

A PICTURE OF WORLD ECONOMIC
CONDITIONS AT THE BEGINNING
OF 1931



Number VI

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A PICTURE OF WORLD
ECONOMIC CONDITIONS
AT THE BEGINNING OF 1931



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PREFACE

THE increasing international relationships of American business make it more and more important that its leaders should have a clear understanding of what is taking place in the economic life not only of their own country but also of the world at large. The Conference Board seeks to aid this international understanding by assembling the outstanding facts of world economic progress and by presenting them in a compact yet comprehensive picture.

In the accomplishment of this important task the Conference Board has enlisted the interest and co-operation of a large group of leading men of business and professional activity in various countries of the world as Foreign Correspondents of National Industrial Conference Board, Inc. The men who thus participate in the work of the Conference Board are among the most eminent in their countries because of their intimate knowledge of economic conditions, their wide experience, and their international outlook. The international network of correspondence thus established has enabled the Conference Board to prepare the series of volumes of which this book, entitled "A Picture of World Economic Conditions at the Beginning of 1931," is the sixth issue. The co-operation of the Foreign Correspondents with the Conference Board makes these books on world economic conditions a truly international undertaking.

Each book is divided into two parts. Part I is prepared by the National Industrial Conference Board on the basis of official and other authoritative sources of information. It gives a carefully summarized analysis of those contemporary facts regarding industrial production, wages, prices, employment, foreign trade, public and private finance, and other economic factors that give to each country its special importance in the economic commonwealth of nations. The major currents of world economy are here interpreted from the American point of view. Part I also contains a more

extended discussion of economic conditions, problems, and developments in the United States, intended largely for the information of foreign readers of the Conference Board's publications, and particularly for the benefit of its Foreign Correspondents.

Part II contains original articles specially prepared by Foreign Correspondents of the National Industrial Conference Board. Through this contribution American readers obtain the benefit of the judgment and opinion of these distinguished authorities concerning general economic conditions and trends or specific problems in their respective countries, or in regard to questions of broad international interest. Thus, Americans are enabled to see foreign economic situations through the eyes of competent foreign observers.

The National Industrial Conference Board is highly appreciative of the valuable and generous assistance that it is currently receiving from these Foreign Correspondents, which enables it to make its contribution to international understanding. The Conference Board is under special obligation to those Foreign Correspondents who have contributed original articles in time for inclusion in this volume; namely, the Rt. Hon. Reginald McKenna through the article prepared by the Midland Bank, Ltd., and Sir Arthur Balfour for Great Britain; Hon. Charles Rist and Professor André Siegfried for France; Hon. Antonio S. Benni for Italy; Hon. Emil Francqui for Belgium; Mr. E. Heldring for the Netherlands; Messrs. B. Dessau and Ernst Meyer for Denmark; Mr. J. Throne Holst for Norway; Mr. Louis Dapples for Switzerland; Hon. H. Gliwic for Poland; Dr. J. Preiss for Czechoslovakia; Hon. Richard Reisch for Austria; Hon. A. Popovics for Hungary; Mr. S. D. Alexander and Hon. I. Bajloni for Jugoslavia; Mr. A. E. Dymont and Sir Charles B. Gordon for Canada; Mr. S. E. Soulas for Argentina; Sir Lennon Raws for Australia; Baron Takuma Dan and Baron Koyata Iwasaki for Japan; and Mr. Li Ming for China.

The Conference Board was advised of the sending of some other articles, but they did not arrive in time to be included in this book. It is obvious, of course, that not all Foreign Correspondents can be expected to contribute original articles to each book in this series.

PREFACE

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In the preparation of its publications, the National Industrial Conference Board avails itself of the experience and judgment of the business executives who compose its membership and of recognized authorities in special fields, in addition to the scientific knowledge and equipment of its Research Staff. The publications of the Conference Board thus finally represent the result of scientific investigation 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 the supervision of the Board's Staff Economic Council, Part I of this book was prepared, and translations of certain articles in Part II were made, by Mr. Vaso Trivanovitch and assistants, of the Conference Board's Research Staff.

MAGNUS W. ALEXANDER

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New York City
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PART I
WORLD ECONOMIC CONDITIONS AT
THE BEGINNING OF 1931

PART I

WORLD ECONOMIC CONDITIONS

GENERAL SURVEY

AMONG the highly encouraging developments that occurred in the course of the last year may be mentioned the truce between the Indian Nationalist leader and the British Viceroy, which is expected to tranquillize political conditions in British India and to stimulate Indian purchases of foreign commodities. The recent Naval Agreement between France and Italy, which has, at least for the time being, removed one of the causes of political uncertainty in Europe, is also of great significance. Political security is one of the primary requirements for the economic recovery of Europe, and amicable international relationships are of utmost importance, owing to the stimulus that they give to international financing of industry and commerce.

Following the announcement of the French-Italian Naval Agreement, the French capital market immediately extended its help to Rumania and Poland, where the scarcity of capital has for years been one of the chief obstacles to a full exploitation of their great national resources. A similar French loan to Jugoslavia has also been announced, but no final action in regard to it has yet taken place. A more liberal foreign investment policy on the part of France would be a helpful force in world business recovery. This policy is inseparably connected with the international political situation.

Although perhaps not to the same degree, these observations apply likewise to the United States. There is no doubt that international political stability is of fundamental importance in determining the flow of funds from the United States for long-term investment in foreign countries. The experience of Germany in the fall of 1930 is a striking example. It is useless to demand that American investors should be more generous in the matter of foreign financing

if they do not have full confidence in the political stability of the nations seeking their support. The uneven distribution of capital, as reflected in the wide differences in interest rates and the cost of doing business in the various countries is, no doubt, one of the main handicaps to a business recovery. The elimination of this obstacle seems, however, to rest largely with those countries which have the greatest need for foreign capital.

It is not practicable in this introductory survey to enter into a broad discussion of the causes of the world business depression. It may, however, be useful to point out that, so far as Europe is concerned, the depression has affected most severely those countries which had taken part in the World War and had inherited from the conflict large internal and external debts, depreciated currencies, unbalanced budgets, political difficulties, and in some cases greatly reduced territories. France, however, is the notable exception. Under these circumstances, the industry and trade of these countries have been beset by extraordinary difficulties ever since the end of the World War. The current business depression, therefore, represents not so much a decline from prosperity into depression as an intensification of an unfavorable state of affairs that has lasted for a number of years. The most hopeful aspect of the situation in these countries is that the representatives of industry, trade, and finance, as well as the responsible public authorities, appear to be definitely recognizing the fact that an economic recovery can be brought about only by their own efforts, by the exercise of strictest economy in private and public affairs, and by the application of most advanced methods of rationalization in the conduct of business. If these efforts are accompanied by earnest co-operation in the field of international affairs, the world may look forward to a period of economic recovery and international peace.

The countries that did not take part in the War were in a stronger position to resist the pressure of unfavorable international influences because they did not at the same time have to cope with serious domestic readjustments. The internal soundness of such countries as Switzerland, Sweden, the Netherlands, and Denmark enabled them to maintain

a fairly even course of business activity in the face of extreme disturbances in many other regions of the world. A highly significant feature of their economic development, moreover, has been the absence of the speculative mania which has played so important a part in the recent history of the United States. Finally, if it is remembered that the inhabitants of these countries are industrious, that illiteracy is negligible, that political life is remarkably calm, that their industry is diversified, that no single product plays a dominant rôle in their economic system, the explanation of their economic stability is complete.

The countries of Central and South America present an entirely different picture. They depend primarily on the production of agriculture and other primary industries. The world decline of prices of agricultural products and raw materials has affected them with extraordinary force. Their purchasing power has been drastically reduced through the decline in the value of their exports. The economic depression has produced political upheavals, and the latter in turn have contributed to make the depression more severe, at least temporarily, by increasing business uncertainty and undermining the confidence of foreign investors. Unsettled economic, social, and political conditions are reflected in unsound public finances, which decrease the ability of the governments to borrow abroad.

In the Far East, China remains in a state of political uncertainty, which is the fundamental cause of its economic difficulties, a special factor being the presence of communistic activities. Business development is obstructed by communistic propaganda, since the aim of the latter is complete economic demoralization as a means of inciting a communist revolution. The decline in the price of silver, combined with the inability of China to secure foreign capital support necessary for the stabilization of its currency, has greatly decreased the purchasing power of the country, thus aggravating the economic difficulties of Japan, Great Britain, the United States, and all other countries that have strong commercial ties with the Chinese Republic.

In Australia, unsound economic policies, particularly in the field of public finance, and the great dependence of the

country on the products of its primary industries, wool and wheat, have produced a grave situation. Excessive public expenditures, overborrowing abroad, and political uncertainty darken the Australian horizon, and so far as the immediate future is concerned the outlook for improvement is not promising.

The precipitous decline of prices of important foodstuffs and raw materials, caused by the lack of balance between demand and supply, seems to have been arrested in the early part of 1931. While it is by no means certain that the decline has reached the bottom, it may reasonably be assumed that the downward movement of commodity prices is near its low point. Reasonable stability of prices will be perhaps the greatest single factor in the economic recovery of the world.

This study of the economic conditions in twenty-five countries during the year 1930 suggests two general conclusions. First, those countries which had been able to maintain a high level of industrial and trade activity after an acute business depression had set in elsewhere began to feel the effect of an unfavorable international situation toward the end of 1930. Second, there is a general feeling in most countries that by the end of 1930 the worst phase of the business depression had probably been reached, and that, while no immediate and rapid business revival is to be expected, the business situation in 1931 should slowly but steadily improve.

GREAT BRITAIN

There is a growing tendency in Great Britain to seek the reasons for business depression in domestic conditions rather than in outside factors over which the British people have little or no control. The elevation of tariff walls, the collapse of the Far-Eastern, British Indian, and Russian markets, the growth of manufacturing industries in countries that before the War were important customers of Great Britain, war debts and reparations, shortage or maldistribution of gold, artificial maintenance of prices, and so on, have no doubt played their part in preventing revival of industry and trade. But these difficulties are not peculiar to Great Britain; they affect unfavorably all countries that engage in international trade. In spite of these conditions the value of world trade in terms of 1913 prices was about 30% greater in 1929 than in 1913. The value of British trade, on the other hand, shows a decline of 17% for the period. In other words, it is pointed out that British industry has not kept pace with its competitors. It has not been sufficiently resilient and elastic. It has not taken cognizance of the fact that a radical departure from former methods and policies of production and distribution is necessary in order to enable Great Britain to compete successfully in world markets.

From the point of view of technical rationalization, organization, and management, British industry seems to lag behind the industries of the principal countries of Europe and the United States. Since 1924 the Germans have put into effect sweeping measures of reorganization. The French and the Belgians have greatly modernized their plant and equipment. In the United States there has been no relaxation of effort to keep abreast of the latest developments in industrial technique and organization. In Great Britain the movement for rationalization both of plant and equipment and of industrial organization in the older industries is of relatively recent origin. In 1928 the formation of the Central Collieries Commercial Association, commonly known

as the Five Counties Scheme, the Lancashire Cotton Corporation Limited, the English Steel Corporation, and the Metropolitan Carriage, Wagon, and Finance Company¹ initiated a series of significant reforms in the coal, textile, and iron and steel industries. In 1930 the formation of the Securities Management Trust and of the Bankers Industrial Development Company² marked a further step in the advance toward rationalization, by making possible closer cooperation between finance and industry. At the beginning of 1931 there is a feeling in Great Britain that the extreme business depression in the year just closed has forced industry "to forge ahead with its own schemes of rationalization much more rapidly than it would have done in more favorable times" and that it will "come out of the depression much more strongly organized than it went in."³

In their endeavor to make the industrial system "more elastic and more responsive to new methods, new prices, new conditions," British industrialists have to overcome a number of difficulties peculiar to Great Britain, which make the problem of British industrial reorganization more complicated than was the case in the countries of Western Europe. A British economic expert⁴ stresses in particular the following handicaps to British economic recovery: (1) British industrial leaders are selected on the basis of birth rather than individual merit and ability; (2) scrapping of inefficient plant and purchase of modern equipment is impeded by heavy capital investment in old plant; (3) industry is "living on frozen overdrafts on British banks"; (4) taxation is not only too high, but the scrapping of old plant and its replacement out of earnings are determined largely by the rules of taxation authorities whose conception of wear and tear lags behind competitive requirements; (5) the conservative character of employer and labor organizations does not promote easy readjustment to changed conditions; (6) excessive immobility of skilled labor under the British trade union

¹ See "A Picture of World Economic Conditions at the Beginning of 1929," Vol. II, pp. 12-18.

² See "A Picture of World Economic Conditions in the Early Fall of 1930," Vol. V, pp. 15-16.

³ The Manchester Guardian Commercial, Manchester, January 1, 1931, p. 3.

⁴ Sir Arthur Salter, former head of the Economic Section of the League of Nations.

system prevents the transfer of labor from industry to industry and offers one of the chief difficulties in dealing with the problem of unemployment.

It is obvious that in order to overcome these difficulties, British industry must have the assistance and co-operation of organized labor in the matter of wages and technological improvements, of public authorities in the matter of taxation and industrial control, and of financial institutions in the matter of credit. The determining factor in the situation appears to be the attitude of organized labor. The need of adjusting nominal wages to the increased purchasing power of money is generally recognized by British industrialists as an indispensable part of the program for increasing the competitive ability of British industries by means of reducing the cost of production. Thus far, organized labor has shown little willingness to accept the view that the state of national emergency requires acceptance of lower wages for the sake of future prosperity. It is felt that, "if 1931 is not to be punctuated by a series of ruinous labor disputes, the situation calls for immediate action on the part of some authority able to survey and deal with the whole field of industry and labor."¹ This is the principal problem of Great Britain. So long as there is no definite information concerning the spirit in which its solution will be sought, there is a feeling of reluctance to make prophecies concerning the probable trend of business in the current year.

The world-wide decline in commodity prices, moreover, is felt more profoundly in Great Britain than in most other countries, owing to the peculiar circumstances in connection with the stabilization of the pound sterling at a rate appreciably higher than its domestic purchasing power. After the violent decline in prices in 1920-1921, following a period of extreme inflation, the general economic structure of Great Britain adjusted itself to the new level of values and reached an equilibrium in 1923 and 1924.² This equilibrium was rudely disturbed by the forced return of the pound sterling to the gold standard. The average rate of exchange of the pound sterling in 1922 was \$4.29. Two years later the rate rose to \$4.42, and in 1925 the exchange value was established

¹ The Statist, London, January 3, 1931, p. 7.

² Idem.

at the pre-war level of \$4.86 per pound sterling. The effect of this policy has been to increase British costs of production and to decrease the ability of British industries to compete abroad. The business depression that made itself felt in 1929 and continued with increasing force throughout 1930 was particularly disastrous to Great Britain because the country had not yet adjusted its economic activities to the higher value of the monetary standard. The great decline in wholesale prices was accompanied by an appreciably smaller decline in retail prices and the cost of living, while nominal wages remained unchanged.

In dealing with this problem, British industrialists have to reckon with the great political power of organized labor. Wage rates are determined by collective bargaining. The labor unions are naturally reluctant to accept wage reductions, even though they would not necessarily involve a lowering of living standards but would prevent the workers from benefiting at the expense of other social groups through the increase in the purchasing power of money caused by the decline in prices. In Germany and Italy the adjustment of wages and prices is being brought about through compulsory decrees of the government. The present British Government, representing organized labor, has so far taken no definite steps to solve this pressing problem. The year 1931 may show to what extent the Trades Union Congress, the National Confederation of Employers' Organizations, and the Federation of British Industries are able to co-operate in the interest of the nation as a whole. Although it is not expected that the points in dispute will be settled without friction, it is hoped that a settlement will be reached without resort to disastrous strikes or lock-outs and without undue governmental interference.

Foreign Trade

The development of British foreign trade in 1930 was most disappointing. The value of exports was \$3,200 million, and that of imports, \$5,085 million. The former were nearly 22% lower, and the latter, 14% lower than in 1929. The decline in imports, however, was due largely to lower prices. The volume of imports was only about 2.5% less than in

1929. The excess of commodity imports in 1930 was \$1,885 million, as compared with \$1,861 in the preceding year. The decline in exports affected all classes of commodities. Exports of finished manufactures were 23% lower than in 1929. Examination of the accompanying tables reveals the seriousness of the situation. The only increase occurred in exports of ships and boats. The trade in coal was also fairly satisfactory, the average value per ton of coal exported in 1930 being 6d. higher than in 1929.

The textile industry suffered most. In 1924 textile exports represented 38.9% of the total value of British exports. In 1928 this proportion was 34.0%; in 1929 it declined to 31.3%; and in 1930 it reached the extremely low figure of 26.5%. Nearly one half of the decline in exports of cotton piece goods was due to lower purchases by British India, which imported 778 million square yards in 1930, as compared with 1,374 million square yards in 1929 and 1,642 million square yards in 1924. Sales to China and Hong Kong declined from 293 million square yards in 1924 to 188 million square yards in 1929 and to 61 million square yards in 1930.

The discouraging aspect of the trade in textile products is the steady decline in recent years. The outlook for 1931 is not promising. No marked progress has been made in reorganizing the industry. In December, 1928, the Joint Committee of Cotton Trade Organizations issued a report on the American section of the cotton industry—using American raw cotton—prepared by a sub-committee consisting of a cloth manufacturer as chairman, seven spinning employers, and three trade union officials. The committee recommended financial reorganization of the industry on the basis of large amalgamations and control of production and distribution so as to eliminate destructive competition. At the beginning of 1931 this problem appears to be as acute as it was at the time when the report was issued.

