatly increased. This applies both to governments and private enterprises and individuals. Money settlement of all kinds is upset by the severe fall in prices. Persons who receive fixed incomes, protected by contract or otherwise, are placed in a favorable

TABLE 2: MARKET PRICES OF CERTAIN FOODSTUFFS AND RAW MATERIALS AT WHOLESALE

Source: United States Bureau of Labor Statistics
In dollars

Commodity	Average, 1913	High since 1924	December, 1929	July, 1931	Per Cent Change, July, 1931, as Compared with		
					Average, 1913	High since 1924	December, 1929
Wheat, No. 2, red winter, Chicago, dollars per bushel.....	0.986	February, 1925, 2.006	1.300	0.529	-46.35	-73.63	-59.31
Corn, cash No. 3, Chicago, dollars per bushel....	0.616	December, 1924, 1.221	0.891	0.572	-7.14	-53.15	-35.80
Coffee, Rio, No. 7, New York, dollars per pound .	0.111	February, 1925, 0.234	0.099	0.063	-43.24	-73.08	-36.36
Cotton, middling, New York, dollars per pound.	0.128	February, 1924, 0.347	0.173	0.093	-27.34	-73.20	-46.24
Petroleum, crude, Kansas, Oklahoma, dollars per barrel.....	0.934	October, 1926, 2.050	1.300	0.238	-74.52	-88.39	-81.69
Coal, bituminous, F.O.B. Cincinnati, dollars per short ton.....	2.200	December, 1926, 4.390	3.980 ¹	3.706 ¹	+68.45	-15.58	-6.88
Copper, ingot, electrolytic refinery, dollars per pound....	0.157	March, 1929, 0.211	0.178	0.077	-50.96	-63.51	-56.74
Lead, pig, New York, dollars per pound.....	0.044	February, 1925, 0.104	0.063	0.044	-	-57.69	-30.16

¹ Mine run, composite price.

position. The decrease in the purchasing power of the debtor countries producing largely agricultural commodities and raw materials has diminished their ability to buy the products and services of the industrially developed nations, resulting in a generally lower volume of trade.

THE DECLINE OF INTERNATIONAL TRADE

The total value of world exchange of commodities in 1929 was approximately \$68,000 million. The value of imports was \$35,000 million and that of exports, \$33,000 million.¹ From 1926 to 1929—a period during which most world currencies were maintained at a stable level in relation to gold—the value of foreign trade increased from year to year, the total gain amounting to about \$5,000 million. Table 3 shows the value of foreign trade for 25 countries for the years 1928, 1929, 1930, and the first six months of 1930 and 1931. These countries account for about 80% of total world trade. The total value of imports and exports in 1930 was \$43,719 million, as compared with \$54,195 million in 1929, showing a decline of \$10,376 million in the value of foreign trade in a brief period of twelve months. This sum represents the annual wage of about 5 million workers in the United States, or more than two or three times that number in many other countries. During the first six months of 1931 practically all countries shown in the table suffered a much greater decline in foreign trade than in the year 1930.

The decline in the total value of trade is in the first instance a reflection of the decline in price to which attention has already been called. But over and above any fall in total value due to declining prices, a lessened quantity of goods entered into foreign trade by reason of disturbed political conditions, tariff barriers, maladjustments in money and capital markets, particularly the decrease in foreign long-term financing, and artificial maintenance of prices on the part of private producers and governments. The effects of the decline are reflected in record unemployment figures,

¹ Imports are actually equal to exports, difference in the two figures being due mainly to the fact that imports are calculated inclusive of cost, insurance, and freight, and exports free on board. The only exception to this rule appears to be the statistics of the United States.

TABLE 3: VALUE OF FOREIGN TRADE, 25 COUNTRIES, 1928 TO 1930 AND FIRST SIX MONTHS OF 1930 AND 1931

In million dollars

Country	Imports								Exports							
	1928	1929	1930	First Half, 1930	First Half, 1931	Per Cent Change, 1928 to 1929	Per Cent Change, 1929 to 1930	Per Cent Change, First Half 1930 to 1931	1928	1929	1930	First Half, 1930	First Half, 1931	Per Cent Change, 1928 to 1929	Per Cent Change, 1929 to 1930	Per Cent Change, First Half 1930 to 1931
Great Britain...	5,818	5,945	5,085	2,636	2,034	-2.18	-14.47	-22.84	4,106	4,084	3,200	1,484	969	-0.54	-21.65	-34.70
Germany.....	3,335	3,203	2,476	1,574 ¹	1,040 ¹	+3.96	-22.70	-33.93 ¹	2,924	3,212	2,867	1,703 ¹	1,332 ¹	+9.85	-10.74	-21.79 ¹
France.....	2,095	2,285	2,052	1,087	910	+9.07	-10.20	-16.28	2,014	1,963	1,679	887	636	-2.53	-14.47	-28.30
Italy.....	1,153	1,120	913	497	348	-1.13	-19.91	-29.98	766	783	637	344	269	+2.22	-18.65	-21.80
Russia.....	487 ²	431 ²	550 ²	286	266	-11.50 ²	+27.61 ²	-6.99	401 ²	452 ²	516 ²	239	188	+12.72 ²	+14.16 ²	-21.34
Belgium.....	889	989	860	466	379	+11.25	-13.04	-18.67	859	883	730	350	328	+2.79	-17.33	-6.29
Netherlands....	1,079	1,106	973	513	397	+2.50	-12.03	-22.61	798	800	691	354	272	+0.25	-13.62	-23.16
Denmark.....	465	480	463	221	182	+3.23	-3.54	-17.65	444	458	407	203	171	+3.15	-11.14	-15.76
Norway.....	274	288	286	138	111	+5.11	-0.69	-19.57	183	202	183	95	62	+10.38	-9.41	-34.74
Sweden.....	458	475	442	220	184	+3.71	-6.95	-16.36	422	486	414	197	132	+15.17	-14.81	-32.99
Switzerland....	512	516	514	248	214	+0.78	-0.39	-13.71	408	401	341	178	137	-1.72	-14.96	-23.03
Austria.....	454	458	385	194	153	+0.88	-15.94	-21.13	310	306	265	130	94	-1.29	-13.40	-27.69
Poland.....	377	349	252	129	90	-7.43	-27.79	-30.23	281	316	273	139	107	+12.46	-13.61	-23.02
Czechoslovakia..	569	590	465	241	164	+3.69	-21.19	-31.95	628	606	517	250	189	-3.50	-14.69	-24.40
Jugoslavia.....	138	134	123	61	45	-2.90	-8.21	-26.23	113	139	119	59	41	+23.01	-14.39	-30.51
Hungary.....	212	186	146	72	54	-12.26	-21.51	-25.00	145	182	160	79	45	+25.52	-12.09	-43.04
United States...	4,091	4,399	3,061	1,813	1,103	+7.53	-30.42	-39.16	5,128	5,157	3,782	2,039	1,290	+0.57	-26.66	-36.73
Canada.....	1,222	1,299	1,008	543	354	+6.30	-22.40	-34.81	1,374	1,208	905	437	292	-12.08	-25.08	-33.18
Argentina ³	869	821	699	304 ⁴	242 ⁴	-5.52	-22.40	-20.39 ⁴	994	954	511	292 ⁴	265 ⁴	-4.02	-46.44	-9.25 ⁴
Brazil.....	442	417	261	105 ⁵	77 ⁵	-5.66	-37.41	-26.67 ⁵	475	461	320	144 ⁵	127 ⁵	-2.95	-30.59	-11.81 ⁵
Colombia.....	123	104	58	..	..	-15.45	-44.23	..	131	123	109	..	..	-6.11	-11.38	..
Japan.....	1,019	1,022	764	405 ⁴	288 ⁴	+0.29	-25.24	-28.89 ⁴	915	989	726	307 ⁴	234 ⁴	+8.09	-26.59	-23.78 ⁴
China.....	859	820	..	..	..	..	..	..	714	660	..	..	..	..	..	..
Australia.....	681	707	459	268	101	+3.82	-35.08	-62.31	682	615	446	227	216	-9.82	-27.48	-4.85
India.....	905	900	706	411	283	-0.55	-21.56	-31.14	1,234	1,191	920	527	315	-3.48	-22.75	-40.23
Totals.....	27,667 ⁶	28,224 ⁶	23,001	12,432	9,019	+2.01	-18.51	-27.45	25,735 ⁶	25,971 ⁶	20,718	10,664	7,711	+0.92	-20.23	-27.69

¹ Seven months.

² Financial year.

³ Converted at gold rate.

⁴ Five months.

⁵ Four months.

⁶ Excluding China.

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in currency and exchange difficulties, in the inability of governments to meet their obligations abroad, in strained international relations, and in the dwindling profits of enterprises engaged in the business of buying and selling abroad. The losses suffered by exporters and importers or the reduction in the volume of their operations inevitably extend their influence on the entire national economy by reducing the purchasing power of the people engaged in that branch of business.