The import trade of Great Britain was benefited by the great decline in prices of agricultural commodities and raw materials that must be purchased abroad. The average price paid for wheat in 1929 was 10s.4d. (\$2.51) per cwt., as compared with 8s.3d. (\$2.01) in 1930. In December, 1930,

TABLE 1: FOREIGN TRADE OF GREAT BRITAIN, 1929 AND 1930

In millions of dollars

Commodity Group	Imports			Exports		
	1929	1930	Percentage Increase + Decrease -	1929	1930	Percentage Decrease - Increase +
Food, drink, and tobacco...	\$2,606	\$2,314	-11.2	\$397	\$351	-11.6
Raw materials and half-finished products.....	1,653	1,221	-26.1	648	497	-23.3
Manufactures.....	1,627	1,496	-8.0	2,933	2,258	-23.0
Animals, not for food.....	17	18	+5.7	12	10	-16.0
Parcel post, non-dutiable....	38	36	-6.4	93	84	-9.5
Total.....	5,941	5,085	-14.4	4,083	3,200	-21.6

TABLE 2: VOLUME OF PRINCIPAL EXPORTS, GREAT BRITAIN, 1924 AND 1927 TO 1930

Source: The Board of Trade Journal

In-thousand units

Commodity	1924	1927	1928	1929	1930	1930 as Per Cent of 1924
Coal—tons.....	61,551	51,149	50,052	60,267	54,879	89.2
Iron and steel manufactures—tons.....	3,851	4,196	4,261	4,379	3,158	82.0
Machinery—tons.....	463	512	566	562	481	103.9
Cotton yarns—pounds...	163,056	200,465	169,207	166,637	136,710	83.8
Cotton piece goods—square yards.....	4,443,959	4,116,883	3,866,500	3,671,687	2,406,767	54.2
Wool tops—centals.....	411	420	344	327	288	70.1
Woolen tissues—square yards.....	164,740	130,914	128,339	108,185	79,042	48.0
Worsted tissues—square yards.....	58,843	39,980	42,111	47,281	34,711	59.0
Locomotives—tons.....	24	27	41	40	51	212.5
Motor cars and chassis—number.....	15	36	33	42	30	200.0

the price declined to 5s.11d., \$1.44, per cwt. The average value of raw cotton imports declined from 11s.8d., \$2.84, per pound in 1929 to 8s.7d., \$2.09, per pound in 1930, and in December, 1930, the price declined further to 6s.5d., \$1.56, per pound.¹ The prices of rubber, copper, wool, mutton and lamb, bacon, butter, coffee, sugar, raw silk, and many other commodities also declined considerably during the year. The benefits received from this drastic downward movement

¹ The Board of Trade Journal, January 15, 1931.

TABLE 3: VALUE OF PRINCIPAL DOMESTIC EXPORTS, GREAT BRITAIN, 1929 TO 1930

In thousand pounds and million dollars

Commodity	1929		1930		Percentage Decrease - Increase +
	£	\$	£	\$	
Coal.....	£48,617	\$236.6	£45,671	\$222.3	-6.0
Iron and steel and manufactures	68,000	330.9	51,300	249.7	-24.5
Cotton yarns and manufactures	135,449	659.2	87,573	426.2	-35.3
Woolen and worsted yarns and manufactures.....	52,883	257.4	36,956	179.8	-30.1
Other textiles.....	26,864	130.7	19,556	95.2	-27.2
Apparel.....	25,612	124.5	19,758	96.0	-22.9
Machinery.....	54,350	264.5	46,928	228.4	-13.6
Motor vehicles and parts.....	10,774	52.4	8,869	43.2	-17.6
Motorcycles and parts.....	7,059	34.4	5,061	24.6	-28.5
Other vehicles.....	22,703	110.5	22,448	109.2	-1.2
Ships and boats.....	11,200	54.5	19,200	93.4	+71.4
Chemicals and dyes.....	26,617	129.5	21,966	106.9	-17.5
Electrical goods.....	13,159	64.0	11,929	58.1	-9.2

TABLE 4: VALUE OF PRINCIPAL IMPORTS, GREAT BRITAIN, 1929 AND 1930

Source: The Board of Trade Journal

Commodity	1929		1930		Percentage Decrease - Increase +
	£	\$	£	\$	
Raw cotton and waste.....	£77,366	\$376,502	£44,920	\$218,603	-41.9
Raw wool and waste.....	63,012	306,648	45,258	220,248	-28.2
Other textile materials.....	15,225	74,092	9,588	46,660	-37.0
Rubber.....	17,286	84,122	10,728	52,208	-37.9
Iron and steel and manufactures	24,690	120,154	23,327	113,521	-5.5
Electrical goods.....	6,510	31,681	7,031	38,509	+21.6
Machinery.....	19,153	93,208	17,913	87,174	-6.5
Cotton yarns and manufactures	10,939	53,163	9,735	47,312	-11.0
Woolen and worsted yarns and manufactures.....	16,225	78,959	14,264	69,416	-12.1
Silk and silk manufactures....	13,174	64,111	11,221	54,607	-14.8
Apparel.....	19,956	97,116	19,305	93,948	-3.3
Chemicals, drugs, dyes.....	16,882	82,156	13,568	66,029	-19.6
Oils, fats, and resins, manufactured.....	43,428	211,342	46,282	225,231	+6.6
Grain and flour.....	95,915	466,770	72,928	354,904	-24.0

of prices of agricultural products and raw materials were, however, offset to a considerable extent by the decreased purchasing power of the countries depending for their welfare on the production of primary industries as well as by the uncertainty that such price instability introduces into busi-

ness calculations and the effect that it has on the psychology of the consumers, who naturally delay their purchases in the expectation of further price declines.

Domestic and Foreign Capital Issues

The depressed state of British industry and trade is reflected in the statistics of capital issues. The value of total issues to private enterprises in 1930 was only £145 million, \$706 million, and was lower than in any other year since 1924. Electric light and power, gas and water works, nitrate, railways, and motor manufacturing were the only branches of domestic industry that absorbed a larger volume of new capital than in 1929. New loans to governments and muni-

TABLE 5: CAPITAL ISSUES, GREAT BRITAIN, 1927 TO 1930

Source: The Statist
In million pounds and dollars

Destination	1927		1928		1929		1930	
	£	\$	£	\$	£	\$	£	\$
Home.....	£164	\$798	£218	\$1,061	£145	\$706	£132	\$642
Empire oversea.....	98	477	81	394	59	287	71	346
Foreign.....	55	268	76	370	52	253	44	214
Total.....	£317	\$1,543	£375	\$1,825	£256	\$1,246	£247	\$1,202

cipalities, on the other hand, increased from £35 million, \$170 million, in 1929 to £102 million, \$496 million, in 1930. Issues to overseas countries¹ were considerably higher in 1930, the marked decrease in European loans being more than offset by larger capital exports to the Empire countries and to Central and South American states. South Africa, British India, Argentina, and Brazil were the largest borrowers in 1930. So far as the last three countries are concerned; it is significant that their domestic political difficulties did not shake the confidence of the British capital lenders. A considerable part of these loans, however, was for refunding purposes and in order to enable these countries to meet the existing obligations.

While the continued ability of the British capital market to maintain a large volume of foreign investments is a cause

¹ Exclusive of intergovernmental debts, Great Britain investments abroad at the beginning of 1931 amounted to \$18,888,500,000. The corresponding figure for the United States is \$17,528,254,000.

TABLE 6: GEOGRAPHIC DISTRIBUTION OF OVERSEAS CAPITAL ISSUES, GREAT BRITAIN, 1927 TO 1930

Source: The Statist

In thousand pounds and dollars

Country or Continent	1927		1928		1929		1930	
	£	\$	£	\$	£	\$	£	\$
Empire oversea	£98,184	\$477,812	£81,481	\$396,527	£58,995	\$287,099	£70,914	\$345,103
British India	515	2,506	8,290	40,343	9,481	46,139	25,148	122,383
Australia	37,594	182,951	28,803	140,170	10,898	53,035	2,958	14,395
South Africa	9,673	47,074	4,837	23,539	2,212	10,765	14,407	70,112
Canada	10,419	50,704	5,435	26,449	12,603	61,332	2,366	11,514
Europe	27,931	135,926	38,216	185,978	18,025	87,719	9,713	47,268
Germany	6,343	30,868	7,898	38,436	3,079	14,984		
Greece	1,935	9,417	7,635	37,302	256	1,246	2,250	10,950
Belgium	5,782	28,138	1,449	7,052	135	657	750	3,650
Central and South America	23,828	115,959	23,328	113,526	15,476	75,314	22,353	108,781
Argentina	5,310	25,841	6,558	31,915	8,860	43,117	9,993	48,631
Brazil	11,688	56,880	9,892	48,139	240	1,168	8,187	39,842
Venezuela	2,425	11,801	1,644	8,001	140	681	2,280	11,096
Other countries	3,048	14,833	14,858	72,306	18,991	92,420	11,702	56,948
Japan	135	657	450	2,190	75	365	4,582	22,298
Dutch East Indies	750	3,650	331	1,611	588	2,862	306	1,489
Total overseas	152,991	744,531	157,883	768,338	111,487	542,551	114,682	558,100

of considerable satisfaction to the British people, there is a tendency in well-informed circles to question the wisdom of the policy followed in 1930. The figures in Table 7 show the extent to which British receipts from abroad on account, the so-called invisible items in the balance of trade, were reduced in 1930 as compared with the preceding two years. Net income on account of shipping services rendered to foreigners, overseas investments, short-term interest, and commissions was greatly reduced owing to unfavorable business conditions in almost every country of the world. Since Great Britain not only did not lower but actually increased the excess of merchandise imports, the margin of receipts over expenditures was reduced from £138 million, \$671 million, in 1929 to only £39 million, \$190 million, in 1930. While thus Great Britain had a much smaller credit balance available for investment abroad, British long-term loans to foreign countries were actually higher than in 1929. When this occurs, a balance in international transactions can be achieved only by gold sales, by short-term credits, or by realization of earlier investments. It is felt that realization of investments was the principal method employed in balancing international payments in 1930, and that this process has been largely responsible for the continued weakness of sterling in terms of United States dollars.¹

The effect of this situation is seen in the difficulties that the Bank of England has had in maintaining an adequate stock of gold. In 1930 the London market received for disposal £39 million, \$190 million, of gold bullion. Out of this total about £20 million, \$97 million, was sent to France; about £9 million, \$44 million, was bought by Germany. Of the total newly available gold only about £1.2 million, \$5.8 million, was added to the Reserve of the Bank of England, in addition to about £6.5 million, \$31.6 million, received in sovereigns from South Africa. From overseas sources, the Bank received a total of £44 million, \$214 million, of gold, mainly from Australia, Brazil, Argentina, and Spain. These

¹ Comparison with French francs cannot be made because of the peculiar conditions that determine the exchange value of the French franc. See Midland Bank Ltd., "Gold, Money and Trade in 1930," *Monthly Review*, London, December, 1930-January, 1931. See also the *Manchester Guardian Commercial*, "Annual Review of British Trade," Manchester, January 29, 1931, p. 53; *Lloyds Bank Ltd.*, *Monthly Review*, London, March, 1931, pp. 94-97.

purchases were entirely offset by sales, France alone taking £32 million, \$156 million. The pressure on the British capital market will be relieved when France and the United States increase their loans to foreign countries and when a general recovery occurs in the prices of raw materials and agricultural products, bringing about an economic revival in the debtor countries. The extent to which Great Britain will benefit by these outside factors, however, will be determined by the ability of British industry to reduce production costs and to increase its sales to foreign and domestic markets.¹

TABLE 7: BALANCE OF PAYMENTS, GREAT BRITAIN,
1928 TO 1930

In million pounds and dollars

Item	1928		1929		1930	
	£	\$	£	\$	£	\$
<i>Visible items</i>						
Excess of imports of merchandise	£352	\$1,710.7	£382	\$1,856.5	£387	\$1,880.8
Bullion imports (+) or exports (-)	+6	+29.2	-16	-77.7	+5	+24.3
Excess of imports of merchandise and bullion	358	1,739.9	366	1,778.8	392	1,905.1
<i>Invisible items</i>						
Excess of government receipts from overseas	15	72.9	24	116.6	21	102.1
Net national shipping income	130	631.8	130	631.8	105	510.3
Net income from overseas investments	270	1,312.2	270	1,312.2	235	1,142.1
Net receipts from short interest and commissions	65	315.9	65	315.9	55	267.3
Net receipts from other sources	15	72.9	15	72.9	15	72.9
Total	495	2,405.7	504	2,449.4	431	2,094.7
Total credit balance	137	665.8	138	670.7	39	189.5

The Cost of Government

During the first nine months of the current fiscal year, April 1 to December 31, 1930, total expenditures of the British Government amounted to £667 million, \$3,246 million, leaving a deficit of £181 million, \$881 million. In the corresponding period of 1929 the deficit amounted to £170 million, \$827 million. Two years ago it was £98 million, \$477 million. It is certain that the deficit will be considerably reduced in the last quarter of the fiscal year, when the income from taxes is normally largest and when the increase

¹ Midland Bank, op. cit., p. 2.

in income tax rates will be fully felt. It is, however, held to be extremely unlikely that the increase in revenue during the remainder of the year will be sufficient to bring the actual receipts up to budgetary estimates. A deficit of about £30 million, \$146 million, is expected for the year as a whole. To this sum must be added the amount advanced by the Treasury to the Unemployment Insurance Fund.¹ Although the Exchequer returns classify this expenditure as "a temporary advance," in practice it is a subsidy and will not be repaid.²

The outlook for the ensuing year is decidedly gloomy. Instead of taxation relief there are prospects of further tax increases. This atmosphere is not favorable for large-scale financial operations in connection with the problem of reducing the interest on the national debt, which apart from the sinking fund absorbs about 40% of the total ordinary expenditures of the government.

The next largest item of expenditure is that for social services. Expenditures on unemployment insurance, civil and war pensions, health, and similar activities in 1930-1931 are estimated at \$735 million, or about \$16 per head of population. This situation calls for drastic action, since the burden rests primarily on that part of the population which has larger incomes and is the main source of national savings.³

In a speech in the House of Commons on February 11, 1931, the Chancellor of the Exchequer, Mr. Snowden, stated that the budgetary deficit this fiscal year will amount to \$150 million or more, and that next year a deficit of \$250 million is to be expected. In order to balance the national budget, Mr. Snowden demanded drastic economies and announced that new expenditures on social service must be stopped no matter how praiseworthy may be the projects under consideration. "I believe that added tax on industry," he continued, "under these conditions would be the last straw. Schemes involving heavy expenditures, however de-

¹ About \$100 million.

² *The Economist*, London, January 3, 1931, pp. 7-8, 14; *The Statist*, January 3, 1931, p. 8.

³ For more detailed information regarding the condition of British public finance see National Industrial Conference Board, "A Picture of World Economic Conditions in the Early Fall of 1930," Vol. V, pp. 10-14.

sirable, will have to wait until prosperity returns. No class will benefit more from such restraint of expenditures than the wage-earners. I have been in active political life for forty years and my only object has been to improve the lot of the toiling millions. If I now ask for some temporary suspension and some temporary sacrifice, it is because I believe it necessary in order to make future progress possible. . . . No budget in the world could stand such excessive strain as is placed on ours by the increase in unemployment of the last twelve months. Productive capacity has fallen off 20%. Capital values have fallen. But, despite all this, British credit standing is higher today than at any time during the last five years."¹

The frank admission on the part of the Labor Chancellor of the Exchequer that added expenditures on social services must be stopped is a significant development, particularly from the point of view of the effect that it may have on the domestic political situation.

Industrial and Labor Conditions

The physical volume of production in 1930 was about 12% lower than in 1929, according to estimates of the London and Cambridge Economic Service.² The index number of production for the last quarter of 1930 was 93.5, as compared with 114.8 in the corresponding period of the preceding year and 100.0 for the year 1924. With the exception of the year 1926, which was marked by a series of industrial disputes, the industrial activity in 1930 was lower than in any year since 1923. The iron and steel, shipbuilding, coal, and cotton industries were affected most seriously. They contributed largely to the increase in the number of unemployed. The number of insured workers without employment in December, 1930, reached the record total of 2,500,000, as compared with 1,344,000 in December, 1929. In other words, more than 20% of the workers insured against unemployment were without work in December, 1930, as compared with 11.0% a year ago. On the average 16.1% of

¹ The New York Times, February 12, 1931.

² Royal Economic Society, "Report on Current Economic Conditions," London, January, 1931.

insured persons were unemployed in 1930, the highest figure since 1921, when the percentage of unemployment was 17.0%.

Table 8 shows the number of insured persons and percentage of unemployment in the principal industries of Great Britain on December 22, 1930.

TABLE 8: NUMBER OF INSURED WORKERS AND PERCENTAGE OF UNEMPLOYED, BY INDUSTRIES, GREAT BRITAIN, DECEMBER, 1930

Industry	Number of Insured Persons	Percentage of Unemployed
Coal mining	1,069,480	19.7
Stone quarrying and mining	43,460	17.6
Chemicals	103,610	17.9
Oil, glue, soap, ink, matches, etc.	52,290	9.8
Pig iron—blast furnaces	21,900	35.7
Iron and steel rolling and forging, steel melting and puddling	180,800	50.6
Tin plates	31,620	70.2
General engineering	592,250	24.7
Electrical engineering	89,860	11.1
Marine engineering	60,070	32.3
Motor vehicles, cycles, aircraft	247,140	16.2
Shipbuilding and repairing	204,720	45.1
Cotton	564,090	47.4
Woolen and worsted	240,460	27.7
Rayon yarn	28,640	48.4
Linen	81,430	51.4
Textile bleaching, printing, etc.	116,900	33.1
Bread, biscuits, cakes, etc.	151,030	11.7
Drink industries	109,530	10.6
Printing, publishing, and book binding	272,390	8.2
Building	832,270	22.7
Public works contracting, etc.	186,330	31.3
Gas, water, and electricity supply	165,850	8.6
Railways	137,830	11.7
Tramway and omnibus	163,830	5.2
Other road transport	188,810	18.4
Shipping service	144,240	33.0
Dock, harbor, river, and canal service	169,790	35.2
Commerce, banking, insurance, and finance	232,910	4.4
Distributive trades	1,764,390	9.8
Total insured persons	12,405,700	20.2

The position of the workers who were able to keep their jobs was considerably improved in 1930, owing to the increase in the purchasing power of their wages. The index number of average weekly wages—base, 1924 = 100—de-

clined from 99.0 in January to 98.3 in December, 1930. During the same period the cost of living declined from 94.0 to 87.5, and the cost of food, the principal item in the wage-earner's budget, from 90.5 to 81.0. As compared with July, 1914, the cost of living at the end of 1930 was 53% higher, while the weekly rates of wages were about 70% higher.

GERMANY

In contrast with the tendency of Great Britain to seek the causes of the business depression and the remedies in domestic conditions, the German annual reviews of economic conditions in 1930 and of prospects for 1931 are in unanimous agreement that the grave disturbance of Germany's economic life has been in an unusual degree intensified by the disturbances in world economy, and that, therefore, the solution of Germany's present difficulties, in so far as they are a part and a result of the world business depression, is to a large extent beyond Germany's control.¹ The Germans are by no means blind to the need and possibility of improving economic and social welfare by means of domestic reforms, as is shown in the widespread movement to reduce wages and costs of production and to balance the budget of the Reich by means of strict economy, but they point out that, unlike any other country, Germany is weighed down by an artificial burden in the form of reparation payments—a burden that is fixed in terms of gold, but can be paid only in commodities or services. The world decline of prices, that is, the increase in the value of gold, makes the burden on German economy greater, since in order to obtain the necessary amount of foreign exchange Germany must sell a larger quantity of goods or services to foreign countries.

In 1930 Germany had to transfer to foreign countries 1,800 million Reichsmarks, \$429 million, on account of reparations and, in addition, about 1,000 million Reichsmarks, \$238 million, on account of interest charges on private loans. The surplus of merchandise and service exports over imports in 1930 was about 2,000 million Reichsmarks, \$476 million, leaving a deficit of 800 million Reichsmarks, \$191 million, to be met by further borrowing abroad. The cumulative effect of this process of borrowing is to make the total

¹Deutsche Bank und Disconto-Gesellschaft, "Wirtschaftliche Mitteilungen," Berlin, January 29, 1931, p. 2.

burden on Germany greater and to increase the total sum that Germany must transfer to foreign countries. If this additional borrowing is not accompanied by at least a corresponding increase in the productive capacity and the ability to export, the ultimate result will be an economic breakdown. If the point is reached when no additional foreign loans can be secured and foreign purchases of German goods and services are not sufficient to discharge current obligations abroad, Germany will be forced to default.¹

While there is no immediate danger of such a development, particularly since the German Government has the right to postpone the transfer of the conditional part of the annuity,² the danger point in the whole problem of reparations lies in the psychological or moral influence that the payment of reparations exerts upon the people of Germany. Business depressions and the economic suffering which they produce are always accompanied by shifts in the political temper of the people. These shifts become particularly marked and dangerous to orderly government if, rightly or wrongly, economic suffering can be attributed to foreign influences, to the payment of a tribute to foreign governments. Furthermore, it would not be wise to overlook the fact that the danger is greatly increased if the basis on which the payment of that tribute rests is regarded as historically unjustified and morally repugnant to the debtor nation. The recent convulsions of the German political organization, reflected in the precarious position of the Federal Government, the undermined authority of the Reichstag, extreme party dissensions, and repeated application of emergency decrees, are bred, on the one hand, in general economic discontent and, on the other hand, in widespread dissatisfaction with the rôle that Germany is forced to play in international affairs. It is not necessary to discuss whether Germany's grievances are justified in order to appreciate the grave character of the situation. With Germany seething with discontent, there can be no real security in Europe. The problem of Germany thus becomes a problem of profound international concern.

¹ When discussing the possibility of default by Germany, it is necessary to keep in mind that it would affect only the so-called political debt of Germany.

² Under the Young Plan, the unconditional annuity, amounting to 612 million Reichsmarks, \$146 million, cannot be postponed under any circumstances.

Industrial Conditions

The extraordinary decline in industrial activity is reflected in figures of unemployment. At the end of 1930 the number of unemployed persons was 4.4 million, an increase of 52.8% as compared with a year ago. The decline in employment was particularly marked during the second half of the year, when business depression reached the lowest point. According to the Institut für Konjunkturforschung,¹ the severity of business recession toward the end of the year assumed proportions hardly ever experienced. Signs of recovery, which became apparent in the middle of the year, disappeared completely owing to unfavorable political developments, which destroyed the confidence of the German people and of foreign capital lenders in the stability of German economy. Credit stringency became more acute; domestic turnover was reduced; stock market prices declined; and interest rates rose.

As compared with 1929, the output of coal in 1930 was 12.7% lower; of lignite, 16.3% lower; of pig iron, 27.6% lower; and of crude steel, 29.0% lower. All other industries found it necessary greatly to reduce their operations in 1930, the building industry showing an extremely sharp decline in activity. The unsatisfactory position of the iron and steel industry in particular has given rise to sharp criticism of the policies followed by associations of producers or cartels and by large individual enterprises or combinations of enterprises. The burden of criticism falls on the price-fixing policies of the cartels and on overexpansion of production capacity. It is contended that the German industrial structure, and especially the iron and steel industry, is over-rationalized, over-equipped, and over-mechanized. The operation of the cartel system, especially the endeavor of each cartel member to secure a larger quota in the total output on the basis of his production capacity, has brought about, it is claimed, a grave situation characterized by extensive unemployment of labor, idle capital equipment, high costs of production, monopolistic prices, and underdevelopment of the domestic market. While it cannot be denied that on the basis of the present demand for the products of German industries a

¹Institut für Konjunkturforschung, "Vierteljahrshefte zur Konjunkturforschung," Berlin, 1930, V, Vol. 3, Part A, p. 5.

considerable proportion of their capital equipment lies idle, the conclusion is scarcely warranted that Germany would have been in a stronger economic position if the tempo of rationalization had been slower. The connection between rationalization and unemployment is by no means so simple as it appears on the surface. Whether the employment situation in Germany would have been better today if the modernization of equipment had not been pushed forward so rapidly it is not possible to say. In Great Britain, for example, the lack of employment is attributed to lack of rationalization. All that can be said is that in the short run rationalization tends to decrease employment, but in the long run it tends to increase the demand for labor through cost reduction and expansion of sales. When the German industrialists were expanding their plant and equipment, they could not foresee the precipitous fall in prices and the world-wide depression of business.

The criticism of the German price structure is more to the point, but, while the industrialists do not deny that the level of internal prices in Germany is considerably higher than the world price level, they point out that the so-called exploitation of the domestic market by means of high prices under the various price-fixing agreements is not due simply to the profit-seeking motives of the cartel members, but is the result of the extraordinary circumstances under which German industry has been operating. It is obvious that, in order to exist, industrial enterprises must operate with an income sufficient to pay all operating expenses and provide for depreciation, reserves, and adequate interest on capital investment. The important items in the cost of production are wages, taxes, and interest on capital. Wages in Germany are higher than in any other competing country, with the exception of the United States and Great Britain. Tax burdens in different countries cannot be satisfactorily measured and compared, but there seems to be little doubt that the tax burden of German industry is extremely heavy. In respect to the cost of capital or credit, Germany is peculiarly handicapped. The scarcity of credit in Germany and the need of borrowing abroad made the maintenance of relatively higher interest rates in Germany indispensable.

At the end of 1930, interest rates for thirty- to ninety-day loans were three times as high as in the principal money markets of the world—New York, London, Paris, Zürich, and Amsterdam. In other words, the extraordinary liquidity in the international money markets, which by itself is an important prerequisite for business revival, is entirely absent so far as German economy is concerned, because of unfavorable political developments. Under these circumstances, it would be strange if domestic prices in Germany were not appreciably higher than the world price level.

The control over interest rates is largely outside Germany's power, except in so far as the introduction of political stability could increase the flow of capital into German enterprises. Most recent developments in this field have been encouraging, although the situation has by no means passed the danger point. Cost reduction and price reduction, therefore, are largely limited by the possibility of reducing wages and decreasing the burden of taxation by means of strict economy in governmental expenditures. By admitting the necessity for lowering the wages of industrial workers the German Government has in fact recognized that high prices are not due solely to operation of the cartel system and that in order to extricate the country from its present difficulties all economic groups must be willing to accept certain sacrifices. If this wage- and price-reduction program is carried out successfully, Germany will have removed the principal defect in its economic structure. Equally important is the determination of the Federal Government to place the finances of the Reich, States, and Communes on a sound basis. The German industrialists could look into the future with a greater degree of confidence and could work out their plans with a greater certainty of success if they could be assured that the cost of government would not continue to absorb a steadily growing proportion of their income.

On the whole, it may be said that by the beginning of 1931 German industry had reached a turning point in its post-war development. The current year will show whether the extensive program of industrial rationalization, which is practically completed, has given to the German economic structure sufficient elasticity to adapt itself to changed conditions

brought about by the revolution in commodity prices. It will show further whether the remarkable surplus of commodity exports over commodity imports obtained in 1930 is a temporary development or represents a permanent adjustment of German economic life to the needs of a debtor nation.

Foreign Trade and Balance of Payments

The development of German foreign trade in 1930 has been decidedly satisfactory from the point of view of national economy. The large surplus of commodity exports over commodity imports was particularly timely in 1930, which was characterized not only by almost complete cessation of long-term foreign loans to Germany during the second half of the year but also by withdrawal of foreign short-term balances and transfer of domestic capital abroad. In the absence of a marked export surplus of merchandise and services, Germany would have found it difficult to maintain the stability of exchange and to discharge its foreign obligations. The surplus of commodity exports, however, was not obtained through higher value or volume of trade, but was due largely to favorable effects of international price movements. Since Germany exports mainly finished manufactures and imports largely raw materials and foodstuffs, it was benefited by the fact that the prices of its exports declined less in proportion than the prices of the commodities that it needs to import from abroad.

This price differential, however, does not entirely account for the export surplus. In this respect the position of Great Britain is fundamentally the same as that of Germany. But, while the value of British exports of manufactures in 1930 was 23.0% lower, German exports of manufactures show a decline of only 8.1% in value. Obviously, German industries were better able to maintain their foreign sales than the industries of Great Britain. In view of the differences in the composition of German and British exports and differences in their geographic distribution, this situation cannot be ascribed entirely to the higher efficiency of German industry. It is interesting, however, to observe that from 1929 to 1930 the value of British exports of iron and steel

declined 24.5%; machinery, 13.6%; chemicals and dyes, 17.5%; electrical goods, 9.2%; and textiles, about 30%, while the corresponding figures¹ for Germany were a decline of 10.9%, an increase of 0.9%, a decline of 10.0%, a decline of 3.0%, and a decline of 13.2%. Of all important industrial countries, Germany has been most successful in maintaining a high level of exports of finished manufactures. This may be due partly to the fact that the important exporting industries of Germany are organized in cartels or are dominated by a few large enterprises, which eliminate competition in foreign markets among German firms and conduct their foreign sales through central agencies.

The intimate connection that certain authorities have attempted to establish between domestic business depression and a surplus of commodity exports in Germany loses weight if the fact is taken into consideration that during the last four years there has been a steady improvement in the German balance of payments.² The surplus of commodity imports was reduced from 3,000 million Reichsmarks, \$715 million, in 1927 to 1,200 million Reichsmarks, \$286 million, in 1928. In 1929 exports and imports of merchandise were practically equal in value. In 1930 there was a substantial surplus of exports. A definite trend is here indicated, but it cannot be taken as conclusive evidence that Germany has adjusted its economic structure to the needs of a debtor nation, because the period is too short and because the movement of trade, particularly in 1930, was affected by unusual price changes.

Tables 9 to 12 give essential information concerning the development of foreign trade in 1929 and 1930. When it is borne in mind that in 1929 the value of German exports had reached the highest point since the World War, the figures for 1930 appear very satisfactory. The effect of price changes is shown in the value and the volume of imports of raw materials and half-finished products; the former declined 23.6%, and the latter only 14.1%. The same is true of imports of foodstuffs and beverages. It is also significant

¹ These figures are not strictly comparable because of differences in classification.

² See National Industrial Conference Board, "Rationalization of German Industry," 1931, Chapter VII.

TABLE 9: VOLUME AND VALUE OF FOREIGN TRADE, GERMANY, 1929 AND 1930

Source: Statistisches Reichsamt

Commodity Group	Volume in Tons			Value				
	1929	1930	Percentage Decrease - or Increase +	1929		1930		Percentage Decrease - or Increase +
				In Thousand Reichsmarks	In Thousand Dollars	In Thousand Reichsmarks	In Thousand Dollars	
Imports								
Live animals	168,918	129,001	-23.6	149,724	35,664	118,342	28,189	-21.0
Foodstuffs and beverages	8,887,739	7,426,173	-16.4	3,822,715	910,571	2,968,991	702,214	-22.3
Raw materials and half-finished products	55,769,248	47,893,156	-14.1	7,205,057	1,716,244	5,508,114	1,312,033	-23.6
Manufactures	1,950,616	1,503,546	-22.9	2,269,297	540,547	1,797,702	428,212	-20.8
Total	66,776,522	56,951,876	-14.7	13,446,793	3,203,026	10,393,149	2,475,648	-22.7
Exports								
Live animals	5,448	47,603	+773.8	22,011	5,243	68,666	16,356	+212.0
Foodstuffs and beverages	3,507,869	2,837,895	-19.1	701,510	167,100	479,842	114,298	-31.6
Raw materials and half-finished products	56,807,690	52,423,799	-7.7	2,926,283	697,040	2,449,562	583,486	-16.3
Manufactures	9,057,618	8,271,227	-8.7	9,832,866	2,342,189	9,037,523	2,152,738	-8.1
Total	69,378,625	63,580,524	-8.4	13,482,670	3,211,572	12,035,593	2,866,878	-10.7

TABLE 10: VOLUME AND VALUE OF PRINCIPAL EXPORTS, GERMANY, 1929 AND 1930

Source: Statistisches Reichsamt

Commodity	Volume in Tons			Value				Percent- age De- crease - or In- crease +
	1929	1930	Percent- age De- crease - or In- crease +	1929		1930		
				In Thousand Reichsmarks	In Thousand Dollars	In Thousand Reichsmarks	In Thousand Dollars	
Coal.....	26,769,089	24,383,315	-8.9	530,912	126,463	503,516	119,938	-5.2
Dyes.....	183,643	180,670	-1.6	337,964	80,503	312,894	74,531	-7.4
Chemical and pharmaceutical.....	1,120,440	1,034,651	-7.7	556,899	132,653	486,712	115,935	-12.6
Iron and steel.....	4,743,446	3,992,944	-15.8	1,946,014	463,541	1,734,417	413,138	-10.9
Machinery except electrical.....	566,786	622,938	+9.9	1,152,493	274,524	1,163,267	277,090	+0.9
Textile machinery.....	89,412	59,351	-33.6	253,772	60,448	173,174	41,250	-31.8
Steam locomotives.....	17,997	41,718	+131.8	25,315	6,030	58,128	13,846	+129.6
Metal, stone, and wood-working machinery.....	106,547	129,796	+21.8	210,133	50,054	226,611	53,979	+7.8
Agricultural machinery.....	48,497	44,090	-9.1	46,652	11,113	39,456	9,398	-15.4
Other machinery, except electrical.....	304,333	347,983	+14.3	616,621	146,879	665,898	158,617	+8.0
Electrical machinery.....	35,662	38,275	+7.3	97,751	23,284	107,608	25,632	+10.1
Electro-technical equipment.....	128,046	123,521	-3.5	481,481	114,689	465,807	110,955	-3.3
Other apparatus, instruments, etc.....	10,406	9,119	-12.4	123,727	29,472	110,354	26,286	-10.8
Textiles.....	..	..	..	1,699,467	404,813	1,475,634	351,496	-13.2

that the decline in the volume and value of exports of finished manufactures was practically equal, 8.7% and 8.1% respectively. The total volume of exports was only 8.4% lower in 1930, while the value declined 10.7%.