DECLINE OF INDUSTRIAL ACTIVITY

There is no satisfactory measure of world decline of production. Statistics of the volume and the value of production for individual industries are very inadequate, even in the most advanced industrial countries, and cannot be obtained at all for the countries on a lower plane of industrial development. Furthermore, such statistics as are available cannot in most cases be compared internationally, owing to the lack of uniformity in the methods of collecting and classifying the data. Examination of the various reports submitted to the International Economic Conference at Geneva in 1927 discloses the great disparity that exists in defining, for example, what constitutes a chemical product, a textile product, or an electro-technical product. A large amount of pioneering work remains to be done in the field of international statistics of industrial production before a fairly accurate picture of the developments in the various countries can be obtained.

Since the World War, however, private organizations and governments in a number of countries have undertaken the collection of data relating to the physical volume of production in the various manufacturing and mining industries. The results of this investigation are summed up and published on a monthly basis in the form of index numbers of production for the individual industries and a general index for all industries. Table 4 shows general index numbers of production for the 9 countries in which this information is available. These data indicate not the physical volume of production but only the changes in the volume of production from 1924 to 1930, and June, 1931.

In the group of countries, Great Britain is a creditor

nation, inadequately supplied with foodstuffs and raw materials, with a large excess of commodity imports and a moderate tariff policy. The United States also is a creditor nation, but in contrast with Great Britain is abundantly supplied with foodstuffs and raw materials, with a large excess of commodity exports and a policy of high tariff protection. France is a creditor nation, fairly well supplied with foodstuffs but lacking many important raw materials, with a large excess of commodity imports and a high tariff policy. Germany is a debtor nation, inadequately supplied with foodstuffs and raw materials, with a high tariff policy and until 1929 with a large excess of commodity imports.¹ The common feature of the economic position of these four countries is that they have for many years been the principal industrial nations of the world.

TABLE 4: INDEX NUMBERS OF PRODUCTION, 9 COUNTRIES, 1924 TO 1930, AND JUNE, 1931

Country	Base	1924	1925	1926	1927	1928	1929	1930	June, 1931	Per Cent Change 1929 to 1930	Per Cent Change 1930 to June, 1931
Great Britain...	1924	100.0	97.5	75.3	108.1	102.5	110.6	98.7	80.5 ¹	-10.76	-18.44
Germany.....	1928	69.0	83.2	78.9	100.1	100.0	101.8	83.6	74.3	-17.88	-11.12
France.....	1913	108.0	107.0	124.0	109.0	127.0	139.0	140.0	126.0	+ 0.72	-10.00
Russia.....	1928	29.9	48.1	67.8	82.7	100.0	123.4	140.5	*	+13.86	*
Sweden.....	Average 1923-1924	104.0	106.0	109.0	115.0	110.0	135.0	131.0	117.0	-2.96	-10.69
Poland.....	1928	..	72.5	71.1	88.5	100.0	99.8	82.5	71.7 ²	-17.33	-13.09
United States...	Average 1923-1925	95.0	104.0	108.0	106.0	111.0	119.0	97.0	86.0	-18.49	-11.34
Canada.....	Average 1919-1924	116.0	125.0	146.0	156.0	173.0	193.0	164.0	133.9	-15.03	-18.35
Japan.....	1928	..	..	..	94.1	100.0	113.7	100.7	103.5 ³	-11.43	+2.78

¹ Second quarter. ² Not available. ³ May.

Poland is primarily an agricultural country, but it has strong industries the growth of which has been fostered by high protective duties since the organization of the state in 1918. Sweden is among those smaller nations along the shores of the North and Baltic Seas which have not attempted to become economically self-sufficing but have concentrated their energy and skill on the production of a diversified line of high-quality products. Canada depends primarily on its agriculture and mining, but also has a number of well-developed manufacturing industries to which it gives shelter behind a steadily rising tariff wall. Japan is an

¹ With the exception of 1926, when Germany had a surplus of exports.

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industrial country, but its prosperity still depends to a large extent on the rice and cocoon crops and on the price of raw silk. Russia is an agricultural nation, rich in many raw materials, which is forcing the development of a gigantic industrial system under complete governmental control of production and of domestic and foreign trade.

TABLE 5: WORLD PRODUCTION OF PIG IRON AND CRUDE STEEL, 1913, 1924 TO 1930

In thousand metric tons

Pig Iron

Country	1913	1924	1925	1926	1927	1928	1929	1930	Per Cent Change, 1929 to 1930
Germany.....	19,312	7,833	10,089	9,636	13,089	11,804	13,401	9,695	-27.65
Great Britain..	10,425	7,425	6,362	2,498	7,410	6,716	7,711	6,296	-18.35
France.....	5,207	7,693	8,505	9,430	9,299	9,981	10,364	10,112	-2.43
Belgium.....	2,485	2,844	2,543	3,368	3,709	3,857	4,096	3,371	-17.70
Russia.....	4,624	670	1,309	2,218	2,954	3,281	4,322	4,992	+15.50
Czechoslovakia	..	983	1,166	1,088	1,260	1,569	1,644	1,429	-13.08
Japan.....	240	586	685	810	895	1,093	1,520	1,500	-1.32
India.....	207	891	902	915	1,164	1,072	1,414	1,100	-22.21
Canada.....	1,031	629	606	828	779	1,100	1,189	834	-29.86
United States..	31,463	31,910	37,290	40,005	37,152	38,768	43,298	32,003	-26.09
World total...	79,200	68,400	77,300	79,300	87,000	88,700	98,760	79,597	-19.40

Crude Steel

Germany.....	18,484	9,703	12,051	12,226	16,123	14,318	16,246	11,539	-28.97
Great Britain..	7,787	8,333	7,504	3,654	9,243	8,656	10,137	7,704	-24.00
France.....	4,687	6,670	7,464	8,617	8,349	9,500	9,829	9,512	-3.23
Belgium.....	2,467	2,875	2,549	3,339	3,680	3,905	4,147	3,347	-19.29
Russia.....	4,917	1,000	1,873	2,911	3,588	4,158	4,907	5,690	+15.96
Czechoslovakia	..	1,350	1,476	1,344	1,692	1,994	2,259	1,833	-18.86
Japan.....	240	1,124	1,336	1,548	1,728	1,867	2,286	2,400	+4.99
India.....	63	341	456	530	583	416	585	500	-14.53
Canada.....	1,060	670	765	789	922	1,260	1,402	1,036	-26.11
United States..	31,803	38,541	46,122	49,068	45,656	52,371	57,939	42,753	-26.21
World total...	76,000	78,400	90,600	93,400	101,800	109,900	121,991	96,864	-20.60

With the exception of Russia, which shows an increase in the physical volume of production but whose statistics are difficult to check, all countries listed in the table show either a decrease in production in 1930 or, as in the case of France, a marked decline from the rate of increase that prevailed in the preceding years. The wealthiest nation in the world, the United States, has experienced the greatest contraction in activity. The smallest decline occurred in Sweden, while in

France production was practically the same in 1930 as in 1929. Notwithstanding the differences in their geographic location, tariff policies, industrial characteristics, financial strength, and volume and importance of domestic and foreign trade, none of these countries has been able to escape the effects of the business depression. As measured in terms of physical quantities, Russia did escape these consequences, but, if measured in terms of human values and suffering, the loss in Russia is perhaps much greater.

In the first half of 1931, France and Sweden showed a marked decline in production from the level prevailing in 1930. No statistics are available for Russia, but there has been a slowing down of the tempo of industrial development owing largely to the failure of the coal and metallurgical industries to meet the schedules of the Five Year Plan. During the first six months of 1931 the output of coal and pig-iron and steel was actually lower than in the corresponding period a year ago.

A more concrete example of the decline in the physical volume of production is given in Table 5, which shows the world output of pig iron and crude steel. In 1930 the world production of pig iron was 19,163,000 tons lower than in 1929. This reduction is equivalent to a complete shut down of all blast furnaces in Great Britain and France, assuming that their 1929 output was near capacity. The world output of crude steel in 1930 was 25,127,000 tons lower than in 1929. This decline is greater than the total 1929 output of Great Britain, France, and Belgium. Since the carrying charges of plant and equipment must be counted whether the machinery is running or standing idle, the loss to the industry was enormous. In estimating the loss to society, it is necessary to add the loss that results from the idle labor capacity and the demoralization caused by widespread unemployment.

THE SITUATION IN EUROPE

REGARDING the situation in Europe, it should be noted at the outset that in most countries the present business depression is not a new development but rather the intensification of a state of affairs that has existed for a number of years. Great Britain, Germany, Italy, and the Balkan and Central European states, for example, cannot single out any year since the short-lived post-war boom and point to it as a year of great business activity and prosperity. In general, the countries that did not take part in the World War—the Netherlands, Sweden, Denmark, Norway, and Switzerland—have been able to resist longer the full effects of the depression than the former belligerents. The latter have inherited from the World War large internal and external debts, depreciated currencies, unbalanced budgets, and in some cases greatly reduced territories.