In 1930 German reparation payments are estimated at 1,800 million Reichsmarks, \$429 million. The surplus of commodity and service exports was about 2,000 million Reichsmarks, \$476 million. Since interest payments were about 1,000 million Reichsmarks, \$238 million, Germany still had a deficit of about 800 million Reichsmarks, \$191

TABLE 11: VOLUME AND VALUE OF PRINCIPAL IMPORTS, GERMANY, 1929 AND 1930

Source: Statistisches Reichsamt

Commodity	Volume in Tons			Value				Percentage Decrease — or Increase +
	1929	1930	Percentage Decrease — or Increase +	1929		1930		
				In Thousand Reichsmarks	In Thousand Dollars	In Thousand Reichsmarks	In Thousand Dollars	
Raw cotton	476,802	433,128	-9.2	814,705	194,063	580,533	138,283	-28.7
Raw wool...	204,632	186,816	-8.7	739,451	176,137	459,497	109,452	-37.9
Oil seeds...	2,597,600	2,316,011	-10.8	860,715	205,022	645,648	153,793	-25.0
Lumber...	4,506,763	3,507,494	-22.2	386,106	91,970	300,285	71,528	-22.2
Mineral oils	2,531,280	3,271,157	+129.2	334,779	79,744	402,869	95,963	+20.3
Iron ore....	16,952,823	13,889,867	-18.1	315,576	75,170	266,304	63,434	-15.6
Wheat.....	2,140,829	1,197,187	-44.1	448,015	106,717	231,629	55,174	-48.3
Barley.....	1,765,830	1,522,927	-13.8	302,824	72,133	205,357	48,916	-32.2
Vegetables.	520,613	463,944	-10.9	142,786	34,012	114,993	27,391	-19.5
Coffee.....	148,323	154,365	+4.1	379,137	90,310	296,640	70,660	-21.8
Butter.....	135,544	133,156	-1.8	461,417	109,910	376,951	89,790	-18.3
Eggs.....	168,067	160,218	-4.8	280,118	66,724	227,983	54,306	-18.6

million, which had to be met by further borrowing abroad. Total long-term foreign loans to Germany in 1930 are estimated at 1,500 million Reichsmarks, \$357 million, including the Young Plan loan to the German Government, while short-term credits amounted to approximately 500 million Reichsmarks, \$119 million.¹

Preliminary estimates of the German balance of payments, prepared by the Reichs-Kredit-Gesellschaft, for 1930 are

¹ This sum does not include short-term credits withdrawn after the September election, the Oustric Bank failure in France, and the failure of the Bank of United States. See Frankfurter Zeitung, December 28, 1930.

shown in Table 12. These estimates will probably be revised when more complete information becomes available, but the general character of the balance will probably remain unchanged. The total volume of capital exported out of Germany for repayment of credits, repurchase of securities, acquisition of balances abroad, and so on, is estimated at 1,040 million Reichsmarks, \$248 million. In so far as these transfers may be considered as a form of secondary reserve abroad, they tended to strengthen the position of Germany. The net increase in Germany's indebtedness to foreign countries in 1930 was about 500 million Reichsmarks, \$119 million, the smallest since the stabilization of the Reichsmark in 1923.¹

The position of the domestic capital market, however, changed for the worse in 1930. The increase in savings deposits during the year is estimated at 1,800 million Reichsmarks, \$429 million, as compared with 2,600 million Reichsmarks, \$619 million, in 1929. New share issues, including the increase in the share capital of existing companies and the formation of new companies (Aktiengesellschaften), amounted to 995 million Reichsmarks, \$237 million, in 1930, as compared with 1,323 million Reichsmarks, \$315 million, a year ago. The issue of fixed interest-bearing securities in 1930 was 359 million Reichsmarks, \$86 million, as compared with 585 million Reichsmarks, \$139 million, in 1929.²

The decline in interest rates that occurred during the first part of 1930 was followed by a sharp upward turn in the last four months of the year owing to disturbed political conditions. The rate for daily money increased from 3.85% in August to 5.61% in December, 1930. During the same period the rate for monthly money rose from 5.00% to 7.07%; the private discount rate, from 3.16% to 4.81%; and the Reichsbank discount rate, from 4.00% to 5.00%. The discount rate of the Bank of France was 2.0% in January, 1931; that of the Federal Reserve Bank of New York and the Bank of Switzerland was also 2.0%; that of the

¹ Reichs-Kredit-Gesellschaft Aktiengesellschaft, "Germany's Economic Development During the Second Half of the Year 1930," Berlin, 1931, pp. 32-33.

² Frankfurter Zeitung, January 8, 1931.

TABLE 12: THE BALANCE OF PAYMENTS, GERMANY, 1929 AND 1930
In billion Reichsmarks and million dollars

Receipts	1929		1930		Expenditures	1929		1930	
	R. M.	Dollars	R. M.	Dollars		R. M.	Dollars	R. M.	Dollars
CURRENT ITEMS:					CURRENT ITEMS:				
Exports	12.67	3,018.00	11.27	2,684.51	Imports	13.45	3,203.79	10.41	2,479.66
Reparation deliveries in kind:					Reparation payments ..	2.37	564.53	1.80	428.76
(a) To foreign countries ..	0.82	195.32	0.72	171.50	Interest payments, net	0.86	204.85	0.95	226.29
(b) To the interior	0.04	9.53	..	..			
Net income from services ..	0.34	80.99	0.28	66.70	NON-RECURRING ITEMS:				
NON-RECURRING ITEMS:					Increase in visible foreign				
Outflow of gold from the					exchange holdings of				
Reichsbanks	0.45	107.19	..	..	the Reichsbank	0.28	66.70	0.10	23.82
Decrease in foreign exchange					Inflow of gold to the				
holdings of the Reichsbank	..	..	..	..	Reichsbank .....	..	..	0.06	14.29
Receipts from U. S. Alien					Capital exports—repay-				
Property Custodian	0.27	64.31	0.40	95.28	ment of credits, repur-				
Capital imports:					chases of securities, etc.	..	..	1.04	247.73
(a) Loans	0.37	88.13	1.40	333.48					
(b) Short-term government									
credits	0.21	50.02	0.29	69.08					
(c) Other short-term credits	..	..	..	..	
(d) Other capital imports,									
net	1.79	426.38	..	..			
Total	16.96	4,039.87	14.36	3,420.55		16.96	4,039.87	14.36	3,420.55

Bank of England, 3.0%; that of the National Bank of Belgium and the Bank of the Netherlands, 2.5%. The disparity between private money rates in Germany and in the important creditor countries is equally great or even greater. This disparity will continue to exist as long as the political conditions in Germany remain disturbed. Establishment of complete confidence in the political stability of Germany will not by itself, however, be sufficient to bring down German interest rates to the level of those prevailing in Great Britain, France, and the United States. In the last analysis, interest rates in Germany are high because the supply of funds is limited and the demand for funds large and urgent. A particularly important and unsatisfactory element in the large demand for capital is the pressure exerted on the capital market by the borrowing needs of the public authorities.

Public Finances

Perhaps the most serious aspect of the economic situation in Germany is the unsound state of public finance and the excessive burden that the cost of government imposes on industry and trade. For 1929 the national income of Germany is estimated at 70,000 million Reichsmarks, \$16,674 million. Of this total, 15,000 million Reichsmarks, \$3,573 million, was absorbed by taxes, and an additional sum of 4,750 million Reichsmarks, \$1,131 million, by various social charges (Soziallasten). In other words, about 30% of the national income in 1929 was taken by the taxing authorities. In 1930 the situation was even worse. It is estimated that the national income was reduced by 10,000 million Reichsmarks, \$2,382 million, while governmental expenditures were increased, particularly as a result of unprecedented increase in unemployment.

The current fiscal year, ending March 31, 1931, will show a deficit of about 1,000 million Reichsmarks, \$238 million.¹ To cover a part of the deficit, the German Government obtained a two-year loan of \$125 million in October, 1930. In February, 1931, a loan of \$32 million was arranged for the German Government by a group of international bankers. The significance of this loan lies in the fact that the French

¹ More recent information indicates a deficit of over \$340 million.

Government gave its approval to the participation of French capital in this issue. The prospects of obtaining additional foreign loans have considerably improved as a result of this action on the part of France.

Foreign loans, however necessary in times of emergency, are a definitely disturbing element in the economic life of Germany, and budgetary stabilization is a matter of utmost importance. The Brüning Cabinet has outlined a financial program which, if carried out in its entirety, will mark a turning point in German fiscal history since the introduction of the Dawes Plan. Under this program, the expenditures of the Reich, States, and Communes in 1932 and 1933 must not exceed those of 1931. No expenditures can be undertaken without providing the necessary revenues to cover them. The establishment of a real budgetary equilibrium would not only increase the confidence of foreign capital lenders and strengthen the hand of Germany in international negotiations, but it would also materially help industry and trade by decreasing the demand for funds on the part of public authorities.

FRANCE

During the first eight months of 1930 industrial activity in France was higher than in 1929. In September, 1930, the index number of production was 137, as compared with 138 a year ago—base, 1913 = 100. But the last quarter of the year, which in 1929 marked the peak of industrial activity, was in 1930 a period of decline. Although the recession in activity was very moderate, it is significant in that it represents the first pause in the uninterrupted increase of industrial production in France since 1927. It remains to be seen whether this recession in industrial activity will develop into a more prolonged period of decline, owing to internal causes, or whether it is merely a reflection of the extremely severe business depression in the principal countries of the world.

The feeling of pessimism concerning business prospects for the current year is fairly general in France. One of the principal disturbing factors is the movement of prices and cost of living. The downward movement of wholesale prices since the devalorization of the franc in 1927 has been accompanied by an upward movement of retail prices¹ and cost of living, according to the figures of the *Statistique Générale* shown in Table 13.

The obvious result of this price movement has been to increase production costs in France at a time when in other countries they were either falling automatically or were being artificially reduced. France feels the effects of this situation both in its foreign and in its domestic market. In addition to the discrepancy between wholesale and retail prices, there is a wide spread between the wholesale prices of domestic products and those of imported materials. The index number of the latter declined from 646 in December,

¹ The index number of retail prices is based on only "thirteen household articles," and it should not be accepted as an accurate measure of the movement of retail prices.

1928, to 377 in December, 1930, while that of the former fell from 631 to 565. Furthermore, in spite of the great decline in the prices of agricultural products throughout the world in 1930, the French index number of wholesale prices of foodstuffs increased from 526 in January to 543 in August, and then declined to 525 in December, 1930.

Imports of Gold and Note Circulation

One of the most debatable questions in relation to the economic position of France deals with the effect of the large

TABLE 13: INDEX NUMBERS OF WHOLESALE AND RETAIL PRICES, FRANCE, 1928 TO 1930

Base, July, 1914=100

Month	Wholesale Prices			Retail Prices		
	1928	1929	1930	1928	1929	1930
January.....	620	644	576	530	599	609
February.....	622	652	576	522	602	598
March.....	636	653	565	524	607	591
April.....	637	640	560	532	615	586
May.....	646	636	553	546	626	590
June.....	639	623	544	557	624	593
July.....	637	626	549	547	606	601
August.....	630	609	543	540	606	626
September.....	633	610	535	544	602	637
October.....	630	602	519	566	612	637
November.....	639	596	504	585	618	647
December.....	637	588	498	596	614	649

imports of gold on the price level, through currency and credit expansion. The legal stabilization of the French franc in June, 1928, at a rate that temporarily kept French prices and cost of living appreciably below world level made it necessary for France to pass through a period of price adjustment. This adjustment could be brought about through a rise in French prices, involving an increase in note circulation, or through a decline in world prices, or through a combination of these two factors. What actually took place was an expansion in French note circulation, an increase in French prices, a large flow of gold to France, and a decline in world prices. The following table shows the volume of notes in circulation and the gold reserve of the Bank of France at the end of the last three years:

Item	1928		1929		1930	
	Million Francs	Million Dollars	Million Francs	Million Dollars	Million Francs	Million Dollars
Note circulation.....	62,269	2,441	67,479	2,645	75,736	2,969
Gold reserve.....	31,793	1,246	41,359	1,621	53,028	2,079

The increased demand for currency was an inevitable consequence of the stabilization, but the accompanying imports of gold became necessary owing to the peculiar conditions prevailing in the French money market.¹ Since the Bank of France cannot, under the present law, conduct open-market operations and buy securities for its own account, the only effective way in which additional notes could be secured from the bank was to place in its vaults an equivalent amount of gold.² The steady importation of gold has given rise to considerable apprehension in France, but so far no really constructive remedies have been proposed. In the absence of extensive participation on the part of France in international loan operations, the net income accruing to France annually on account of reparations, interest payments, and tourist expenditures can be received only through imports of gold. The resumption of large-scale foreign lending by French investors is impeded by unsatisfactory political conditions in many parts of the world. Before the War, France invested about \$600 million annually in foreign countries and in addition had an active market for foreign securities. Since the War French foreign invest-

¹ See National Industrial Conference Board, "A Picture of World Economic Conditions in the Early Fall of 1930," pp. 27-30; United States Department of Commerce, "Banking System and Practices in France," Trade Information Bulletin No. 740, Washington, 1931, pp. 1-9.

² It is pointed out by French financial experts, however, that the flow of gold to France was due, first, to the fact that interest rates in London were on many occasions lower than those in the French market, and second, to the crisis in the French market, from September to December, 1930, which led to withdrawal of French funds from London. This withdrawal would not have occurred if the London interest rate had not been lower than the French rate. Furthermore, it is pointed out that the discounts and advances of the Bank of France are from 7 to 8 times larger than those of the Bank of England, and that direct discounts of the Bank of France are a negligible proportion of its total discounts. The recommendation that the Bank should undertake the buying of securities in the open market is rejected on the ground that it would lead to inflation and would result in disaster. See Charles Rist, "La Question de l'Or," *Revue d'Economie politique*, No. 6, 1930.

ments have been negligible, and the foreign security market has been practically closed.

That this situation is a disturbing factor in world economy and that it puts a particular strain on the operation of the gold standard, cannot be denied. The recent announcement in Paris of a contemplated loan of about 3,000 million francs, \$118 million, to Poland, Rumania, and Jugoslavia, and the participation of French financial institutions in the \$32 million loan to Germany in February, 1931, indicate perhaps a slight relaxation in the former policy, but they can by no means be taken as a sign that France is about to assume its pre-war rôle as a capital exporter on a large scale.¹

Foreign Trade

The development of French foreign trade during the last few years has been consistent with the position of France as a creditor on international account. In 1928 France had a surplus of commodity imports over exports amounting to 2,101 million francs, \$82 million. In 1929 commodity imports exceeded exports by 8,081 million francs, \$317 million, while in 1930 the import surplus on merchandise account increased to 9,514 million francs, \$373 million. Table 14

TABLE 14: VALUE OF FOREIGN TRADE, FRANCE, 1929 AND 1930

In thousand francs and dollars

Group of Commodities	1929		1930		Percentage Decrease - or Increase +
	Francs	Dollars	Francs	Dollars	
Imports					
Foodstuffs	13,167,422	516,163	11,814,250	463,118	-10.3
Raw materials	35,125,030	1,376,901	29,299,328	1,148,534	-16.6
Manufactures	9,928,170	389,184	11,230,791	440,247	-13.1
Total	58,220,622	2,282,248	52,344,369	2,051,899	-10.1
Exports					
Foodstuffs	6,077,916	238,254	5,881,368	230,550	-3.2
Raw materials	12,568,172	492,673	9,990,600	391,631	-20.5
Manufactures	31,493,063	1,234,528	26,957,684	1,056,741	-14.4
Total	50,139,151	1,965,455	42,829,652	1,678,922	-14.6

¹ A decidedly encouraging development is the recent understanding between France and Italy concerning the question of naval disarmament.

shows the movement of French foreign trade in 1929 and 1930 for principal commodity groups. The decline in the value of imports was due entirely to lower prices. The volume of imports in 1930 was actually 2% greater than in the preceding year. Imports of raw materials were 3% larger in tonnage, but almost 17% lower in value. Total exports were 8% lower in volume, but their value declined by 15%. The figure of exports of finished manufactures is interesting, as it shows a decrease in volume of 10% and a decline in value of 14%, in contrast with the situation in Germany, where the value of exports declined by 8.1% and the volume by 8.7%.

The only item of foreign trade that shows an increase in value in 1930 is the importation of manufactured goods. This development may be taken as an indication that the manufacturing industries of France are losing ground to their foreign competitors in the French domestic market. Particularly striking is the increase of imports from Germany¹ and the decline of exports to that country, shown in the following table.

In million Reichsmarks and dollars

Year	Imports from Germany		Exports to Germany	
	Reichsmarks	Dollars	Reichsmarks	Dollars
1928.....	693.4	\$165.2	740.8	\$176.4
1929.....	934.6	222.6	641.9	152.9
1930.....	1,148.6	273.6	518.7	123.5

In 1930 Germany became the principal source of French imports, taking the place of Great Britain, whose exports to France declined from 7,159 million francs, \$281 million, in 1929, to 6,089 million francs, \$239 million, in 1930. Another interesting aspect of the geographic distribution of French foreign trade is the maintenance of a substantial export surplus to French colonies, shown in Table 15. The colonial domain of France is capable of considerable economic expansion. At the present time the purchasing power of the colonial population is very low, owing to lack of the means of transportation and to generally backward conditions of life. The colonial market, however, absorbs a considerable part

¹Reparation deliveries in kind were \$95.5 million in 1928 and \$115.8 million in 1929.

of French exports of cotton fabrics, machines, and other products turned out by mass production.

TABLE 15: VALUE OF FOREIGN TRADE WITH COLONIES AND FOREIGN COUNTRIES, FRANCE, 1928 TO 1930

In million francs and dollars

Source or Destination	1928		1929		1930	
	Francs	Dollars	Francs	Dollars	Francs	Dollars
French colonies						
Exports to.....	8,355	328	9,449	370	8,852	347
Imports from.....	6,742	264	7,009	275	6,524	256
Excess of exports....	1,613	64	2,440	95	2,328	91
Foreign countries						
Imports from.....	46,694	1,830	51,212	2,008	45,821	1,796
Exports to.....	43,019	1,686	40,690	1,595	33,977	1,332
Excess of imports....	3,675	144	10,522	413	11,844	464

Public Finance

In a recent statement before the Chamber of Deputies, M. Palmade, the Minister of the Budget, called attention to the rapid growth in government expenditures and warned the Deputies against the dangers of budgetary inflation. From 1927 to 1930 the budget totals increased from 39,500 million francs, \$1,548 million, to 50,300 million francs, \$1,972 million, or 21.5%. During the first nine months of the fiscal year, ending March 31, 1931, the revenue under the general budget amounted to 35,560 million francs, \$1,394 million, or about 1,000 million francs, \$39 million, over budgetary estimates, as compared with a surplus of 6,605 million francs, \$259 million, in the corresponding period a year ago. The Minister of the Budget announced, furthermore, that, owing to the voting of supplementary credits, this year's surplus of revenues has been actually transformed into a deficit, which by the end of the year will amount to about 1,500 million francs, \$65 million.