The effect of the World War on the economic, social, and political structure of Europe was profound and far-reaching. The splitting up of the Danube Monarchy into six states, the withdrawal of Russia behind the communist wall, the separation of Alsace and Lorraine from Germany, the formation of the Polish Corridor, and similar structural rearrangements have necessitated a drastic readjustment in the economic life of the Continent. New economic areas had to be knit together; new channels of trade had to be developed; new commercial and political treaties had to be negotiated. The recovery was made more difficult by the spirit of rampant nationalism that broke out in many countries and by the political difficulties arising from boundary disputes, treatment of national minorities, and political debts. Furthermore, social and political unrest in many countries, particularly in the newly created states and more recently in Germany and Great Britain, limited the scope of domestic business initiative and disturbed profoundly the international flow of capital.

Industry and trade cannot prosper in an atmosphere of suspicion and political uncertainty, whether caused by internal or external forces; and, before many European countries can enter on the road of complete economic recovery, they must first find a satisfactory solution of their domestic and external political problems. Europe stands separated from the rest of the world by the shadow of the World War, and for that reason the task of economic reconstruction is more difficult and complicated in Europe than elsewhere.

EFFECT OF ECONOMIC FORCES

Overproduction of commodities has affected most seriously those countries which depend primarily on agriculture and other primary industries. The decline in prices of foodstuffs and raw materials has exerted a heavy pressure on the balance of payments of these countries, making it necessary for them to give a larger quantity of their products in exchange for imports of finished manufactures, since the prices of the latter have declined on the whole less in proportion. The unsatisfactory position of agriculture, however, has been a decidedly disturbing influence in many highly industrialized countries, leading to governmental support of agriculture in the form of higher tariff duties, direct subsidies, or other forms of assistance, which have in turn tended to increase the difficulties of the manufacturing industries by increasing the cost of living within those countries and decreasing the ability and willingness of the agricultural nations to buy foreign manufactures.

Reduced markets for finished manufactures have affected with particular severity Great Britain, Italy, Czechoslovakia, Austria, Belgium, Germany, and France because of the importance of their textile or iron and steel manufacturing, and greatly curtailed markets for the products of these industries. The Netherlands, Great Britain, and Belgium have suffered from overproduction and low prices of colonial goods. Overproduction of wood and wood pulp, and lower prices for iron ore are the main unfavorable influences in Sweden. In Switzerland, the important dairy industry finds it difficult to market its products, while the watch-making trades have

suffered severely through the increase in tariff duties in the United States.

Russia exports primarily raw materials and foodstuffs and imports finished manufactures, industrial and farm equipment, and certain raw materials not produced at home. The world decline of prices has exerted a particularly heavy strain on the Russian balance of international payments, owing to the inability of Russia to secure long-term foreign loans.

Poland, Rumania, Jugoslavia, Hungary, and Bulgaria are predominately agricultural countries. Agricultural depression is felt by them with particular force, and has led them to demand preferential tariff treatment of their exports on the part of European industrial nations that supply them with finished manufactures. Jugoslavia and Rumania have drawn closer together economically, and conversations are being carried on with the other agrarian nations in order to present a united front in tariff negotiations with the industrial countries.

The advantage that the countries importing agricultural commodities and raw materials would ordinarily receive through lower prices of these commodities has been largely offset by the lower purchasing power and diminished markets resulting from overproduction in practically all primary industries and the rapidity and severity of the decline of prices, which has produced serious economic crises in many parts of the world. Some of the European countries are feeling the effects of the world business depression largely through decreased foreign markets for their commodities. In France, Belgium, and Denmark, for example, the domestic markets have been fairly strong, but exports to foreign countries have diminished greatly. Special factors in the European situation have been the collapse of the Far-Eastern markets and the boycott of foreign goods by India. Great Britain, Italy, and Germany have been especially affected by these developments. Great Britain, furthermore, has suffered severely through the collapse of the purchasing power of Australia, which was the second most important market for Great Britain.

From the social point of view the effects of the depression are more keenly felt in the industrial than in the agrarian

countries. The latter do not have to cope with a serious problem of unemployment, since the larger part of their population lives on small farms owned and tilled by the peasants who usually produce enough to feed their families and who are not likely to lose their jobs. In the industrial countries, on the other hand, unemployment is a most potent and most dangerous contributory force in the depression. In terms of purchasing power and unused labor capacity, it represents an enormous loss to national economy; in terms of expenditures on unemployment insurance and other relief to unemployed workers, it is a great burden on state budgets; in terms of political influence, it represents an unsettling and uncertain force. Expenditures on unemployment insurance and other social welfare activities have been to a large extent responsible for the fiscal difficulties of Great Britain, Germany, and Austria. The burden of taxation and social charges has impeded industrial and trade development by preventing the lowering of production costs required by the falling prices. In Great Britain, the economic effects of trade unionism deserve particular attention. Through the rigidity of its trade union system, the effect of which has been to prevent any reduction in wage rates, British industry has to a large extent lost its former elasticity. The excessive immobility of skilled labor prevents an easy transfer of labor from industry to industry, while the political power of labor organizations enables them to prevent the adjustment of nominal wages to the decline in the cost of living. More recently, both Germany and Great Britain have taken drastic steps to reduce governmental expenditures on unemployment insurance.

The financial crisis which broke out in Europe, starting in Austria and spreading to Hungary, Germany, Great Britain, and a number of other countries, although in each instance due to a different set of causes, indicates that the work of financial reconstruction has not yet been completed. It was thought, after all the European countries with the exception of the Soviet Union and Spain had effectively stabilized their currencies on a gold basis, that the financial problems of Europe would be solved. This, however, was not the case. In many countries the supply of credit remained inadequate,

and interest rates, very high. Domestic capital accumulation was very slow, while foreign capital support was limited by political uncertainties. The abundance of funds in France stood in sharp contrast with the extreme credit stringency in Germany. Equally marked differences in credit conditions were found by crossing the frontiers that separate France from Italy, Italy from the Balkan states, Germany from Poland, and Poland from Russia. Interest rates for thirty to ninety day loans were three times as high in Berlin as in London, Paris, Zurich, and Amsterdam, at the end of 1930, and they were much higher in the Balkan states than in Germany. In other words, in certain countries the supply of credit was so great that interest rates reached the lowest level in modern history, while in other countries the development of sound and profitable business enterprise was impeded by credit stringency.

That this situation represents a most difficult obstacle to international economic recovery is recognized by all authorities. These authorities, however, are not in agreement concerning the causes of this uneven distribution of capital and credit among the nations of the whole world. It is frequently ascribed to the hoarding of gold by the United States and France. The question of gold and its distribution is discussed in a separate section,¹ but it may be pertinent to point out here that the movement of international credit is not determined by the supply of gold within a country which requires foreign capital support, but by its economic strength and wealth, and above all by the degree of confidence which foreign investors have in its political stability. The reluctance of the United States and France, that is to say, of American and French investors, to lend money abroad was due primarily to the fact that they felt that investment in foreign securities was too hazardous because of unfavorable economic and political conditions. The large withdrawal of foreign funds and the flight of domestic capital from Germany and Great Britain in the summer of 1931 were caused to a large extent by the unsatisfactory development of domestic political affairs.

Other peculiarly disturbing factors in the financial situa-

¹ See pp. 42-48.

tion are the internal and external indebtedness and the heavy taxation of business in many European countries. Great Britain and Italy inherited from the World War enormous internal debts without any special addition to their productive powers that would increase the ability of industry and trade to support the added burden of taxation. The burden of Great Britain was particularly great, since the British Government refused to follow the example of the other European countries which greatly reduced their internal indebtedness by the process of currency depreciation. It is not yet certain whether the suspension of gold payments by the Bank of England on September 21, 1931, means that Great Britain will resort to currency devaluation as one of the methods of solving its financial difficulties.

Germany, after wiping out its internal debt by the process of currency inflation, has increased its domestic debt by new borrowing, and its external indebtedness is very heavy. Budgetary deficits and political upheavals in Germany led to the withdrawal of foreign funds from Germany and the flight from the mark in the summer of 1931, which threatened the collapse of the German financial structure. The crisis revealed the extreme dependence of Germany's financial system on the confidence of foreign investors. The collapse was avoided by the suspension of reparation payments for a year and by the consent of Germany's private creditors not to withdraw their short-term credits for a period of six months, subject to the extension of the Central Bank credit for a similar length of time.

The trend of affairs after this period of grace cannot be foreseen. It will depend on the political and economic situation in Germany and the rest of Europe. A special factor is the uncertainty concerning the external debt of Germany. The payment of reparations has been one of the principal subjects of economic and political controversy in Europe. The foreign investor is not likely to regard Germany as a safe field for investing his funds, as long as the foreign debt of Germany remains so large that it involves either further borrowing to pay interest and amortization charges, or else such a reduction in imports and maintenance of exports as to involve impoverishment of the German people and excessive

competition in foreign markets. The intimate, although unofficial, connection between reparations and intergovernmental debts affects the interests of the United States. Furthermore, the need to pay reparations affects the ability of Germany to pay its obligations on account of its private loans secured largely from the citizens of the United States. The political consequences of a possible German economic breakdown represent the real danger in the situation.