The budget for 1931-1932 provides for expenditures of 50,145 million francs, \$1,966 million, and revenues of 50,252 million francs, \$1,970 million. M. Palmade, however, pointed out that the expected surplus of 107 million francs, \$4 million, was already used up to the extent of 60 million francs, \$2.3 million, in connection with a bond issue to cover the deficit on the railways' common fund. In addition, the

new budget does not include 1,800 million francs, \$71 million, formerly charged to the budget as part of the cost of the funded debt service. This sum was transferred to the Caisse d'Amortissement, an institution charged with the autonomous administration of the internal public debt. The effect of this transfer has been to reduce the Caisse's annual capacity for debt extinction from about 6,000 million francs, \$235 million, to about 4,000 million francs, \$157 million.¹

The cost of national defense in 1930-1931 is estimated at 13,185 million francs, \$517 million, or over 26% of the total expenditure. The cost of national debt service and pensions takes 21,000 million francs, \$823 million, leaving only 17,000 million francs, \$656 million, for civil expenditures. By the end of the fiscal year 1930-1931 the sufferers from war losses in the devastated regions will have received from the state 79,800 million francs, \$3,128 million. Of this sum, 34,875 million francs, \$1,367 million, was paid in cash, and the remainder in kind or in long-term bond issues. Additional payments will amount to about 6,000 million francs, \$235 million, of which about 2,800 million, \$110 million, will be in cash. The total indemnities to sufferers in the devastated regions will thus amount to about 86,000 million francs, \$3,371 million. Out of a total of 64,000 destroyed buildings, all have been rebuilt except 3,900. Out of a total of 7,515,460 acres of land made useless for cultivation, only 6,500 acres still remain to be reconditioned.²

Domestic Capital Issues

Domestic capital issues in 1930 amounted to 21,925 million francs, \$859 million, an increase of 14.3% over 1929. Mortgage and other bond issues were entirely responsible for this increase, the issue of shares having declined by almost 50%, as shown in Table 16. The average rate of interest for bond issues in 1930 was 4.68%, as compared with 5.36% in 1929 and 6.03% in 1928. The average yield of fixed interest-bearing securities in 1930 was 3.82%, as compared with 4.89% in 1929 and 5.33% in 1928. The corresponding

¹ The Economist, January 24, 1931, pp. 168-169; the Statist, January 17, 1931, p. 85.

² Report on the Budget for the Liberated Regions, the Economist, January 31, 1931, p. 230.

figures for securities of variable yield are 3.37%, 2.70%, and 2.72%. There was a sharp decline in share prices on the Paris Bourse during the past year. The index number of share prices, representing 300 securities, declined from 496 at the end of January, 1930, to 349 at the end of December, 1930,—base, 1913=100. Early in 1931 share prices recovered a part of their 1930 losses, giving an average yield of 4.09%.

TABLE 16: DOMESTIC CAPITAL ISSUES, FRANCE,
1928 TO 1930

Source: The Economist
In million francs and dollars

Type of Issue	1928		1929		1930	
	Francs	Dollars	Francs	Dollars	Francs	Dollars
Bonds.....	13,800	541	10,492	411	17,538	687
Shares.....	6,552	257	8,316	326	4,387	172
New companies.....	1,068	42	996	39	622	24
Capital increases.....	5,484	215	7,320	287	3,765	148

On the whole, the economic position of France is remarkably satisfactory in spite of the prevalence of business depression in most other countries of the world. The year 1930, taken as a whole, has been a year of great industrial and commercial activity. The production of coal, pig iron, and steel was maintained at a record level. Railway receipts were equal to those in 1929. The shipping tonnage established a new record. Unemployment, although increasing toward the end of the year, presents no serious problem. The number of workers unable to find work through the labor exchanges at the end of 1930 was 26,500 according to official figures. While government statistics are admittedly incomplete, and the number of unemployed is privately estimated at a much higher figure, still, if it is taken into account that France has been forced to import several millions of foreign workers, the absence of an unemployment problem is evident. An unsatisfactory aspect of the general situation is the poor harvest of 1930. The wheat crop amounted to 63 million quintals, as compared with 87 million quintals in 1929. The substantial decline in world prices of agricultural products, however, has helped the situation somewhat in so far as larger quantities can be imported at the same cost.

RUSSIA

Since the Five-Year Plan for the economic development of Soviet Russia¹ was adopted, in October 1928, it has been changed in two important respects. Toward the end of the first financial year, in the fall of 1929, the original program was revised upward in view of the ease with which the first year's estimates were accomplished and even exceeded. The second important change was made in September, 1930, when it was decided to make the financial or economic year identical with the calendar year. The second year ended on September 31, 1930, and the period from October 1 to December 31, 1930, became known as the "shock" quarter.

The reason for the second change is sometimes attributed to the failure to carry out the second-year program and to the desire to make up the deficiency in the "shock" quarter. While in several respects the accomplishments during the second year were below estimates, there were other and sound reasons for the change. Under the new system the results of the harvest will be known before the final plan for the succeeding year is drawn up. This information is essential for those branches of industry which are dependent on the supply of agricultural raw materials. Furthermore, the building season does not close until late in the autumn, and under the old plan, the program for the new economic year had to be drawn up while building operations were at their highest level. In other words, the change in the beginning of the economic year from October first to January first was more likely due to the need for more accurate planning than to the desire to cover and make up the deficiencies of the second year of the Plan.

¹ Par value of the Russian ruble is 51.46 cents. All conversions of Russian rubles into United States dollars in this book are made at that rate of exchange, since there is no dependable method of measuring the probable decline in the purchasing power of the ruble. The great increase in the amount of paper currency and the upward movement of wholesale prices are suggestive developments. It should also be kept in mind that all information coming out of Soviet Russia is censored by the government. While the self-criticism of the Soviet press is truly remarkable, it is nevertheless a fact that it is very difficult to obtain accurate information regarding the working of the Soviet economic system.

Results of the First Two Years

The figures of industrial production, published by the Soviet Government, show that during the first two years the amounts of output scheduled by the original plan were generally attained. The revised estimates, made in the fall of 1929, however, have been realized only in a few instances. As a matter of fact, when the Soviet authorities speak of the remarkable accomplishments during the second year of the Plan, they refer to the original schedules of production and not to the revised estimates. For example, Mr. V. V. Kuibishev, Chairman of the State Planning Commission, in a recent report, summarizing the results of the first two years of the Plan, speaks only in terms of original schedules, apparently because favorable comparisons could not be made on the basis of revised estimates.¹ While this failure to accomplish the production schedules under the revised program shows that in the fall of 1929 the Soviet leaders were too optimistic concerning the expansion possibilities of the Soviet economic system, it does not materially detract from the actual achievements. In 1930 Russia was practically the only country which was able to increase its production and trade above the 1929 level. The effect of the world-wide business depression is visible only in the value and volume of Russian exports.

Figures in Table 17 show the extent to which the production program, under the original Plan, was accomplished or exceeded during the first two years. The Soviet Government pays the greatest amount of attention to the heavy industries, that is, those producing producers' goods—fuel, iron and steel, machinery—which are needed to build up the so-called socialized sector of national economy. In 1929–1930 the production of coal increased 18.1%; iron ore, 41.7%; pig iron, 25.0%; steel ingots, 19.2%; and rolled steel, 18.4%. The output of oil was 30.5% greater than in the first year of the Plan. The value of the output of agricultural machinery increased from 202 million rubles, \$104 million, in 1928–1929 to 312 million rubles, \$161 million, in 1929–1930. During the same period the number of tractors produced increased

¹ Amtorg Trading Corporation, "Economic Review of the Soviet Union," New York, January 15, 1931, pp. 29–31.

from 3,300 to 9,300, and the value of electro-technical equipment, from 291 million rubles, \$150 million, to 495 million rubles, \$255 million.

On the other hand, the production of consumers' goods, which contribute directly to the welfare of the population, was less satisfactory, owing partly to neglect on the part of the authorities and partly to shortage of raw materials. Under the Soviet system, the people are forced to live for the future, to reduce their consumption requirements to the necessary minimum for the sake of future industrial greatness and strength. This situation is reflected in the figures of cotton, woolen, and linen cloth production shown in Table 17.

TABLE 17: INDUSTRIAL PRODUCTION, SOVIET RUSSIA,
1928-1929 AND 1929-1930

In thousand tons

Commodity	1928-1929			1929-1930		
	Original Program	Actual Production	Production as Per Cent of Program	Original Program	Actual Production	Production as Per Cent of Program
Oil.....	13,200	13,100	99.2	14,800	17,100	115.5
Coal.....	41,100	39,700	96.6	46,600	46,900	100.6
Iron ore.....	7,100	7,200	101.4	10,200	10,200	100.0
Manganese ore.....	520	570	109.6	660	610	92.4
Pig iron.....	4,100	4,000	97.6	5,000	5,000	100.0
Steel ingots.....	4,700	4,700	100.0	5,200	5,600	107.7
Rolled steel.....	3,600	3,800	105.6	4,000	4,500	112.5
Cement.....	2,170	2,260	104.1	3,023	2,991	98.9
Cotton cloth ¹	2,970	2,836	95.5	3,266	2,416	74.0
Woolen cloth ¹	105	181	172.4	124	132	106.5
Linen cloth.....	162	190	117.3	217	216	99.5
Leather shoes ²	42	39	92.9	50	63	126.0
Paper and cardboard.....	410	430	104.9	510	547	107.3

¹ Million square meters.

² Million pairs.

The total output of state industry during the first two years of the Plan was 30,500 million rubles, \$15,696 million, or 1,200 million rubles, \$618 million, more than the original estimates. During the same period the output of producers' goods is valued at 13,800 million rubles, \$7,101 million, or 1,200 million rubles, \$618 million, above the schedules of the original Plan. The tremendous importance that the Soviet Government attaches to the development of heavy industry, producing means of production, is shown in the fact that in

1929-1930 investments in this branch of industry amounted to 81.4% of the total investment in large-scale industry, which was 3,200 million rubles, \$1,647 million. The following table shows the investments in the most important industries during the first two years of the Plan:¹

Industry	1928-1929		1929-1930	
	Million Rubles	Million Dollars	Million Rubles	Million Dollars
Metal.....	481.4	247.7	1,199.6	617.3
Fuel.....	387.0	199.2	707.0	363.8
Building materials.....	34.1	17.5	301.9	155.4
Chemical.....	91.4	47.0	389.4	200.4

Particularly marked are the accomplishments in the reconstruction of the oil industry. It is reported that, in 1929-1930, only 3.6% of all non-gusher oil was produced by bailing, as compared with 10.6% in 1927-1928 and 98.9% in 1913. Under the bailing method of production all the gases and most of the gasoline are lost through evaporation. In 1913 only 1.0% of gasoline was extracted from crude oil. In 1928-1929 the percentage was 12.7. The cracking method has not yet been put in operation, but this year it is planned to build over 100 cracking units. By the end of the Five-Year Plan it is estimated that cracking plants will have a capacity of 18 million tons.² The development of the coal industry, on the other hand, has been less satisfactory and represents one of the weak links in the Soviet industrial chain. The output of coal for the first two years did not come up to schedule under the original Plan and was about 6 million tons below the revised estimate. In 1929-1930, the output of coal was 46.9 million tons. The program calls for an output of 85 million tons in 1931, an increase of 80.9%. During the "shock" quarter, October-December, 1930, the Plan provided for an output of 21,270,000 tons, while the actual production was only 12,790,000 tons. The prospects for fulfilling the 1931 program, therefore, do not seem very encouraging. The shortage of labor in the mining districts and the difficulty of sinking the necessary number of new shafts are the principal obstacles to the accomplishment of the coal program.

¹ "Economic Review," op. cit., February 1, 1931, p. 59.

² Ibid. p. 60.

Results of the "Shock" Quarter

The ambitious program of industrial production for the "shock" quarter, October–December, 1930, was not fulfilled. Figures in Table 18 show the degree of accomplishment for the principal branches of industry. The production of oil was only 0.6% lower than the planned output. The production of coal, however, was 40.0% lower; iron ore, 24.8% lower; steel, 18.9% lower; cotton cloth, 9.1% lower; and the output of central power stations 11.8% lower. Cotton cloth production not only did not come up to the schedule, but was actually lower than in the last quarter of 1929, although it increased 125% as compared with the third quarter of 1930. The value of the output of large-scale industry in the "shock" quarter was 4,460 million rubles, \$2,295 million, as compared with the scheduled output of 5,030 million rubles, \$2,588 million, and 3,710 million rubles, \$1,909 million, in the last quarter of 1929.

Foreign Trade

The value of exports in 1929–1930 was 1,002 million rubles, \$516 million, and that of imports, 1,069 million rubles, \$550 million. The corresponding figures for 1928–1929 were 878 million rubles, \$452 million, and 836 million rubles, \$430 million. While the increase in the value of trade is satisfactory, the emergence of an import surplus of merchandise in 1929–1930 is an unfavorable development. Russian foreign trade to a large extent takes place on a basis of barter; goods are exchanged for goods, since Russia is deprived of the support of foreign capital markets. The world-wide decline of prices of raw materials and agricultural products was as harmful to Russia as to any other nation that pays for its imports of finished manufactures with its exports of the products of primary industries. While world price movements show no reflection in the Russian internal market, where the ratio of exchange between manufactured goods and raw materials and agricultural commodities is determined by the government according to the needs of socialist economy, in foreign markets Russia cannot dispose of its products except at a price that the consumers will accept. Since Russia exports primarily those products with which the world was over-

supplied last year, the Soviet Government had to sell its exports at any price in order to obtain the cash necessary to pay for imports needed to maintain the tempo of its industrial program. The peculiar position of the Soviet Government as a trader in international markets—a trader who has a complete monopoly of imports and exports of the Soviet Union and who does not have to calculate in terms of profit and loss on the basis of competitive prices in the domestic market—and the peculiar position that the Soviet Union occupies among the nations of the world might be largely responsible for the so-called dumping of Russian products on world markets rather than any intention of the Soviet Gov-

TABLE 18: INDUSTRIAL PRODUCTION DURING THE "SHOCK" QUARTER, RUSSIA, OCTOBER-DECEMBER, 1930

In million tons

Commodity	Planned Production	Actual Production	Actual Production as Per Cent of Planned Production
Oil.....	5,300	5,270	99.4
Coal.....	21,270	12,790	60.1
Iron ore.....	3,630	2,730	75.2
Steel.....	1,800	1,460	81.1
Cotton cloth ¹	662	602	90.9
Output of central power plants ²	1,400	1,235	88.2

¹ Million meters.

² Million kilowatt hours.

ernment to bring economic ruin to the competing industries in other countries. In the early phases of the Russian industrial development, foreign trade is the keystone on which the entire economic structure rests. The completion of the Five-Year Plan would be impossible if the Soviet Government were not able to pay with goods or credits for imports of the necessary industrial equipment and raw materials or if foreign countries decided not to sell these materials to Russia at any price.

This importance of foreign trade in the Soviet economic development warrants a careful study of the composition of trade and its geographic distribution. Before the World War, Russia was almost exclusively an exporter of agricultural commodities and raw materials. The aim of the Soviet Government is to become primarily an exporter of manu-

TABLE 19: VALUE AND VOLUME OF EXPORTS, RUSSIA, 1928-1929 AND 1929-1930

In thousand rubles and thousand dollars

Commodities	1928-1929			1929-1930			Percentage Increase + or Decrease -	
	Rubles	Dollars	Tons	Rubles	Dollars	Tons	Value	Volume
Products of the soil	78,143	40,213	293,439	189,259	97,393	2,480,263	+142.2	+745.2
Wheat	1	..	1	61,099	31,442	922,962		
Rye	27	14	370	12,924	6,651	323,145	+4,776.7	+8,723.6
Barley				32,589	16,770	795,658		
Flax	28,989	14,918	40,110	34,436	17,721	71,583	+18.8	+78.5
Leaf tobacco	9,203	4,736	8,254	10,227	5,263	8,855	+11.1	+7.3
Animal products	133,405	68,650	165,550	87,565	45,061	109,491	-34.4	-33.9
Skins, undressed	8,651	4,452	5,851	9,571	4,925	9,028	+10.6	+54.3
Casings	15,123	7,782	8,380	11,506	5,921	17,259	-23.9	+106.0
Eggs	27,763	14,287	52,133	10,996	5,659	21,871	-64.5	-58.0
Butter	33,713	17,349	27,764	10,809	5,562	9,981	-67.9	-64.1
Bacon	10,945	5,632	16,027	4,394	2,261	6,108	-59.9	-61.9
Poultry, dressed	11,718	6,030	22,226	18,607	9,575	23,978	+58.8	+7.9
Furs and fish products	123,330	63,466	33,617	99,050	50,971	40,711	-19.7	+21.1
Furs	109,119	56,153	3,527	83,069	42,747	3,484	-23.9	-1.2
Fish	5,895	3,034	27,794	9,008	4,636	35,118	+52.8	+26.4
Caviar, black	7,166	3,688	831	5,800	2,985	553	-19.1	-33.5
Caviar, red	1,150	592	1,465	1,173	604	1,556	+2.0	+6.2
Total agricultural	346,315	178,214	549,300	396,665	204,124	2,650,958	+14.5	+382.6
Lumber and products	138,553	71,299	4,778,105	180,195	92,728	7,367,743	+30.1	+54.2
Lumber	77,472	39,867	2,090,669	91,839	47,260	2,767,665	+18.5	+32.4
Food products	79,914	41,124	457,040	75,581	38,894	563,355	-5.4	+23.3
Sugar	35,183	18,105	124,481	27,345	14,072	108,260	-22.3	+13.0
Oil cake	20,300	10,446	229,387	21,585	11,108	336,029	+6.3	+46.5
Mining products	176,935	91,051	6,451,605	206,219	106,120	7,891,458	+16.6	+22.3
Manganese ore	19,059	9,808	899,969	15,199	7,821	874,518	-20.3	-2.8
Coal	9,953	5,122	1,150,629	16,985	8,740	1,799,219	+17.7	+56.4
Oil products	132,614	68,243	3,642,114	157,323	80,958	4,554,863	+80.6	+25.1
Miscellaneous industrial products	135,879	69,923	381,780	146,610	75,446	396,277	+7.9	+3.8
Total	877,596	451,611	12,617,830	1,002,270	515,768	18,869,791	+14.2	+49.5

¹ Less than 0.5.

factured commodities in competition with the industrial nations of western Europe and the United States. The Five-Year Plan calls for a steady increase in the proportion of industrial exports and a decrease in the proportion of agricultural exports. In spite of the claims to the contrary on the part of Russian authorities, during the first two years of the Plan the Soviet Government has not succeeded in materially changing the composition of exports, as is shown in Tables 19, 20, and 21. The share of industrial exports in the total was lower in 1929-1930, both in terms of value and volume, than in the preceding fiscal year. The greatest expansion took place in exports of lumber and lumber products, the products of the soil, particularly wheat, rye, and barley, and in the products of the mining industry. The exports of "miscellaneous industrial products," the only group of commodities which, in addition to manufactured food products, can be classified under the heading of manufactures, shows an increase in value of only 7.9% and an increase in volume of 3.8%. The value of grain exports increased from 406,000 rubles, \$209,000, in 1928-1929 to 122 million rubles, \$63 million, in 1929-1930. During the same period the volume of grain exports rose from 2,281 tons to 2,269,405 tons. As a matter of fact the increase in the value of grain exports alone is practically equal to the increase in the total value of exports.