In Great Britain and Germany, which have for a number of years been governed by political parties based on socialistic principles, industry and trade had to meet extraordinary demands for governmental expenditure on account of social services. As already mentioned, unexpected increase in the cost of unemployment insurance, as a result of the business depression, has caused a heavy drain on the public treasury which has made the attainment of a budgetary equilibrium an exceedingly difficult task. In Italy, large expenditures on various construction programs designed to relieve unemployment have increased the public debt at a time when financial stringency counseled strict economy and retrenchment.

The stabilization of the pound sterling at the pre-war level of exchange, combined with a number of unfavorable non-monetary factors, created special difficulties for the British industry and trade. The increase in the purchasing power of money, accompanied by the policy of deflation practiced by the Bank of England until the end of 1929—when the demand for credit declined owing to the world business depression, and interest rates were reduced—made the position of the British exporter exceedingly difficult in competition with the countries with inflated currencies, lower production costs, and lower standards of living. The policy of high taxation tended to increase the exchange difficulties of Great Britain as it stimulated the investment of British funds abroad. The lack of resiliency in the level of wages—their failure to adjust themselves to the decline in the gold price level, owing to the opposition of the trade unions to reductions in wage rates and their ability to make that opposition effective through political influence, is generally recognized as an important unfavorable effect of the return of the pound sterling to the

pre-war par of exchange. Similar difficulties have been experienced by Italian industry in trade through the stabilization of the lira at an artificially high level, although Italy did not have to cope with a rigid wage level. The rigorous restriction of credit, practiced by the Bank of Italy from 1925 to 1929, kept the cost of money at a higher level in Italy than in the competing countries and handicapped the sale of Italian goods and services abroad.

Soviet Russia presents a special case. The complete financial isolation of Russia leaves the rest of the world unaffected by changes in the condition of Russian public finance. Since the ruble is not accepted in international markets and since foreign funds are not invested in Russian enterprises, the soundness of Russian finance may be a matter of theoretical interest but is of little practical effect on the outside world except in so far as it may affect the progress of the Soviet economic system. That the Soviet economy is being stimulated by inflation is clear from the figures of paper currency in circulation, wholesale prices, and state loans. Lack of capital at home and the impossibility of borrowing abroad are among the main obstacles to the Soviet economic program. The foreign debt of Soviet Russia has been a definite factor in world economy, since the failure of the Soviet Government to come to an agreement with the foreign holders of Russian pre-war obligations has played an important part in preventing the establishment of normal relations between Russia and other countries.

In Poland, Rumania, Jugoslavia, Hungary, and other predominantly agrarian countries the governments have found it difficult to balance their budgets owing to declining revenues and the difficulty of keeping down expenditures. Like Germany and Great Britain, however, most of these countries are making a determined effort to balance their budgets by introducing economies in their expenditures. On the whole, the principle that the governments must live within their incomes is gaining general recognition, and the financial crisis which swept over Europe in the summer of 1931 seems to have awakened the people to a realization of the danger of spending public funds on what is desirable without regard to what is possible.

In the field of international debt payments, economic rather than political considerations appear to be gaining recognition. It is coming to be realized more and more that the creditor countries would gain nothing by exacting excessive payments from the debtor nations, since payment involves not only the ability to pay but also the will to pay and the willingness to receive payment in the form of imports of goods and services. An important aspect of the problem of interallied debt and reparation payments is that international payments are heavily in favor of the United States. Europe is obliged to transfer to the United States large sums on account of governmental and private obligations, while in addition the United States has a net income from Europe on account of merchandise trade. There is little doubt that the suddenness of this development and the need for adjusting Europe's economic life to the new conditions have been to some extent responsible for the slow revival of industrial and commercial activity.

EFFECT OF POLITICAL FORCES

It is exceedingly difficult to trace the cause-and-effect of the relationship between economic conditions and political action. Under the parliamentary system of government political action takes place in response to the demands of the party or group of parties representing a majority of the people. The aim of each party is to secure the maximum welfare of that part of the population which it represents. In this sense economic conditions are the cause of political action. However, the economic policies of governments—in regard to tariffs, commercial treaties, taxation, social legislation, monopolies, and regulation of industry and trade—are capable of exercising so dominant an influence on the economic development of a country that they may be considered as the cause and not the effect of prevailing economic conditions. Ill-considered or unintelligent governmental economic policies are as dangerous to normal business conduct and to individual business enterprises as is inefficient or unintelligent management. In discussing the effect of political forces on the development of business, the attempt

is made here not to determine this cause-and-effect relationship but rather to indicate the economic consequences of certain political developments and of governmental interference with the conduct of private business.

It is generally recognized that in Great Britain the indecision and the uncertainty of domestic politics have been a handicap to industrial and trade recovery. Since the World War, Great Britain has lost the traditional two-party system of government and in recent years British governments have functioned not through parliamentary majorities but through sufferance by one or both of the other two political parties. There is no doubt that British industry and trade have suffered by the clogging of the parliamentary machinery. The heavy burden of taxation, due largely to various governmental measures for social relief in line with the socialistic theory of government, the tariff uncertainty, and the lack of decision in regard to important measures of industrial reorganization have tended to make the task of post-war economic reconstruction more difficult. The economic policy of the Labor Party appears to have been to assure to the British industrial workers a higher standard of living than that which existed in the competing countries or which was warranted by the economic strength of Great Britain. The economic consequence of this policy, it is pointed out, has been to prevent the necessary reduction in British costs of production, thus impairing the competitive ability of British industries in international markets, as well as in the internal market of Great Britain. Furthermore, in the summer of 1931, unfavorable political developments leading to the downfall of the Labor Government and the organization of the Coalition Cabinet, which the Labor Party refused to support, tended to undermine the confidence of both British nationals and foreign countries in the soundness of the British economic system and led to the withdrawal of funds from London. The large credits that the Bank of England obtained in New York and Paris were not sufficient to stem the tide, and the Bank found it necessary to suspend gold payments.

The effect of political action in Germany was reflected in unsound public finance, high taxation, and heavy social charges. As in Great Britain, the control of the government since the

World War has been largely in the hands of the socialist parties. Their policy has been to increase wages and to protect the worker against industrial hazards, unemployment, sickness, old age, and death without much concern as to whether the economic strength of the country and the productivity of its labor were adequate to bear the cost of these activities which had to be met from taxation. The full weight of this policy has fallen upon German industry and trade. There appears to be a large element of truth in the contention of German industrial leaders that most of the fruits of industrial rationalization, of the great improvements in the efficiency of production and distribution, accomplished by German industry since the stabilization of the currency, went either to labor in higher wages and social expenditures or to the government in higher taxes, with the result that costs of production remained high and the ability of German industries to compete in foreign markets failed to improve. The German Government is able to rule without a majority in the Reichstag because certain political groups, not belonging to the government coalition, do not find it convenient to assume the responsibility for overthrowing the régime that is attempting to balance the budget by means of strict economy. Behind domestic political difficulties looms the question of reparations as a political and moral issue of first magnitude. In addition, Germany has inherited from the World War a number of external political difficulties. The Polish Corridor, Upper Silesia, and the question of disarmament, in particular, prevent the establishment of completely normal relations between Germany and certain other countries. The great dependence of Germany's financial system on the confidence of foreign investors, which was fully revealed during the crisis in the summer of 1931, makes the maintenance of orderly political conditions at home and satisfactory relations with foreign countries indispensable.

In Russia no precise line of division can be drawn between political and economic action, since the government has an almost complete monopoly of industry and trade. There is no need here to discuss the ultimate effect of this system and its chances of success or failure. Regardless of the theoretical soundness or unsoundness of the communist dogmas,

it is an indisputable fact that the revolutionary manner in which these dogmas have been put into practice has subjected the people of Russia to a tremendous economic and moral strain, while the mere existence of severe press censorship and absolute prohibition of the right to advocate or expound doctrines opposite to the communist faith point unmistakably to the presence of political oppression. Political action has placed Russia in a state of isolation. It has built between Russia and the rest of the world a barrier of suspicion and fear which represents a handicap to normal business relations and international peace.

Internal or external political difficulties of Poland, Rumania, Jugoslavia, Hungary, Bulgaria, Czechoslovakia, Austria, and Italy are due to the failure of parliamentary government to function smoothly or to the dissatisfaction of some of the states with the outcome of the World War, their excessive losses or inadequate gains. The failure of parliamentary institutions is ascribed by some to inefficiency, corruption, and quarrels of politicians and by others to the pressure brought to bear upon the various parliaments by unconstitutional powers. This problem is outside of the scope of this study. It is sufficient to indicate that political difficulties in this part of Europe have been an important factor in world business depression. Contiguous territories, economically dependent on each other, stand separated by political dissensions. In addition to creating domestic political troubles these political dissensions have handicapped business development, particularly in respect to assistance from foreign capital lenders.

While improvement has taken place in the political life of Europe since the end of the World War through the organization of the League of Nations, the conclusion of the Locarno Treaties, and the signing of the Pact of Paris, there remain many unsolved problems that represent a threat to international peace. Regardless of the merits or justice of the various claims, attention should be called to the existence of two opposing groups of powers which have not yet found a means of adjusting their differences on a satisfactory basis. On the one side stand France and its allies, Poland, Jugoslavia, Czechoslovakia, and Rumania; on the other are

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Germany, Hungary, Bulgaria, Austria, and Italy. The former are satisfied with the European status quo and are fully armed to defend it. The latter demand a rectification of the present frontiers of Europe, but with the exception of Italy their armies have been reduced to the status of a police force. In the background looms the shadow of Russia. The importance of friendly co-operation among the nations of Europe, particularly between Germany and France, was dramatically revealed in the summer of 1931. As the strongest political and financial power in Europe, France has a great responsibility for the promotion of such co-operation.

A dangerous element in this situation is that in many countries foreign policies are used as a device for diverting the attention of the people from domestic political troubles. Where through strict censorship of the press all discussion of domestic difficulties is prohibited, criticism of foreign countries is allowed and functions as a safety valve against domestic explosions.

THE SITUATION IN AMERICA OUTSIDE THE UNITED STATES

THE striking difference between the situation in Europe and in other parts of the world is the absence of external political difficulties outside Europe. The World War has not produced any changes in the political frontiers of non-European countries, except in colonial dependencies, and has left no heritage of hatred, suspicion, and fear. The economic difficulties outside Europe, therefore, although serious, are less complicated, and business depression may be traced to more tangible economic forces or to internal political factors.

With the exception of the United States, all American countries are dependent for their prosperity mainly on the products of primary industries, and all of them find themselves in the class of debtor nations. They have, therefore, felt with particular severity the effects of the world decline of prices. They have seen a decline in their ability to pay and an increase in the burden of debts contracted abroad. The pressure on their balance of international payments became very great. Inability to borrow abroad and the decline in the value of their exports led to large exports of gold and in some countries resulted in suspension of payments on foreign debts, accompanied by fluctuations in the value of the exchanges which tended further to disturb the normal flow of trade. Economic difficulties gave rise to, and were intensified by, political disturbances leading to revolutionary changes in the governments of many countries.

Canada stands out as an exception to this general rule. Canada has not indulged in excessive borrowing and has no special financial difficulties. The soundness of the financial structure and the absence of political difficulties account for the relatively favorable economic situation of the country. Canada, however, has been unfavorably affected by the decline in the prices of foodstuffs and raw materials, and by

poor harvests in 1929 and 1931. Although Canada has well-developed manufacturing industries, the purchasing power of the country is provided mainly by the population that is engaged in agricultural pursuits.

Cuba depends on one crop, sugar, as a main source of national income. Overproduction and tariff obstacles to sugar exports, particularly the tariff increase on sugar entering the United States, have made the position of the Cuban sugar industry well-nigh intolerable. The business depression has given rise to considerable political unrest which has developed into open, although short-lived, rebellion against the existing régime.

Mexico has for many years been in the throes of an economic-social revolution which has turned the country into a political battlefield and has brought it into frequent diplomatic conflict with foreign countries, particularly with the United States. In recent times, the political controversies have tended to subside, making possible a gradual reconstruction of the country's economic life. The present business depression is due partly to overproduction and decreased exports of silver, lead, and copper, partly to unsatisfactory financial conditions, and partly to the accumulative effect of past revolutions, which have impaired the credit standing of the country and deprived it of foreign capital support. Owing to an unfavorable balance of payments and loss of gold reserves, the Mexican Government decided on July 26, 1931, to demonetize gold. What the effect of this measure will be cannot yet be foreseen.

In Argentina the business depression is due mainly to world-wide overproduction and low prices of its principal export commodities—wheat, wool, corn, and cattle hides. The pressure exerted on the balance of payments led to currency depreciation and to large exports of gold. This was followed by the suspension of gold shipments which tended to intensify the business difficulties of the country. Dissatisfaction with the governmental policies resulted in active rebellion and overthrow of the régime in September, 1930. Since that time considerable constructive work has been accomplished, and the outlook is more promising. In the first seven months of 1931, Argentina had a surplus of com-

modity exports and was actually able to increase the volume of grain and linseed shipments to foreign countries.

Brazil depends on coffee as much as Cuba does on sugar, but unlike Cuba it has not had to cope with increased tariffs in its important markets. The volume of coffee exports has been well maintained, but overproduction has greatly lowered the price of coffee and, therefore, the value of exports. The Brazilian Government has attempted to stabilize the price of coffee without restricting production, with the result that acreage under production has been greatly increased and enormous stocks have accumulated. The cost of the various stabilization schemes has been met largely by borrowing abroad and is reflected in the heavy public debt of the country. The pressure on the balance of payments led to exports of gold which almost completely exhausted the gold reserve of Brazil. In October, 1930, conversion of notes and withdrawals of gold were suspended, and in November the Caixa de Estabilisaçao was closed. Unsatisfactory financial position of the government and depreciation of the exchange led in 1931 to an agreement between Brazil and its foreign creditors, permitting the postponement of sinking fund payments on a large part of the foreign debt. This is expected to ease the exchange rates and facilitate the transfer of interest payments. Furthermore, the Provisional Government is introducing a series of reforms in line with the recommendations of Sir Otto Niemeyer, who was invited at the beginning of 1931 to lend his counsel for the reorganization of Brazilian finance.

Chile has suffered from overproduction of copper and from the decline in world demand for Chilean nitrates, owing to the competition of synthetic nitrogen producers. Depression in these two principal industries has affected the entire economic life of the country. The agreement between the Chilean nitrate industry and European producers of synthetic nitrogen, concluded in 1930, was not renewed in 1931. Unsatisfactory economic conditions led to the overthrow of the government in July, 1931. Inability to meet interest and amortization payments on foreign debts made it necessary for the government to declare a moratorium on its foreign debt until the end of 1931.

30 FORCES IN WORLD BUSINESS DEPRESSION

In Colombia the business depression has been brought about largely by the extravagant manner in which the various governments attempted to stimulate industry and trade through the use of public funds. Overborrowing and inflation have produced a serious situation. The credit standing of the government has been impaired, and a painful process of deflation is restricting business activity. In September, 1931, the President of the Republic was given virtually dictatorial financial powers to combat the business depression. On September 24, the President prohibited gold exports from the country. In comparison with most other South American countries, the economic position of Colombia is better, and its government does not contemplate asking for a moratorium on its foreign debt.

In general, the standard of living in the American countries south of the United States is relatively low. Revolutionary outbreaks and governments by military juntas characterize the public life of these countries. In Peru, Ecuador, Nicaragua, Honduras, Bolivia, Guatemala, Panama, and Santo Domingo, in addition to Argentina, Brazil, Chile, and Cuba, military power is still the controlling factor in political life.

THE FAR EAST

NO greater contrast in economic and political conditions between two neighboring countries can be found, than in the case of China and Japan. The latter is a world power of first magnitude, with a stable government, well-developed industries, and a modern credit and financial structure. The former stands separated from the rest of the world by the extreme instability of political life, which has so far prevented the establishment of a national state and has made orderly economic life impossible.

Political disorganization, reflected in continual internecine warfare has reduced to a minimum the safety of life and property in the interior of China. Prospects of improvement in the internal conditions, which appeared to be brighter early in 1931 than a year ago, have vanished. The news that comes out of China consists of little except reports of civil war, banditry, and communism, and most recently the threat of war with Japan. The low standard of living of the Chinese people, due to lack of purchasing power as a result of the lack of earning possibilities, cannot be permanently improved until China finds a way of introducing order in its internal politics. This is essential for the development of Chinese national resources, the building of transportation and communication facilities, and the importation of capital from abroad, which will be required for the stabilization of Chinese finances and for the development of its national wealth.

The current business depression has been intensified by the great decline in the price of silver, on which the Chinese monetary standard is based. This decline has decreased the purchasing power of Chinese money, increased the burden of fixed obligations payable abroad, and decreased the ability of China to buy foreign goods. Another factor of major importance is the low price of raw silk, which China exports in large quantities. In the long run, however, these are minor difficulties. Political stabilization is the all-important task

facing the people of China. The appearance of communism as a factor in the political life since the World War is particularly disturbing. In their internecine struggles the war lords of China are careful not to destroy industry and trade, which provide them with funds, while the object of communism is to disorganize the entire economic system as a means to a revolution.

During the past decade, China has been definitely brought into intimate economic contact with the outside world. Its business suffers from unfavorable world economic conditions, and all countries trading with China feel the effect of its domestic economic and political difficulties. China's exports consist of a large variety of products—eggs, millet, tea, soy beans, bean cake, cigarettes, raw cotton, raw silk, cotton yarn, coal, wood oil—and are easily affected by changes in economic conditions in the importing countries. On the other hand, China buys from foreign countries mainly manufactured commodities, the purchase of which is drastically reduced in periods of depression.