The unfavorable effect of lower prices is seen if the figures of volume and value of foreign trade are compared. The value of exports is 14.2% higher, while their volume increased 49.5%. Among the commodities that were particularly affected by declining prices may be mentioned wheat and other grains, furs, lumber and lumber products, food products, and oil and oil products.

So far as imports are concerned, Russia benefited through lower prices, although the gain was not nearly equal to the loss in the value of exports, owing to the fact that Russian purchases consist mainly of finished manufactures whose prices have declined less in proportion than those of raw materials and agricultural commodities. Table 20 shows the value and volume of principal imports for the first two years of the Plan. The value of imports was 27.8% higher, while

TABLE 20: VALUE AND VOLUME OF IMPORTS, RUSSIA, 1928-1929 AND 1929-1930

In thousand rubles and thousand dollars

Commodities	1928-1929			1929-1930			Percentage Increase (+) or Decrease (-)	
	Rubles	Dollars	Tons	Rubles	Dollars	Tons	Value	Volume
Food products	68,068	35,027	223,977	86,508	44,517	495,187	+27.1	+121.1
Grain	1,512	778	18,949	1,419	730	21,403	-6.2	+13.0
Rice	12,047	6,199	47,938	11,858	6,102	49,494	-3.8	-1.6
Dried fruit	9,642	4,962	26,560	6,946	3,574	26,010	-28.0	-2.1
Oranges and lemons	3,658	1,882	14,905	1,391	716	8,394	-62.0	-43.7
Tea	29,592	15,228	29,564	23,390	12,036	24,558	-21.0	-16.93
Herrings	2,483	1,278	42,369	7,655	3,939	85,229	+208.3	+101.2
Animal products	57,482	29,580	74,284	45,769	23,553	88,189	-20.4	+18.7
Hides, undressed	30,991	15,948	33,706	19,627	10,100	27,099	-36.7	-19.6
Metals and products	114,027	58,678	446,046	190,898	98,236	828,798	+67.4	+85.8
Iron and steel	29,402	15,130	250,112	61,618	31,709	533,678	+109.6	+113.4
Copper	13,433	6,913	17,555	19,072	9,814	25,892	+42.0	+47.5
Aluminum	4,986	2,566	5,132	8,801	4,529	9,616	+76.5	+87.4
Lead	7,157	3,683	31,858	13,849	7,127	63,445	+93.5	+99.1
Tin	9,543	4,911	4,359	11,203	5,765	6,372	+17.4	+46.2
Zinc	9,377	4,825	34,711	9,323	4,798	42,778	-0.6	+23.2
Iron and steel manufactures	30,416	15,652	86,705	52,422	26,976	122,157	+72.4	+40.9
Wire	3,824	1,968	10,147	5,245	2,699	16,706	+37.2	+64.6
Equipment	215,671	110,984	174,336	438,447	225,625	371,298	+103.3	+113.0
Industrial machinery	79,659	40,993	68,437	161,744	83,233	129,474	+103.0	+89.2
Agricultural machinery	19,614	10,093	38,061	34,952	17,986	60,923	+78.2	+60.1
Industrial machinery parts	22,425	11,540	10,759	61,549	31,673	39,360	+174.5	+265.8
Agricultural machinery parts	4,238	2,180	6,753	8,279	4,260	12,789	+95.4	+89.4
Tractors	17,579	9,046	19,717	62,320	32,070	70,083	+254.5	+255.4
Automobiles	10,314	5,308	7,138	16,380	8,429	13,998	+58.8	+96.1
Apparatus	13,923	7,165	1,199	15,750	8,105	1,629	+13.1	+35.9
Paper and products	16,518	8,500	131,078	16,176	8,324	139,099	-2.1	+6.1

Textile raw materials and textile products	255,920	131,696	212,567	158,642	81,637	159,035	-38.0	-25.2
Raw cotton	131,107	67,468	123,017	64,668	33,278	67,763	-50.7	-44.9
Raw jute	10,777	5,546	31,575	10,607	5,458	37,585	-1.6	+19.0
Wool	71,049	36,562	40,369	47,904	24,651	31,978	-32.6	-20.8
Cotton yarn	2,022	1,041	574	1,806	929	696	-10.7	+21.3
Wool yarn	17,373	8,940	4,109	8,971	4,616	2,946	-48.4	-28.3
Cotton goods	2,932	1,509	880	1,754	903	532	-40.2	-39.5
Flax and hemp goods	4,969	2,557	5,976	8,474	4,361	8,725	+70.5	+46.0
Woolen goods	4,710	2,424	588	5,359	2,758	575	+13.8	-2.2
Miscellaneous	108,617	55,894	455,632	132,302	68,083	680,724	+21.8	+49.4
Seeds	2,069	1,065	3,504	5,420	2,789	12,847	+162.0	+266.6
Para rubber	9,592	4,936	10,638	13,743	7,072	16,011	+43.3	+50.5
Chemicals	14,790	7,611	47,881	18,945	9,749	79,059	+28.1	+65.1
Fertilizers	6,835	3,517	113,324	8,803	4,530	173,623	+28.8	+53.2
Tanning materials	8,079	4,157	42,768	7,619	3,921	45,479	-5.7	+6.3
Paints and dyestuffs	5,707	2,937	3,758	6,462	3,325	5,846	+13.2	+55.6
Total	836,303	430,362	1,717,920	1,068,742	549,975	2,762,330	+27.8	+60.8

their volume showed an increase of 60.8%. Attention should be called to large imports of food products, iron and steel manufactures, industrial and farm machinery and parts, automobiles and tractors, and to lower imports of textile raw materials and textile products.

TABLE 21: COMPOSITION OF RUSSIAN EXPORT TRADE BY COMMODITY GROUPS, 1928-1929 AND 1929-1930

Group of Commodities	Percentage of Total Exports			
	1928-1929		1929-1930	
	Volume	Value	Volume	Value
Products of the soil.....	2.3	8.9	13.1	18.9
Animal products.....	1.3	15.2	0.6	8.7
Furs and fish products.....	0.3	14.0	0.2	9.9
Lumber and products.....	37.8	15.8	39.0	39.6
Food products.....	3.6	9.1	3.0	7.5
Mining products.....	51.1	20.1	41.8	20.5
Oil.....	28.9	15.1	24.1	15.6

TABLE 22: GEOGRAPHIC DISTRIBUTION OF FOREIGN TRADE, RUSSIA, 1928-1929 AND 1929-1930

In million rubles and million dollars

Country	1929-1930				1928-1929			
	Exports		Imports		Exports		Imports	
	Rubles	Dollars	Rubles	Dollars	Rubles	Dollars	Rubles	Dollars
Argentina.....	3.7	1.9	22.6	11.6	3.5	1.8	28.9	14.9
China, excluding Sinkiang.....	9.7	5.0	8.3	4.3	10.9	5.6	20.8	10.7
France.....	44.7	23.0	32.2	16.6	43.1	22.2	30.4	15.6
Germany.....	214.8	110.5	234.3	120.6	208.5	107.3	188.4	97.0
Great Britain.....	237.6	122.3	78.9	40.6	192.5	99.1	44.3	22.8
Italy.....	47.2	24.3	10.3	5.3	30.1	15.5	8.2	4.2
Japan, including Formosa.....	16.8	8.6	16.2	8.3	14.1	7.3	7.2	3.7
Latvia.....	70.0	36.0	14.3	7.4	69.9	36.0	15.3	7.9
Persia.....	61.6	31.7	47.3	24.3	74.0	38.1	63.7	32.8
Poland.....	14.8	7.6	34.8	17.9	12.9	6.6	16.4	8.4
Sinkiang.....	15.2	7.8	16.7	8.6	16.0	8.2	13.7	7.1
Turkey.....	16.5	8.5	9.9	5.1	17.4	9.0	12.1	6.2
United States.....	44.5	22.9	280.3	144.2	38.4	19.8	152.9	78.7

The Financial Plan for 1931

According to government estimates, the national income of Soviet Russia in 1931 will amount to 49,000 million rubles, \$25,215 million, showing an increase of 35% over 1930.

Almost two thirds of the entire national income for 1931 is covered in the Unified Financial Plan shown in Table 23. This Plan "includes all the resources of the financial and economic institutions of the country: state budget, local budgets, state and social insurance, credit system, savings banks, and the assets accruing from the economic organizations in the socialized (state and co-operative) sector of industry and agriculture. In short, it represents a comprehen-

TABLE 23: BALANCE SHEET OF THE UNIFIED FINANCIAL PLAN OF SOVIET RUSSIA, 1931

In million rubles and million dollars		
REVENUES	Rubles	Dollars
Income from socialized sector.....	13,393	6,892
Taxes.....	11,278	5,804
Taxes from socialized sector.....	9,280	4,775
Income from insurance organizations.....	2,664	1,371
Total investments of the population.....	3,881	1,997
State loans.....	1,300	669
Deposits in savings banks.....	400	206
Income from labor unions.....	400	206
Miscellaneous.....	302	155
Total.....	31,918	16,425
EXPENDITURES		
Total national economy.....	21,099	10,858
Industry.....	7,991	4,112
Electrification.....	865	445
Agriculture.....	4,795	2,468
Trade.....	2,708	1,394
Transportation.....	3,310	1,703
Municipal enterprises.....	815	419
Social and cultural needs.....	5,785	2,977
Army and navy.....	1,310	674
Administration.....	696	358
Reserve and other funds—Supreme Economic Council.....	430	213
Payment on state loans.....	382	197
State insurance.....	286	147
Miscellaneous.....	430	221
State reserve fund.....	1,500	772
Total.....	31,918	16,425

sive balance sheet of the national economy as a whole with the exception of current expenses for industry and transportation and that of the steadily diminishing part of economy still in private hands."¹

The most important sources of income under the plan are

¹ "Economic Review," op. cit., February 1, 1931, pp. 51-52.

the profits of industry, transportation, the co-operative and other state enterprises, accounting for 42% of the total income. The profits of the Soviet Government or its enterprises, it should be kept in mind, are not determined by the forces of supply and demand but by the needs of the government for cash. Through its absolute control over prices, the government can practically determine the rate of profits to be earned. Evidence of this price fixing may be seen in Table 24. The index numbers of prices in Soviet Russia show that during the first two years of the Plan, 1929 and 1930, there was a marked increase in wholesale prices of agricultural and industrial commodities, while retail prices, after increasing in 1929 and the first part of 1930, were reduced in September, 1930, to the level of January, 1929.

TABLE 24: INDEX NUMBERS OF WHOLESALE AND RETAIL PRICES, RUSSIA, 1926-1927 TO 1930

Base, 1913=1

Year and Month	Wholesale Prices			Retail Prices		
	Total	Agricultural	Industrial	Total	Agricultural	Industrial
1926-27.....	1.755	1.566	1.967	2.03	1.88	2.13
1927-28.....	1.715	1.567	1.877	2.04	2.04	2.05
1929—January.....	1.768	1.666	1.876	2.03	2.09	2.00
December.....	1.819	1.749	1.892	2.17	2.34	2.08
1930—January.....	1.823	1.755	1.895	2.19	2.36	2.09
February.....	1.853	1.757	1.954	2.18	2.39	2.09
March.....	1.868	1.773	1.968	2.18	2.42	2.07
April.....	1.870	1.766	1.980	2.15	2.12	2.21
May.....	1.875	1.769	1.987	2.15	2.21	2.12
June.....	1.872	1.769	1.982	2.16	2.23	2.13
July.....	1.887	1.795	1.984	2.18	2.25	2.15
August.....	1.887	1.795	1.984	2.19	2.26	2.15
September.....	1.872	1.760	1.991	2.03	1.98	2.05
October.....	1.865	1.743	1.995	2.04	1.98	2.06

The increase in wholesale prices is significant in view of the world-wide decline of prices during 1930.¹ In this connection it should be pointed out that the volume of currency in circulation increased 59.7% during 1930, amounting to 4,291 million rubles at the end of the year.

¹ Wholesale and retail trade in Russia is not at all comparable with the situation in other countries, since the Soviet Government itself is in large part the wholesaler and retailer. Prices are fixed on the basis of its needs and not by demand and supply. The desire and ability to buy play no rôle.

The Outlook for 1931

The failure of the Soviet economy to carry out the program of production for the "shock" quarter does not give much hope that the ambitious plan for the third year will be accomplished. The difficulties that the Soviet Government will have to overcome during the current year are exceedingly great. A sufficient supply of fuel, adequate transportation facilities, and a supply of skilled labor large enough to make possible the great increase in production and trade, it seems, can be created only by a miracle.

During the first two years the output of coal was below the estimates, increasing from 39.7 million tons in 1928-1929 to 46.6 million tons in 1929-1930. In 1931 the output of coal is to increase 80.9% to 85 million tons. Since the rate of increase in coal production in recent years and recent months has been actually declining, and since it was difficult to recruit a sufficient number of workers to produce the much smaller output in the preceding two years, the accomplishment of the coal program seems unlikely. The government, however, plans to open 54 new mines. The output per worker is to be increased 25%, and wages, 21%. The number of coal-cutting machines will be increased from 561 in 1928-1929 to 965 in 1931.

In order to move 85 million tons of coal, the capacity and efficiency of the transportation system should be greatly increased. In addition, pig iron production is to be increased to 8 million tons, or 60%; steel production to 8.8 million tons, or 60%; and the output of oil to 25.5 million tons, or 50%, and the increase in turnover in all other branches of industry is to be equally marked. During the "shock" quarter the transport system of the Soviet Government did not carry out its assignment. The Plan provided for an increase in the average speed of freight trains to 14.8 kilometers per hour. An average speed of only 11.6 kilometers per hour was actually achieved. The average daily run of a freight locomotive during the last quarter of 1930 was 129.5 kilometers, as compared with 180 kilometers contemplated in the Plan and actually accomplished during the corresponding period of 1929. During the second half of December,

1930, the number of locomotive breakdowns was 500, as compared with 231 in the first half of October.

There are indications that the labor discipline on railroads is declining. In November, 1930, the number of penalties for violating the working rules on 16 Soviet railroads was 50,737, as compared with 45,679 in October.¹ The shortage of skilled railroad workers is acute. On January 16, 1931, the Soviet Commissariat for Labor issued a regulation ordering all skilled workers and specialists who have, during the last five years, been employed on the railroads to leave their employments and to return to transport service. The Soviet economic organizations were directed to discover within ten days from the publication of the order which of their employees have held such positions. Employers violating this order will be punished according to the Criminal Code. The workers who report for service will be given a subsidy of two weeks' wages and will be assigned to work by the local agencies of the Commissariat for Labor.² It is doubtful that these workers can be classified as free labor.

In the final analysis, however, the success or the failure of the Five-Year Plan and the Soviet system will be decided by the human factor, or more specifically by the labor factor. Even if the morale of the people does not break under the tremendous strain imposed upon them by the demands and regulations of the state and by the undeniably low standard of life which they are forced to accept, it is extremely doubtful that the Soviet Government can "manufacture" a sufficient number of skilled laborers, particularly technicians, to take care of the proposed increase in production. Furthermore, the Soviet economic system, which in its essence is a system of capitalism with the profit-seeking motive taken out of it, has not yet succeeded in diminishing the conflict of interests between management and labor. The problem of Russia is to create not only a large body of contented workers but also a staff of experienced managers and technicians, captains of industry, to give it authoritative and high-grade industrial leadership. Although the laborer in Russia works

¹ United States Department of Commerce, *Russian Economic Notes*. Washington, D. C., February 20, 1931, pp. 4-5.

² *Ibid.*, pp. 7-8.

for the state, the fruits of his labor theoretically accruing to his own interest, and although the so-called capitalist exploitation has been entirely eliminated, there still remains the problem of creating an efficient labor force, of eliminating malingering, of making the worker conscious that he must submit to strict managerial discipline in the cause of efficient production and distribution. That all is not well in the relations between management and labor in Soviet Russia may be seen from the following excerpts from the Soviet Government Decree of December 15, 1930, concerning the reorganization of labor exchanges, the methods of reducing labor turnover, and the more efficient utilization of labor:¹

“(11) Workers, engineers, and technicians who have distinguished themselves as organizers or members of shock brigades or as participants in socialist competitions and those who have worked for a long time in one enterprise or who have made valuable inventions or suggestions as to the rationalization of production are to be given the following privileges: (a) if their living quarters are unsatisfactory, they will be the first to be assigned to new houses as soon as these are available; (b) their children will be given first consideration when applying for admission into colleges, technical institutes, and other higher educational institutions; (c) they will be among the first to be sent to rest houses, sanatoria, etc.; (d) they will be the first to be sent abroad or to other enterprises within the country for further study, to improve their qualifications; (e) all efforts will be made to send members of their families, upon their application to the Labor Offices, to work in the same enterprises where they are employed.