The importance of the Chinese situation as one of the causes of the world business depression seems to be greatly exaggerated. From 1921 to 1929, the value of Chinese purchases of foreign commodities fluctuated between \$713 million and \$869 million per year. The highest figure was reached in 1926, and the lowest, in 1927. The value of imports rose to \$859 million in 1928 and declined to \$820 million in 1929. Drastic curtailment of Chinese imports did not occur until 1930, when the world business depression was already well under way. Thus, while it is proper to say that the decline in the price of silver, through its effect on the purchasing power of the Chinese people, is a contributing force in the world business depression, it is not correct to regard it as one of the major forces that have brought about the world decline in industrial and trade activity. Similarly, when the difficulties of the British cotton industry are attributed in part to the situation in China, it should be understood that they are not due entirely to political disturbances and the price of silver, but to a large extent to the fact that since 1914 China has been forced to increase its own production of cotton goods and also to the competition of the Japanese cotton industry.

The economic difficulties of Japan are due principally to the deflation policy of the government and overproduction of important commodities. In 1920-1921, when the principal countries of the world passed through a painful period of deflation, Japanese industry and trade continued, with the support of the banks, to maintain a high rate of activity. Speculation developed on a large scale, and unprofitable business resulted in losses that made it necessary for the banks to extend further support in order to protect the loans already granted. The earthquake of 1923 was a serious shock to the national economy, but it did not produce a sobering effect. This state of things may be accounted for by the external loan, floated immediately after the earthquake, and the gold embargo, which created false prosperity at home in spite of the marked fall of exchange abroad. When in 1927, preparatory to the removal of the embargo, the government allowed some exports of gold from the country, the exchange rate of the yen recovered immediately and was brought back very near to parity. As a result, a chaotic condition prevailed in the financial circles causing runs on banks and resulting in the failure of some of the country's principal institutions. The government had to resign in connection with the "earthquake bills," and the removal of the gold embargo was abandoned for the time being.

After 1927 Japan entered a period of drastic financial retrenchment preparatory to the removal of the gold embargo. The return to the gold standard in January, 1930, resulted in a large flow of gold out of the country, causing a marked reduction in the volume of currency in circulation and a sharp decline in prices. The world decline in the prices of raw silk, rice, copper, and textile products reduced greatly the value of Japanese exports and the purchasing power of the people. The effects of the removal of the gold embargo were aggravated by the unexpected and precipitous decline of prices throughout the world in 1930. The return to the gold standard, however, was regarded as a necessary measure. It has removed the feeling of uncertainty. Japan is now passing through a period of adjustment. Its duration will depend to a large extent on the recovery in foreign demand for Japanese goods, particularly on the part of the United States and China, which are Japan's principal customers.

INDIA

NEXT to China, India represents the largest potential market for the surplus production of the western world. The question is how to develop the buying power of its 320 million people. The problem of India is the problem of eliminating differences of religion and caste, of developing a common language, and of eradicating illiteracy, ignorance, and superstition, in order to stimulate economic productivity and raise the standard of living of the people.

As a factor in world business depression, India has contributed particularly to the difficulties of Great Britain, Italy, and Japan, through its boycott of foreign textile products; to the difficulties of the United States through its great production of raw cotton; and to the difficulties of China through its demonetization of silver.

One of the constructive developments in 1930 was the Provisional Agreement concluded between Viceroy Lord Irwin and Mahatma Gandhi, under which the civil disobedience campaign of the Indian Nationalists was discontinued. The arrival of Mahatma Gandhi at London in September, 1931, to attend the Round Table Conference on India was in itself a favorable sign, and it is hoped that the conference will reach a definite and mutually satisfactory agreement concerning the status of India in the British Commonwealth of Nations.

AUSTRALIA

THE economic difficulties of Australia are due mainly to activities of politicians. For a number of years the Australian State indulged in an orgy of foreign borrowing, until the burden of interest payments became exceedingly large in proportion to national income, and additional foreign loans could no longer be secured on reasonable terms. The country now faces a period of financial deflation, the effects of which will be economically painful, but politically they may prove beneficial, to the extent that they will make the people aware of the danger of placing too great reliance on the power of the state to create national wealth by means of borrowed funds.

From 1903 to 1912 the various governments of Australia borrowed abroad at the rate of about \$15 million per year. The debt was incurred at a low rate of interest, and in 1913, owing to the growth of population, the net per capita debt was slightly less than in 1901. From 1913 to 1929 the rate increased to about \$100 million per year and was accelerated to about \$150 million per year from 1924 to 1928. The money so borrowed provided employment for between 100,000 and 150,000 workers on public works. The expenditure of borrowed money, however, did not result in a commensurate increase in production, and therefore it had an inflationary effect and led to high internal costs. Tariff duties were increased to stem the flow of imports. The combined effect was a great increase in the internal level of prices. By 1928 there were large areas of irrigated land, developed with money borrowed abroad, which were not occupied, because high production costs made it impossible to grow a crop that could be exported at a profit.

When the world-wide decline in prices began in 1929, the decline in the value of Australian exports, particularly wheat, flour, and wool, brought about a heavy pressure on the balance of international payments, forced down the exchange value of the Australian pound, and resulted in large ex-

ports of gold. Australian balances in London became depleted. Since no further loans could be obtained abroad and prices of imports declined rapidly, there was a marked shrinkage in customs revenue. To remedy the situation higher import duties were imposed, and some imports were entirely prohibited. The effect of these measures was further to decrease customs revenue, which the Treasury was unable to make up because there was a decline in the other items of revenue.

The banks found it necessary to adopt a system of rationing exchange and to give the Commonwealth and state governments first call on their foreign exchange holdings in order to enable them to meet their obligations in London. Australian credit abroad was further undermined by the action of Premier Lang of New South Wales, in refusing to meet current interest payments to British holders of New South Wales bonds, and by the unsound proposals for the abandonment of the gold standard and introduction of fiduciary currency. The position of the Commonwealth Government became exceedingly serious in April, 1931, when the Commonwealth Bank announced that it would give no further financial accommodation to the government.

Since that time, however, Australia has taken drastic steps to restore finances to a sound basis and to re-establish the credit of the country. Holders of commonwealth and state loans held in Australia have accepted a decrease of 22.5% in interest return. These bonds amount to over \$2,500 million. Similarly, the people have agreed without opposition to marked reductions in salaries of government employees, war pensions, invalid and old age pensions, maternity allowances, and to increases in the burden of taxation. Industrial labor has agreed to accept reductions in wages, which have been maintained at an artificially high level by the Arbitration Courts. The Australian public seems to have awakened to its responsibilities as a nation and is supporting sound economic policies.

Although Australia is largely dependent for prosperity on primary industries, particularly agriculture, its various governments have followed the policy of protecting the domestic manufacturers to a degree that appears to have decreased

the contribution of the primary industries to national welfare more than the manufacturing industries have been able to add to it. A majority of the Australians live in urban communities, where the socialist vote is preponderant. A satisfactory solution of the conflict between the city and the country is a political and economic consideration of the utmost importance. The interference of politics with the conduct of business has been carried to greater lengths than in any other country, with the exception of Russia. The burden imposed upon Australian industry by social legislation is out of proportion to the economic strength of the country. The friction resulting from all these factors has played a part in the extremely unsatisfactory condition of the country's economic life. The future development of Australia will depend to a large extent on the wisdom and moderation of the political leaders.

THE SITUATION IN THE UNITED STATES

THE causes of business depression in the United States are economic to a greater extent than they are political. The attempt of the Federal Government to maintain the price of wheat, cotton, and other agricultural commodities did not play a part in bringing about the present depression, but it will make more complicated and difficult the attainment of a new market equilibrium.

The existence of a large quantity of wheat, withheld from the market, and the uncertainty as to when and at what price that wheat will again be offered in the market are not conducive to orderly trading. Furthermore, the whole market is thrown into confusion because private traders, as well as flour millers, exporters, and others, are placed in the position of competing with the Government of the United States. Their calculations must take into account the presence of a buyer who is not influenced by ordinary commercial considerations but rather by political necessities. Governmental or any other price-fixing can succeed only when price control is accompanied by a strict regulation of output. It is generally recognized that successful control of wheat production is practically an impossibility because of the very large number of individual wheat-growers involved.

Overproduction of commodities in the United States has affected both primary and manufacturing industries. Unlike other highly industrialized countries, as for example Great Britain and Germany, the United States is an important producer of agricultural products and raw materials. Raw silk, rubber, coffee, and sugar are the principal imports of the United States, the prices of which have greatly declined. This advantage, however, is largely offset by the unfavorable effects of overproduction and low prices of such American exports as wheat, cotton, copper, and petroleum. Furthermore, the business depression produced by the low prices of silk in Japan and China, coffee in Brazil, and sugar in Cuba

has greatly reduced the ability of these countries to purchase American goods.

The principal effect of the world-wide overproduction of agricultural products and raw materials on the economic situation in the United States is the decline in the purchasing power of a very important section of the consuming population. Not only are the farmers injured by low prices of their staples, but the railroads, the building industry, the manufacturers of farm implements and automobiles, and through them the iron and steel industry, are all seriously affected by an unfavorable agricultural situation. The correction of overproduction in this field is practically an impossible task, because of the existence of many sources of supply, of a multitude of producers who cannot be effectively organized, and of the effect of climatic conditions on the volume and quality of production. The more promising remedy, therefore, seems to lie in increasing the consumption of these products in those areas of the world where the standard of living is still very low.

Overproduction of industrial raw materials, the output of which is substantially controlled by a relatively small number of producers and is not affected by climatic influences, can be and is being controlled by a reduction in the rate of operations. This process, however, has accentuated the business depression through its effect on employment and profits.

The petroleum industry presents a special case, in that effective control of production must take into consideration the presence of political factors that have so far played an important rôle in making more difficult the adjustment of supply to demand.

In the field of manufacturing, it should be noted at the outset that one of its most important branches, the cotton textile industry, has for a number of years been in an exceedingly difficult situation and is only now beginning to show improvement. The leather and boot and shoe industries have also failed until recently to show any marked degree of improvement since the recovery from the deflation of 1920-1921. The pressure of unfavorable conditions in these industries, in addition to the unsatisfactory position of the

primary producers, finally resulted in a general slowing down of business in 1929, creating extensive unemployment and necessitating a new adjustment of the forces of production and consumption.

In the field of foreign trade, the United States has been doubly affected by the decline in prices of raw materials and of agricultural products. On the one hand, this decline reduced the value of exports, and, on the other hand, it resulted in lower purchases of American finished manufactures on the part of the countries that depend for their income largely on the production of primary industries. The decline of American exports, however, has been considerably smaller than that of imports, owing largely to the fact that prices of American exports have declined less than those of the commodities which the United States buys abroad.

A special factor in the American business situation, which has also affected many foreign countries, was the tremendous speculation in securities that led to the stock market crash in the fall of 1929. One effect of this speculation was to attract a disproportionately large volume of money into the New York security market and to increase interest rates. Internationally, the effect of high interest rates in the United States has been two fold. It reduced the flow of funds from the United States to foreign countries, and it attracted large amounts of funds from these countries, depriving their domestic industries of much needed credit. The closing of the American markets to foreign capital borrowers intensified the monetary and exchange difficulties of a number of foreign countries that needed American capital support in order to stabilize their budgets or balance their international payments.

The more favorable aspects of the situation in the United States, which are absent in most of the other countries, are the strength of the financial system and the absence of marked political difficulties. The stock market crash has left the credit structure of the country generally unimpaired, and, while an abundance of funds cannot by itself bring about a revival of industrial and commercial activity, it can greatly facilitate the recovery once the necessary adjustments are made between production and consumption.

The political situation in the United States, however, is not entirely free from all the difficulties found in other parts of the world. The almost equal division of powers between the two major political parties, with the balance of power held by a small number of national representatives who, while nominally belonging to one or the other major party, vote independently on important issues, has created a situation in the Congress of the United States which, while different in degree, is very similar in character to that prevailing in Great Britain. Without any intent of emphasizing or magnifying the dangers involved in this state of affairs, it seems necessary to point out that the business of the United States is by no means free from political influence. Many important economic issues will require congressional attention. Lack of attention to these issues will be only little less injurious than wrong-headed action. The impending deficit in the federal treasury, estimated at about \$1,500 million, the expenditure of hundreds of millions in the futile attempt to maintain the prices of agricultural commodities, the soldiers' bonus legislation, also involving an expenditure of hundreds of millions, the record peace-time budget passed by the last Congress, in the face of the business depression, are some political developments that deserve careful attention on the part of business men.

SCARCITY OF GOLD AS A CAUSE OF WORLD BUSINESS DEPRESSION

SOME authorities attribute the world-wide decline of prices not to overproduction or underconsumption of commodities but to inadequacy of the world's gold supply to meet the credit requirements of industry and trade. They point out that during the last few years the world output of gold has decreased by about 12%, as compared with that of the pre-war years, thus reducing the basis for expansion of monetary and credit facilities required by the growth of business.

If many ways of economizing gold had not been developed in post-war years, the effect of lower gold output undoubtedly would have been expressed in lower prices. Since the World War, however, gold supply has been concentrated largely as a reserve for currency and central bank credit. While before the War the central banks and governments had about 67% of the world's monetary gold stocks, over 90% of gold was so held in 1929. The effect of this development has been to decrease very materially the need of gold as a reserve for commercial bank credit and as a medium of exchange. The function of gold is being more and more confined to that of a standard of international payments. Gold coins have been almost entirely withdrawn from circulation. Furthermore, the post-war practice of many countries of maintaining their reserves not entirely in gold, but partly in foreign exchange based on gold, has tended to make a given quantity of gold go further as a basis for currency and credit than was the case before the World War. Finally, the substitution of payments by means of checks for payments in currency has been developed considerably since 1914 and promises to become an important means of gold economy in the future.

Aside from the question whether the inadequacy of the gold supply is responsible for the decline in the world price

levels, it is contended that the concentration of a very large part of the available gold supply in the United States and France is an important cause of the world business depression. Table 6 shows the gold reserves of central banks and governments of 40 countries in 1913 and 1920 to June, 1931. Out of a total monetary gold stock in 1913 of \$3,807 million, the seven creditor countries shown in the table held \$2,303 million. In June, 1931, the total monetary gold stock increased to \$10,997 million, and of this amount the creditor countries held \$8,223 million. More than one half of the latter amount was held by the United States, and another 27% by France. Up to 1928, the debtor countries were able to maintain or increase their gold reserves, but beginning in 1929 their supply of gold diminished rapidly. The loss of gold by the debtor countries may be generally ascribed to (1) excessive foreign borrowing in the years preceding 1929, which increased greatly their interest and amortization payments abroad on account of governmental and private debts; (2) the decline of prices, which decreased the value of their exports, which resulted in an adverse balance of payments; and (3) the cessation of foreign borrowings, which made it necessary for them to export gold in order to meet their foreign obligations.

Most of the gold lost by the debtor countries, as well as the gold newly mined, found its way to the United States and France. While the accumulation of gold in these two countries may have increased the monetary and credit difficulties of the countries in which the supply of gold is insufficient, it should be remembered that the movement of gold from a country is the result, and not the cause, of unfavorable economic conditions. The business depression in Argentina, Brazil, Australia, and Japan preceded and did not follow the export of gold on a large scale. So far as the principal countries of Europe are concerned—Great Britain, Belgium, Switzerland, the Netherlands, Sweden, Denmark, Czechoslovakia, and Austria—their holdings of gold in June, 1931, were as large, or larger than they were at the end of 1929, in spite of the absorption of gold by the United States and France. The great loss of gold by Germany was due to political rather than economic causes.

Portugal.....	8	9	9	9	9	9	9	9	9	9	9	9	9 ^a
Spain.....	92	474	485	487	488	489	489	493	502	494	495	470	468
America													
Canada.....	116	113	95	146	127	151	157	158	152	114	78	110	87
Argentina.....	256	474	472	472	466	444	450	450	529	607	434	412	350
Brazil.....	89	33	43	46	49	54	54	56	101	148	150	10	0
Chile.....	1 ¹	33	34	34	34	34	34	10	7	7	8	7	8 ^a
Colombia.....	..	..	..	..	5	9	14	18	20	24	22	17	10
Peru.....	2 ¹	21	21	21	21	21	21	22	23	21	21	18	16
Mexico.....	..	..	..	..	..	..	..	17	5	6	6	7	4 ^a
Uruguay.....	11	57	57	57	57	57	57	57	59	68	68	60	58
Asia													
India.....	124	116	118	118	109	109	109	109	119	124	128	128	151
Japan.....	65	556	611	605	602	586	576	562	542	541	542	412	425
Java.....	10	88	59	61	63	54	73	79	72	68	56	56	46
Australia.....	22	122	124	127	131	130	162	109	106	109	89	75	75
New Zealand.....	25	37	37	38	38	37	38	38	38	35	32	33	34
Africa													
Egypt.....	10	16	16	16	16	16	16	17	18	18	19	20	21
South Africa.....	34	50	49	52	52	53	43	37	40	39	36	32	31
Total.....	\$1,504	\$2,843	\$2,873	\$2,959	\$2,822	\$2,900	\$3,085	\$3,174	\$3,355	\$3,695	\$3,372	\$3,043	\$2,774
Grand total.....	\$3,807	\$7,220	\$8,014	\$8,377	\$8,573	\$8,864	\$8,859	\$9,100	\$9,446	\$9,908	\$10,138	\$10,649	\$10,997

¹ 1914.

^a May, 1931.

The difficulties of the Bank of England in maintaining an adequate supply of gold are frequently cited as an example of the inequitable working of the gold standard. In Great Britain there was a strong feeling of resentment against the policy of the Bank of France, to which the heavy withdrawals of gold from the London market were attributed. It seems, however, that the weakness of the pound sterling was due principally to British internal conditions. The reserve requirements of the Bank of England have been tremendously increased by the stabilization of the currency at the pre-war rate of exchange. All the paper money issued by the British Government during the World War, and outstanding since the date of stabilization, became convertible into gold, and the enormous national debt became payable in gold.