“(12) All workers employed directly in the mining, metal, chemical, textile, and building materials industries, in railroad, water, and automobile transportation, and on large construction projects, and who shall have worked in the same enterprise for two successive years after November 1, 1930, will be allowed an additional three days' vacation a year or its equivalent in wages. The transfer of a worker to another enterprise, by order of its administration or of the Labor Office, will not deprive him of this privilege.

¹ “Economic Review,” *op. cit.*, January 15, 1930, pp. 36-37.

"(13) Persons who maliciously interfere with production and who leave their work in a socialized enterprise without good cause will not be assigned to work in industry or transportation for a period of six months from the date of application for work at a Labor Office. It is the duty of the Commissariat for Labor, within a month from the date of this decree, to define the categories affected by this regulation.

"(14) Persons registered with the Labor Office and refusing without good reason to work at their trades when assigned to them by the Labor Office, are to be taken off its list for six months.

"(15) Managers of economic organizations and enterprises in socialized industries are subject to disciplinary action by law upon the order of the highest authorities, or to administrative action by decision of the Labor Office, for the following offenses: (a) improper utilization of skilled workers within the enterprise of industry; (b) demands for labor in excess of the number set as necessary in the Industrial-Financial Plan; (c) failure to take measures to secure sufficient workers in time; (d) failure to pay wages according to the schedule established by the collective agreements with the trade unions or by government standards; (e) inducing workers and members of the administrative and technical staffs to change from one enterprise to another; (f) detention of workers, executives, or technicians who are subject to transfer by order of the Labor Office."

In 1930 there were 7,442,000 industrial workers in Soviet Russia. Of this number, 3,577,000 workers were employed in census industries, which include establishments employing 15 workers or more and using mechanical power and establishments employing at least 30 workers without mechanical power. The total number of industrial workers in 1931 is to be increased to 8,868,000 workers, and that of census industries to 4,234,000 workers. The plan for 1931 calls for the addition of 1,200,000 skilled industrial workers. About 118,000 workers will be graduated from factory schools, and 800,000 workers will be trained as skilled workers directly on the job in the various enterprises.¹

¹ *Ibid.*, February 15, 1931, pp. 84-85.

ITALY

Currency and credit deflation, started with the stabilization of the lira at a level above its internal purchasing power, is now being followed by voluntary and compulsory reductions in wages, salaries, and prices, with a view to reducing costs of production and to increasing the competitive ability of Italian industry. The rumors that the government contemplated lowering the stabilized parity of the lira have been emphatically denied by Premier Mussolini, who characterized such action as "incredible folly which would throw us back into a state of indescribable confusion."¹ The Premier also denied that the government intended to reduce the interest on the national debt, confirming the statement made by Finance Minister Mosconi before the Italian Senate.²

Public Finance

The budgetary situation at the end of 1930 is less satisfactory than a year ago. During the first half of the current fiscal year, July 1 to December 31, 1930, government revenues were 10,204 million lire, \$537 million, and expenditures were 11,216 million lire, \$590 million, leaving a deficit of 1,012 million lire, \$53 million, as compared with a deficit of only 295 million lire, \$16 million, in the corresponding period of 1929-1930. Table 25 shows the ordinary revenues and expenditures of the Italian Government during the first six months of 1929-1930 and 1930-1931. Expenditures of the Ministries of War, Navy, and Air increased greatly; in 1930-1931 these expenditures were 2,485 million lire, \$131 million, or 30.7% of total ordinary expenditures. At the end of 1930 the national internal debt was 88,781 million lire, \$4,670 million, an increase of 679 million lire, \$36 million, as compared with a year ago. The increase was

¹ The Association of Italian Corporations, "Business and Financial Report," Rome, January 1, 1931, p. 2.

² *Idem.*

confined entirely to the floating debt, which rose from 3,671 million lire, \$193 million, December 31, 1929, to 4,409 million lire, \$232 million, December 31, 1930.

TABLE 25: ORDINARY REVENUES AND EXPENDITURES OF THE ITALIAN GOVERNMENT, FIRST SIX MONTHS 1929-1930 AND 1930-1931

In million lire and dollars

Item	1929-1930		1930-1931		Percentage Increase + or Decrease -
	Lire	Dollars	Lire	Dollars	
REVENUE					
National estate.....	38	2.0	46	2.4	+21.1
State enterprises and monopolies.....	100	5.3	117	6.2	+17.0
Direct taxation.....	2,293	120.6	2,131	112.1	-7.1
Stamp duties.....	1,427	75.0	1,655	87.0	+16.0
Excise and customs duties.....	2,498	131.4	2,716	142.9	+8.7
Monopoly consumption taxes.....	1,437	75.6	1,494	78.6	+4.0
Lottery.....	195	10.2	185	9.7	-5.1
Ministry of Public Works, business taxes.....	10	0.5	8	0.4	-20.0
Ministry of Foreign Affairs, business taxes.....	4	0.2	5	0.3	+25.0
Minor public services.....	80	4.2	69	3.6	-13.7
Repayments and contributions.....	162	8.5	146	7.7	-9.9
Sundry receipts.....	235	12.4	194	10.2	-17.4
Total.....	8,478	445.9	8,766	461.1	+3.4
EXPENDITURES					
Ministries					
Finance.....	2,687	141.4	2,734	143.8	+1.7
Justice and Public Worship.....	188	9.9	223	11.7	+18.6
Foreign Affairs.....	86	4.5	87	4.6	+1.2
Education.....	805	42.3	850	44.7	+5.6
Interior.....	355	18.7	388	20.4	+9.3
Public Works.....	525	27.6	610	32.1	+16.2
Communications.....	296	15.6	318	16.7	+7.4
War.....	1,258	66.2	1,405	73.9	+11.7
Navy.....	649	34.1	683	35.9	+5.2
Air.....	297	15.6	398	21.0	+34.0
Colonies.....	211	11.1	204	10.7	-3.3
Agriculture and Forests.....	149	7.8	173	9.1	+16.1
Guilds.....	4	0.2	24	1.3	+500.0
Total.....	7,510	395.0	8,097	425.9	+7.8

Business Conditions

During 1930 industrial activity in Italy was about 20% lower than in the preceding year. As in Great Britain, this decline does not represent a fall from prosperity into depres-

sion, but means simply that 1930 was a worse year than the poor year of 1929. Italian industry and trade had not yet adjusted themselves to the level of values created by the stabilization of the currency, when in 1930 the world-wide decline in prices necessitated further adjustments and led to general reduction in salaries, wages, rents, and prices. At the beginning of 1931 these reductions were reflected in a higher volume of trade, particularly in the retail trades, which for the first time in many months began to replenish their stocks. Credit, however, was still restricted, and interest rates remained high.

TABLE 26: PRODUCTION OF METALS, ITALY, 1929 AND 1930
In tons

Commodity	1929	1930	Percentage Increase + or Decrease -
Pig iron.....	678,491	534,293	-21.3
Steel.....	2,142,765	1,774,094	-17.2
Lead.....	22,668	24,263	+7.0
Zinc.....	15,722	19,031	+21.0
Aluminum.....	7,036	8,000	+13.7
Quicksilver.....	1,960	1,841	-6.1

The production of pig iron in 1930 was 21.3% lower than in 1929; that of steel, 17.2% lower; and that of quicksilver, 6.1% lower. The output of lead, zinc, and aluminum, however, was higher in 1930 than a year ago, as may be seen from Table 26. The textile industry remained in a state of depression. At the end of November, 1930, the total of spindle-hours run in Italian cotton mills was 70.5% of capacity, and that of loom-hours, 68.5% of capacity. The consumption of raw cotton in 1930 was 1.9 million bales, a decline of 40% as compared with 1929.¹ The cotton industry was affected by extreme price declines, the disorganization of world markets, through revolutions in China, disturbances in British India, and monetary difficulties of Argentina. The silk industry suffered from low prices and severe competition. The consumption of silk by Italian mills in 1930 is expected to be about 500,000 kilos, as compared with about 750,000 kilos in 1929 and an average annual consumption of

¹ United States Department of Commerce, "Commerce Reports," February 2, 1931, p. 279.

about 2 million kilos during the past few years.¹ About 18% of the workers normally employed in the textile trades were entirely unemployed in 1930. The Italian shipyards were more active than their principal European competitors, owing to the low level of wages, the governmental subsidies, and the exemptions from duty on imported materials. The automobile industry showed no signs of improvement, in spite of the great increase in tariff rates on imported automobiles, effective July 1, 1930.²

At the end of 1930 the number of fully unemployed workers was 642,149, as compared with 322,291 in June, 1930, and 408,748 at the end of 1929. The number of partially unemployed increased from 21,349 December 31, 1929, to 21,788 a year later. Agriculture and the building industry account for 55% of the total number of unemployed.

Among the most unfavorable aspects of the situation is the failure of the harvest. The 1930 wheat crop was about 5.8 million tons, or 1.2 million tons below that of 1929, according to official statistics. Imports of wheat during the second half of 1930 were 677,013 tons, as compared with 336,174 tons in the corresponding period of 1929. The import duty on wheat, which was increased from 110 gold lire, \$21, to 140 gold lire, \$27, in 1929, was raised to 165 gold lire, \$33, in 1930. It is estimated that, as a result of the tariff, the Italian consumer pays \$75 for a ton of wheat, or \$30 more than it would cost him if the duty were removed. It is also estimated that the industrial worker in Italy "pays, on the daily bread of his family, a tax amounting to more than 10% of his annual wage, and the agricultural laborer 18%."³

Foreign Trade

The value of exports in 1930 was 12,119 million lire, \$637 million, and that of imports, 17,351 million lire, \$913 million. The corresponding figures for 1929 were 15,236 million lire, \$801 million, and 21,665 million lire, \$1,140 million. The

¹ *Idem.*

² "A Picture of World Economic Conditions," *op. cit.*, Vol. V, p. 48.

³ Gaetano Salvemini, "Mussolini's Battle of Wheat," *Political Science Quarterly*, New York, March, 1931, pp. 39-40.

surplus of commodity imports was reduced from 6,429 million lire, \$338 million, in 1929 to 5,232 million lire, \$275 million, in 1930. The decline in the value of foreign trade was due largely to lower prices and not to lower volume of trade. Unsatisfactory experience with the operation of the prohibitive customs duties on automobiles has induced the government to reduce the duty on motor cars weighing over 2,600 kilograms from 4,400 gold lire to 950 gold lire per ton. The import duty on sugar has been increased recently from 360 gold lire to 450 gold lire per ton.

TABLE 27: BACHI'S INDEX NUMBERS OF WHOLESALE PRICES, 1930
Base, 1913=100

Item	1930											
	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Vegetable foods	418.8	406.3	400.5	392.1	384.9	387.5	381.3	396.1	385.0	366.0	356.4	339.6
Animal foods	325.7	414.5	405.9	408.0	407.5	401.5	394.6	396.9	415.0	410.7	407.3	392.4
Chemical products	382.2	379.4	376.3	366.6	363.4	361.0	351.2	357.3	351.5	349.8	341.9	339.4
Textiles	397.6	379.9	368.7	369.7	363.7	335.3	326.3	325.4	306.5	294.5	296.3	285.2
Minerals and metals . . .	421.9	418.5	411.0	404.8	394.1	378.9	377.0	377.3	375.6	363.0	362.2	356.3
Building materials	497.7	495.8	493.9	489.9	489.9	481.4	479.1	470.4	483.4	483.4	483.4	462.7
Plant products	429.4	402.9	363.9	356.2	332.4	319.4	300.6	315.6	299.1	290.5	286.4	276.6
Miscellaneous	443.9	442.4	439.1	441.0	442.1	445.2	441.7	442.2	443.0	438.3	433.1	426.5
General index	417.4	408.0	399.7	396.1	390.3	381.6	374.9	379.4	374.6	364.4	360.6	349.6

The decline in prices of Italian exports was larger than that of imports. The general index number of wholesale prices in 1930—base, 1913 = 100—was 411.0; that of exported goods, 356.1; imported goods, 424.4; and home goods, 406.9. The corresponding figures for 1929 are 480.7, 452.8, 491.7, and 475.1. The gold index of wholesale prices declined from 130.5 in 1929 to 111.6 in 1930. The index number of retail prices of 21 commodities was 554.2 in December, 1929, and 482.1 in December, 1930. The Bachi's index numbers of wholesale prices for 8 groups of commodities are shown in Table 27.

The balance sheet of the Bank of Italy for December 31, 1929 and 1930, is shown in Table 28. Attention may be called to the small increase in the Bank's holdings of gold and to a much larger decrease in balances abroad and foreign treasury bills. The note circulation at the end of 1930 was

1,094 million lire, \$58 million, lower than a year ago, and 1,615 million lire, \$85 million, lower than at the end of 1928. The discount rate of the Bank of Italy was reduced from 7.0% to 6.5% on March 3, to 6.0% on April 24, and 5.5% on May 19, 1930. Market rates for commercial paper declined during the year from 6.75% to 5.5%.

TABLE 28: THE BALANCE SHEET OF THE BANK OF ITALY,
DECEMBER 31, 1929 AND 1930

In millions of lire and dollars

	1929		1930	
	Lire	Dollars	Lire	Dollars
ASSETS				
Gold in hand	5,190	273.0	5,297	278.6
Balances abroad	3,614	190.1	3,074	161.7
Foreign treasury bills	1,537	80.8	1,254	66.0
Gold deposited abroad due by state	1,813	95.4	1,784	93.8
Other cash	198	10.4	711	37.4
Inland bills	4,319	227.2	3,946	207.6
Bills for collection	33	1.7	33	1.7
Advances to customers	1,802	94.8	1,662	87.4
Government securities	1,053	55.4	1,160	61.0
Sinking fund office securities . . . . .	..	..	125	6.6
Credit accounts in the kingdom	219	11.5	287	15.1
Istituto di Liguidazioni, interest account	456	24.0	527	27.7
Shareholders' uncalled capital	200	10.5	200	10.5
Premises	149	7.8	166	8.7
Credit with Istituto di Liguidazioni	851	44.8	626	32.9
Other assets	1,029	54.1	1,130	59.4
Total assets	22,464	1,181.6	21,983	1,156.3
LIABILITIES				
Notes in circulation	16,774	882.3	15,680	824.8
Demand drafts outstanding	603	31.7	701	36.9
Deposits in current account	1,082	56.9	1,420	74.7
Treasury current account	300	15.8	300	15.8
Capital	500	26.3	500	26.3
Statutory reserve	100	5.3	100	5.3
Extraordinary reserve	33	1.7	33	1.7
Special security accounts	42	2.2	33	1.7
Treasury fixed deposit account	1,489	78.3	1,386	72.9
Treasury Istituto di Liguidazioni, interest account	300	15.8	540	28.4
Sinking fund office current account . . . . .	..	..	191	10.0
Sinking fund office security account . . . . .	..	..	125	6.6
Other liabilities	1,168	61.4	900	47.3
Net profit for the year	74	3.9	74	3.9
Total liabilities	22,464	1,181.6	21,983	1,156.3

OTHER EUROPEAN COUNTRIES

BELGIUM

The economic situation in Belgium in 1930 was on the whole more satisfactory than in most other countries, owing to absence of unemployment, sound public finance, and a large net income on account of international payments. The effect of the world business depression was first felt by the Antwerp diamond industry, the products of which are marketed largely in America. The generally unfavorable position of the European iron and steel industry, which led to successive reductions of output by the Continental Iron and Steel Cartel, is reflected in the greatly decreased production of pig iron and steel. The coal output, on the other hand, established a high record of 28,283,000 tons in 1930. The stocks of coal, however, also reached the highest point at the end of 1930. As in the case of France, the 1930 decline in industrial and trade activity in Belgium represents the first pause in the steady expansion of business of the last five years. The outlook for 1931 is not clear, the recovery in Belgium depending to a large extent on the international situation.

Wholesale prices, after increasing from 1925 to 1929, declined in 1930 to the level of 1926. In 1925 the index number of wholesale prices—base, 1914 = 100—was 558. In 1927, the year after the currency stabilization, the index number rose to 847, remained approximately the same in the following year, and increased to 851 in 1929. The great decline in prices, particularly of foodstuffs, textile materials, fuel, metallurgical products, brought the index number down to 745 in 1930. Retail prices, on the other hand, although they declined from the high level reached in December, 1929, remained on the average as high in 1930 as in the preceding year. The index number of retail prices in 1930—base, April, 1914 = 100—was 874, as compared with 875 in 1929. On the whole, prices, cost of living, and wages are considerably

lower in Belgium than in other industrial countries, placing Belgian industry in an advantageous position in foreign markets.

TABLE 29: PRODUCTION OF COAL AND IRON AND STEEL,
BELGIUM, 1929 AND 1930

In thousand tons

Commodity	1929	1930	Percentage Increase + or Decrease -
Coal.....	26,932	28,283	+5.0
Stocks, end of December.....	322	2,483	+671.1
Pig iron.....	4,096	3,393	-17.2
Steel.....	4,011	3,270	-18.5

Foreign Trade

The value of Belgian exports in 1930 was 26,249 million francs, \$729 million, a decline of 17.4% as compared with 1929. Lower prices were largely responsible for the decrease in value, since the volume of exports shows a decline of only 7.9%. The value of imports in 1930, amounting to 30,922 million francs, \$860 million, was 13.1% lower than in 1929, while their volume declined 6.4%. Belgium was benefited considerably by lower prices of imported raw materials. The volume of these imports was 7.7% lower, and their value 21.2% lower in 1930 than in the preceding year. The surplus of merchandise imports in 1930 was about 1,000 million francs, \$27.8 million, higher than in 1929 and about 3,500 million francs, \$97.3 million, higher than in 1928. This development is entirely normal in view of the large net income which Belgium receives from its foreign investments, tourist expenditures, governmental debts, transit, freights, and emigrant remittances.¹

Notwithstanding the large surplus of commodity imports, the gold reserve of the Bank of Belgium increased from 5,875 million francs, \$163 million, at the end of 1929 to 6,862 million francs, \$191 million, at the end of 1930, while during the same period the holdings of foreign bills and balances abroad rose from 3,066 million francs, \$85 million, to 4,852 million francs, \$135 million. The discount rate

¹ "A Picture of World Economic Conditions," op. cit., Vol. V, p. 55.