When the decision was made not to revise the gold parity of sterling, it was assumed that the world price level would remain relatively stable, and that there would be a recovery in British exports. These two expectations were not fulfilled. The unfavorable effect of the decline in prices on the exporting ability of Great Britain was intensified by the tendency of the wage level to remain rigid. The maintenance of wages at an artificially high level prevented a decrease in the cost of production, diminishing the competitive ability of British industries and making possible a large volume of imports. Furthermore, as a creditor nation with investments in all parts of the world, Great Britain was severely affected by the economic difficulties of the debtor countries. Several governments whose securities are owned by the British people have found it impossible in 1931 to meet their debt payments. But more serious than government defaults have been the reduction or passing of dividends, and reduction or elimination of profits of private enterprises in which British capital is invested in all parts of the world. It is estimated that through this source alone Great Britain will suffer a net loss of some \$250 million. Decreases in the net income from shipping, banking, insurance, and governmental debts will also materially affect the balance of international payments.

In addition to these unfavorable economic factors the development of domestic political affairs in the summer of

1931, was of such a character as to undermine the confidence of foreign investors and of British nationals in the political stability of the country. This led to large withdrawals of funds from the London market, which could not be stopped by the large credits that the Bank of England obtained in New York and Paris, and on September 21 the Bank of England suspended gold payments. The exchange value of the pound sterling depreciated rapidly in terms of gold and was quoted at \$3.90 for cable transfers on September 30, 1931. What the effect of this action will be on the economic position of Great Britain cannot yet be foreseen. Unless the decline of the pound sterling stimulates British exports in a large measure, Great Britain may at the end of 1931 have a substantial deficit in its international trade and financial transactions, which can be met either by borrowing, or by export of gold, or through the sale of British foreign assets.

The flow of gold to the United States and France in the last two years was due to the large net income which these two countries receive each year from foreign countries in the settlement of trade and financial balances. Before the World War, France employed the surpluses in its balance of payments mainly for long-term investment in foreign countries and only to a small extent for accumulation of gold. After the war, France failed to resume its pre-war policy of lending abroad on long term, and the large surpluses in the French balance of international payments were employed almost entirely in accumulating gold. The failure of France to send capital abroad was due largely to unsatisfactory political conditions in other countries and to bitter experiences that French investors have had with foreign bonds since 1914. Legislative obstacles to exports of capital have also been a factor in the situation. In this respect, however, the situation has been considerably improved by relaxations of legislative restrictions. In 1931 France extended long-term loans to its European allies, Rumania, Poland, Jugoslavia, and Czechoslovakia. Resumption of large foreign financing by France will no doubt be determined by considerations of political stability of the debtor countries.

The position of the United States is somewhat similar to that of France. No matter how desirable it may be to aid

the debtor countries by means of long-term loans, in practice it is impossible to float foreign securities as long as the investor does not have a feeling of confidence in the political and economic stability of the countries requiring his financial support.

The weakening of Great Britain's financial power places an extremely heavy responsibility on the United States and France. Through years of experience, Great Britain has developed a highly efficient machinery for international financing consistent with its position as a creditor nation. Since the days of mercantilism, the surpluses in the British balance of payments have not been used to accumulate gold. From 1895 to 1912, for example, the gold reserve of the Bank of England actually declined in spite of the enormous increase in the production of gold after the discovery of gold in Transvaal. During the same period, the gold reserves of the Bank of France, the Reichsbank, the Bank of Austria-Hungary, and the Bank of Belgium were greatly increased. Before the World War, London served as a distributing center of the world's stock of gold. While it is not certain that Great Britain will not recover its pre-war economic strength, it is doubtful that, at least in the near future, the London market will be as important a factor in world finance as before the World War. France, and particularly the United States, because of their great economic strength and favorable balance of payments, must be prepared to make such changes in their economic policy as will enable them to occupy the place that was formerly held by Great Britain alone. As already pointed out, the position of the United States as a creditor nation is peculiar since the United States has not only a large net income on account of private investments abroad and governmental debts, but also continues to maintain a high tariff policy and a large surplus of commodity exports.

SUMMARY

THE principal force in the world-wide business depression is overproduction or unbalanced production, in the sense that the supply of goods is greater than the effective demand. Human desires for the products of industry are practically without limit, but they cannot become effective unless the purchasing power of the consumers is sufficient to absorb those products at a price that will allow a fair return on capital investment. To cite the classic illustration, production and consumption stand in the same relation as the upper and lower blades of a pair of scissors, both of which are equally important in the process of cutting. The possibility of distributing goods to consumers depends on the purchasing power of the latter, which is determined by their income and by the price at which the goods are sold.

There may be a superabundance of wheat in the United States and starvation because of lack of wheat in China, but the potential consumers in China can secure the required amount of wheat from the United States only by selling their own products in exchange for it, or by obtaining the necessary credit with which to buy it in the United States. Both of these possibilities are closed to the Chinese, because the national production of China under the existing conditions is not adequate, and the international credit of China is nil. The same rule applies to any other commodity that is at present glutting the markets of the world. It also applies to exchange of goods and services within the individual countries. Throughout the world, there must be a balance between agriculture and manufacturing industries, and a balance between the various manufacturing industries themselves, so as to allow exchange of commodities at a profitable level of prices. Consumption of one commodity cannot be increased without increasing production in some other field, in order to create a basis for exchange.

Although unbalanced production is generally recognized as a major force in the world business depression, the term is

descriptive rather than explanatory. It describes a state of affairs but does not explain why it was brought about. To explain the lack of balance between agriculture and manufacturing industries, for example, one must consider such factors as the effect of the World War on the expansion of agricultural production, the high prices of agricultural commodities during the World War, the large flow of capital to the countries producing primarily agricultural commodities and raw materials in the post-war period, the cessation of foreign loans in the last two years, the appearance of Russia as a factor in world markets, artificial maintenance of prices of some commodities, tariff barriers, and so on. It may be pertinent to call attention to the fact that the enormous decline in the prices of agricultural commodities and raw materials has decreased the purchasing power of the debtor nations, increased the burden of debts already contracted and decreased the ability of debtor countries to contract further loans abroad. It has, furthermore, produced political upheavals in many countries, which act as an additional obstacle to the extension of foreign capital support. In this respect, the world seems to move in a vicious circle; declining prices decrease the credit base of the debtor countries, which further decreases the willingness of the creditor countries to lend.

The fundamental difficulty of the world at the present time seems to lie in the existence of excess productive capacity in many countries, side by side with the existence of large areas thickly populated and rich in natural resources, the people of which have a low standard of living and are producing little and consuming little. The opening up of these areas to world trade is impeded mainly by the political and social unrest which makes the development of orderly economic life impossible.

This view of the present business depression brings out strikingly the close economic interdependence of nations. The decline in the purchasing power of China created profound economic disturbances in Japan, Great Britain, and the United States. The rise of the spirit of independence in India intensified the difficulties of Great Britain, Italy, and Japan. The disturbed conditions in South America affected

unfavorably the United States and the industrial nations of Europe that supply the South American markets with finished manufactures. High interest rates in the New York call-money market, due to stock market speculation, exerted a heavy financial strain on many countries, by depriving them of American capital support and by causing their funds to seek profitable employment in the United States. The difficult position of the cotton manufacturing industries throughout the world, particularly in Great Britain, is reflected in the depressed condition of the American raw cotton industry. The overproduction of raw silk in Japan has thrown the textile markets of the world into a state of confusion. The fact that the United States and France did not employ the surpluses in their balance of international payments for long-term foreign financing has caused a large flow of gold to these countries, and has interfered with the smooth functioning of the international gold standard.

In addition to economic factors, the influence of purely political forces in the business depression is unusually marked. Internal and external political difficulties impede economic recovery. They are reflected in excessive governmental expenditures, unbalanced budgets, heavy taxation of business, rigid wage levels, high costs of production, costly armaments, inability to borrow abroad, and flight of domestic capital. The financial crisis in the summer of 1931, which led to the suspension of gold payments by a number of countries and to the moratorium suspending intergovernmental debt payments, was due largely to unfavorable political developments in certain countries and to the presence of international political difficulties. Industry and trade cannot prosper except under conditions affording a fair degree of political security. The growing international character of modern business, the large volume of foreign investments, and the ease with which funds can be transferred from country to country have increased the pressure that political action can exert on economic development. The uneven distribution of gold and the unusually high interest rates that prevail in many countries are in the final analysis to be ascribed to the lack of confidence on the part of the business and financial world in the political stability of those countries.

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While the present world outlook appears gloomy, the economic backwardness of many countries itself contains the promise of great future expansion. The opening up of undeveloped markets will give profitable employment to the funds of the capital exporting nations and will increase the flow of world trade. The growth of national wealth and the rise of the standard of living in these countries will promote popular education and make possible more intimate contacts among the nations of the world.

No nation of the world can live alone; nor can any nation long maintain itself at the expense of other nations. The business of the world is becoming more and more international. Generally unnoticed, a new industrial revolution is taking place, bringing with it a demand for a new industrial philosophy, for new methods of business conduct, and new types of business regulation. A great responsibility rests on business and political leaders in gauging accurately the direction of these forces and in preventing recurrence of such suffering as the Industrial Revolution of 150 years ago brought to the masses of the working people. The recovery of the world from the current business depression will depend to a large extent on the will to co-operate. International peace and good will, based on the realization of the fundamental economic interdependence of nations, are indispensable conditions for world prosperity.