TABLE 30: VOLUME AND VALUE OF FOREIGN TRADE, BELGIUM, 1929 AND 1930

Group of Commodities	Volume in Tons			Value in Thousand Francs and Thousand Dollars				
	1929	1930	Percentage Increase + or Decrease -	1929		1930		Percentage Increase + or Decrease -
				Francs	Dollars	Francs	Dollars	
Imports								
Live stock.....	1,449	3,167	+118.6	88,522	2,461	217,048	6,034	+145.2
Food and drink.....	349,517	379,661	+8.6	7,239,089	201,247	6,787,025	188,679	-6.3
Raw materials and half-finished products.....	4,018,042	3,709,951	-7.7	18,486,734	513,934	14,569,053	405,020	-21.2
Manufactures.....	126,409	112,788	-10.8	9,603,891	266,988	9,348,623	259,892	-2.7
Total.....	4,495,417	4,205,567	-6.4	35,578,236	989,075	30,921,749	859,624	-13.1
Exports								
Live stock.....	1,436	1,719	+ 19.7	141,550	3,935	152,646	4,244	+7.8
Food and drink.....	87,044	71,893	-17.4	2,526,819	70,246	1,932,952	537,361	-23.5
Raw materials and half-finished products.....	1,794,476	1,683,960	-6.2	10,217,817	284,055	8,168,181	227,075	-20.1
Manufactures.....	694,829	617,126	-11.2	18,883,538	524,962	15,995,266	444,668	-15.3
Total.....	2,577,785	2,374,698	-7.9	31,769,724	883,198	26,249,045	729,724	-17.4

of the Bank of Belgium was reduced from 3.5% to 3.0% in May, 1930, and to 2.5% in August, 1930. The volume of currency in circulation during the year 1930 increased from 13,437 million francs, \$374 million, to 15,818 million francs, \$440 million. The ratio of gold reserve to total liabilities at sight increased from 59.1% at the end of 1929 to 65.5% a year later.

The financial position of the government is sound. A tax reduction, amounting to 1,500 million francs, \$42 million, was voted by the Parliament in the spring of 1930. This reduction and lower tax collections owing to business depression may result in a budgetary deficit for 1930, since it has not been possible to decrease expenditures. The total revenue in 1930 was 8,134 million francs, \$226 million, as compared with 9,636 million francs, \$268 million, in 1929. The budget for 1930 calls for an expenditure of 11,514 million francs, \$320 million.

On the whole, Belgium has been less affected by the world business depression in 1930 than most other countries. The number of unemployed workers at the end of the year was 63,585, or 9.3% of the total number of insured workers, as compared with 2.4% in December, 1929. The slowing down of industrial activity, however, particularly in the coal, iron and steel, textile, and diamond industries, assumed serious proportions toward the end of 1930, and no definite signs of improvement could be seen in the early part of 1931.

SWEDEN

Industrial activity in Sweden was higher in 1930 than in any other year with the exception of 1929. Lower foreign demand for Swedish products and lower prices of these products affected unfavorably a number of industries, but the volume of trade within the country was maintained at a remarkably high level. The general index number of production for 1930 was 131, as compared with 135 in 1929 and 110 in 1928.

The saw-mills industry was affected most seriously through reduction in foreign sales owing to keen competition from

Soviet Russia and Russian price-cutting methods.¹ Swedish and Finnish saw-mills found it necessary systematically to reduce their production and exports. During the first eleven months of 1930 the volume exports of sawed and planed wood and joiner's wood from Sweden and Finland was 1,749,000 standards, as compared with 2,215,000 standards during the corresponding period of 1929, a decline of about 20%.² The sulphite pulp mills are also operating at a much lower level than a year ago. The producers in Sweden, Norway, and Finland have agreed to reduce their output by 38%.

TABLE 31: INDEX NUMBERS OF PRODUCTION, SWEDEN, 1929 AND 1930

Base, 1923-1924=100

Month	Iron Ore		Iron and Steel		Wood		Paper and Pulp		Total Index	
	1929	1930	1929	1930	1929	1930	1929	1930	1929	1930
January.....	202	217	134	136	104	91	218	232	148	151
February.....	187	189	124	125	127	140	159	176	134	144
March.....	161	185	129	121	128	139	163	196	135	149
April.....	202	215	131	121	121	133	196	196	146	149
May.....	184	226	141	118	101	131	146	164	130	140
June.....	198	198	139	112	93	112	155	134	129	123
July.....	189	196	141	127	92	101	152	150	129	130
August.....	186	158	152	113	91	102	158	139	133	120
September.....	182	193	147	127	99	97	153	148	131	127
October.....	186	175	138	117	113	103	152	144	134	126
November.....	284	152	148	110	102	98	158	143	137	120
December.....	200	149	135	115	102	93	149	145	130	120

The iron ore producers felt the effects of the generally unsatisfactory position of the European iron and steel industry, and particularly of the lower demand on the part of German producers. The production of iron was reduced by about 15%, while exports were 30% lower in 1930 than in 1929. The volume of exports of iron ore, paper pulp, and sawed and planed wood goods, during the first eleven months of 1929 and 1930, is shown in the following table:

Commodity	1929	1930
Iron ore, in thousand tons.....	8,778	7,482
Paper and pulp, in thousand tons.....	15,758	13,724
Wood goods, in thousand standards.....	965	837

¹ Skandinaviska Kreditaktiebolaget, "Quarterly Report," Stockholm, January, 1931.

² Idem.

An important group of industries, however, which is not included in the production index of the Svensk Finanstidning shown in Table 31, succeeded in maintaining activity in 1930 at the level of 1929. This is particularly true of the engineering establishments and shipyards. The value of exports of electric motors, separators, and telephone and telegraph apparatus was higher in 1930 than in the preceding year in spite of lower prices, as shown in Table 32.

TABLE 32: VALUE OF EXPORTS OF MOTORS AND APPARATUS, SWEDEN, FIRST ELEVEN MONTHS, 1929 AND 1930

In thousand kronor and dollars

Product	1929		1930		Percentage Increase + or Decrease—
	Kronor	Dollars	Kronor	Dollars	
Electric motors, generators, etc...	29,520	791.1	32,270	864.8	+9.3
Internal combustion motors	16,640	446.0	18,380	492.6	+10.5
Separators	16,630	445.7	16,830	451.0	+1.2
Roller and roller bearings	33,490	897.5	29,050	778.5	-13.3
Telephone and telegraph apparatus	12,660	339.3	13,900	372.5	+9.8

The total value of exports in 1930 was 1,545 million kronor, \$414 million, and that of imports, 1,648 million kronor, \$442 million. The corresponding figures for 1929 are 1,812 million kronor, \$486 million, and 1,783 million kronor, \$478 million. The excess of exports, which in 1929 amounted to 30 million kronor, \$8 million, was replaced in 1930 by an import surplus of 103 million kronor, \$28 million. This should not be taken as an unfavorable development, since Sweden has a net income from abroad on account of freight services, emigrant remittances, and interest on capital investments which is sufficient to offset the deficit on account of merchandise trade and leave a surplus for investment abroad. For 1929 the net income on account of the so-called invisible items in the Swedish balance of international payments is estimated at 240 million kronor, \$64 million.¹

The position of the Bank of Sweden is remarkably strong. On January 24, 1931, the gold reserve and balances held abroad by the bank were practically equal to the entire note

¹ Ibid., October, 1930, pp. 72-73.

circulation, as shown in Table 33. The supply of money was plentiful throughout 1930. The discount rate of the bank was reduced from 4.5% to 3.5% during the year. Total bank clearings were higher in 1930 than a year ago, but the volume of bills discounted was lower.

TABLE 33: BALANCE SHEET OF THE BANK OF SWEDEN,
JANUARY 25, 1930, AND JANUARY 24, 1931

In thousand kronor and thousand dollars

	1930		1931	
	Kronor	Dollars	Kronor	Dollars
ASSETS				
Gold reserve.....	244,383	65,495	240,729	64,515
Government securities				
Domestic.....	22,140	5,934	3,410	914
Foreign.....	51,359	13,764	63,949	17,138
Other Swedish bonds quoted on foreign bourses.....	162	43	84	22
Bills payable				
Sweden.....	178,784	47,914	139,111	37,282
Foreign countries.....	125,938	33,751	66,454	17,810
Balances abroad.....	59,148	15,852	235,977	63,242
Advances on government bonds.....	42,103	11,284	29,448	7,892
LIABILITIES				
Notes in circulation.....	460,146	123,319	478,519	128,243
Government deposits.....	200,074	53,620	222,606	59,658
Private deposits.....	11,882	3,184	26,703	7,156

The index number of wholesale prices, prepared by the Svenska Handelsbanken, base—1913 = 100—declined from 135 in January, 1930, to 118 in December. During the same period the index number of prices of imported commodities declined from 116 to 93, and that of exported goods from 141 to 127. The cost of living, on the other hand, remained practically unchanged. By the end of the year, according to the National Unemployment Commission, the number of unemployed workers seeking assistance increased to 25,000, as compared with 10,000 a year ago. The number of union members unemployed in November, 1930, was 51,000, or 14% of the union membership.

NORWAY¹

Like Sweden, Norway has been relatively free from the effects of business depression during 1930, although towards the end of the year signs of declining activity became noticeable. Unemployment in 1930, as shown in Table 34, has, on the whole, been lower than in any year since 1926, but in the last quarter of 1930 the situation changed for the worse, and in January, 1931, the number of unemployed workers rose to 28,596, as compared with 24,393 a year ago. The wood products, electro-chemical, metallurgical, and shipbuilding industries were particularly depressed, and at the beginning of 1931 no signs of improvement were visible.

TABLE 34: UNEMPLOYMENT, NORWAY, 1926-1930

Month	1926	1927	1928	1929	1930
January.....	26,663	29,271	28,031	24,393	22,549
February.....	28,185	30,837	28,290	24,584	22,974
March.....	26,392	29,112	26,692	23,821	22,533
April.....	24,645	27,406	24,719	22,228	19,829
May.....	21,791	23,811	18,871	18,000	16,376
June.....	19,300	19,854	16,747	14,547	13,939
July.....	16,344	15,996	15,365	12,417	11,987
August.....	16,658	15,727	15,817	12,493	12,923
September.....	20,128	18,915	17,859	15,525	17,053
October.....	23,676	21,957	20,464	18,420	20,363
November.....	27,261	25,245	23,033	20,546	24,544
December.....	30,558	28,532	24,223	22,092	27,157

The value of exports in 1930 was 684 million kroner, \$183.3 million, and imports 1,067 million kroner, \$286.0 million. The corresponding figures for 1929 are 752 million kroner, \$201.5 million, and 1,073 million kroner, \$287.6 million. The excess of merchandise imports increased from 321 million kroner, \$86.0 million, in 1929 to 383 million kroner, \$102.6 million, in 1930. The decline in the value of exports was due mainly to lower exports of herring and fish, canned goods, fats, oils, tar, cellulose, paper, and lumber, as may be seen from Table 35.

In 1929-1930 government expenditures were 396 million kroner, \$106.1 million, and revenues 411 million kroner, \$110.1 million, including 34 million kroner, \$9.1 million,

¹ Sources of information: Norges Bank, Monthly Reports; The Economist; The Statist; Commerce Reports.

secured through public loans. In 1930-1931 the budget provides for expenditures of 385 million kroner, \$103.2 million, and revenues of 370 million kroner, \$99.2 million, the surplus from 1929-1930 being sufficient to balance the accounts. No increase in public expenditures is contemplated for 1931-1932. On December 31, 1930, the public debt of Norway was 1,540 million kroner, \$412.7 million, as compared with 1,565 million kroner, \$419.4 million, a year ago.

TABLE 35: VALUE OF PRINCIPAL EXPORTS, NORWAY,
1929 AND 1930

In million kroner and dollars

Commodity	1929		1930		Percentage Increase + or Decrease -
	Kroner	Dollars	Kroner	Dollars	
Herring and fish.....	111.3	29.8	106.8	28.6	-4.0
Canned goods.....	25.9	12.3	35.5	9.5	-22.7
Fats, oils, tars, etc.....	57.2	15.3	39.9	10.7	-30.2
Timber.....	39.6	10.6	32.8	8.8	-17.2
Cellulose, paper, etc.....	194.1	52.0	172.7	46.3	-11.0

The index number of wholesale prices—base, 1913 = 100—declined from 150 in January, 1930, to 135 in January, 1931. During the same period the index of prices of vegetable foodstuffs declined from 146 to 111; animal foodstuffs, 147 to 146; chemical and technical goods, 185 to 156; textile goods, 180 to 151; iron and other metals, 137 to 118.

The gold and bullion reserve of the Bank of Norway was 146 million kroner, \$39.1 million, on January 15, 1931, as compared with 147 million kroner, \$39.4 million, a year ago. During the same period the bank's holdings of foreign bills and balances abroad declined from 36 million kroner, \$9.6 million, to 24 million kroner, \$6.4 million; discounts and loans, from 228 million kroner, \$61.1 million, to 183 million kroner, \$49.0 million; and notes in circulation, from 297 million kroner, \$79.6 million, to 290 million kroner, \$77.7 million.

THE NETHERLANDS

While evidences of business depression can be seen in the Netherlands, the country as a whole has enjoyed during the

past year a fairly satisfactory degree of industrial and trade activity. The most unfavorable factor in the situation has been the severity of business depression in the Dutch East Indies owing to extreme declines in the prices of colonial products, sugar, rubber, tin, and coffee.

Satisfactory conditions prevailed during 1930 in the electrical industry, repair-yards, ready-made clothing, superphosphate and sulphuric acid industries, and glass works. The margarin industry was affected unfavorably by the decline in orders from the East Indian estates and from the oil industry.¹ The output of coal increased from 11,582,000 tons in 1929 to 12,224,000 tons in 1930, and the number of coal miners from 35,485 to 37,553. The shipping industry remained in a state of depression throughout the year, and there are no prospects of an early improvement. The wholesale trade was unsatisfactory owing to extraordinary declines in prices. Wholesale prices as a whole were 17.1% lower in 1930 than in 1929, and those of foodstuffs were 20% lower.² The retail trade, on the other hand, was fairly active. Unemployment increased from 45,000 in December, 1929, to 90,000 in December, 1930. These figures, however, include only the workers registered at the Labor Exchanges, and total unemployment very likely exceeds 100,000 workers.

Foreign Trade

The value of exports in 1930 was 1,719 million guilders, \$691 million, and that of imports, 2,418 million guilders, \$972 million. The corresponding figures for 1929 are 1,989 million guilders, \$800 million, and 2,752 million guilders, \$1,106 million. The excess of merchandise imports in 1930 was 699 million guilders, \$281 million, or 63 million guilders, \$25 million, less than in the preceding year. The decline in the value of foreign trade, however, was due entirely to lower prices, the volume of both exports and imports being actually higher in 1930 than in 1929. Holland is a free-trade country. Certain articles are subject to an import duty of 8%, but this is imposed for revenue and not for protection.

¹ E. Heldring, "New Year's Address delivered to the Amsterdam Chamber of Commerce," Amsterdam, 1931, p. 39.

² *Ibid.*, p. 40.

TABLE 36: VALUE OF FOREIGN TRADE, THE NETHERLANDS, FIRST ELEVEN MONTHS OF 1929 AND 1930
In thousand guilders and thousand dollars

Group of Commodities	Imports				Exports			
	1929		1930		1929		1930	
	Guilders	Dollars	Guilders	Dollars	Guilders	Dollars	Guilders	Dollars
Livestock	4,365	1,754.7	5,846	2,350.1	13,598	5,466.4	14,001	5,628.4
Food, fodder, and drink								
Raw materials and semi-manufactures	406,604	163,454.8	339,131	136,330.7	339,861	136,624.1	291,351	117,123.1
Manufactures	140,744	56,579.1	106,387	42,767.6	344,852	138,630.5	294,937	118,564.6
Raw materials and half-finished products								
Animal	103,110	41,450.2	80,522	32,369.8	44,430	17,860.9	33,149	13,325.9
Vegetable	470,777	189,252.4	380,293	152,877.8	116,375	46,782.8	91,188	36,657.6
Mineral	329,391	132,415.2	316,167	127,099.1	131,782 ¹	52,976.4	129,237 ¹	51,953.3
Manufactured goods	1,074,557	431,971.9	1,017,817	409,162.4	802,920 ²	322,773.8	688,375 ²	276,726.7
Miscellaneous goods	8,314	3,342.2	7,153	2,875.5	51,818	20,830.8	59,233	23,811.7
Total	2,537,862	1,020,220.5	2,253,316	905,833.0	1,845,636	741,945.7	1,601,471	643,791.3

¹ Bunker coal for Dutch ships not included.

² Bunker oil for Dutch ships not included.

The ability of Holland to maintain the value and volume of its foreign trade at a remarkably high level in 1930 is attributed to the absence of artificially created and protected industries.

The unfavorable position of Dutch agriculture, however, has created a strong demand for protective legislation. The Lower House of Parliament has passed a bill providing for compulsory use of domestic flour in the manufacture of bread in order to promote the consumption of home-grown wheat. It is also proposed to grant a state credit of 4.5 million guilders, \$1,809,000, at 2% interest to the potato flour industry, which finds itself in great difficulties owing to the large crops of the last three years.¹ While this legislation would not involve imposition of tariff duties, it is strongly opposed by important industrial and commercial leaders, who do not favor any kind of governmental interference with, or assistance to, business.

Public Finance

Holland is one of the few fortunate countries in which the tax burden has been steadily reduced in recent years. In 1926-1927 a married man with 2 children, having a net income of 5,000 guilders, \$2,010, paid an income tax of 185.75 guilders, \$74.67, or 3.7% of his income. In 1930-1931 the income tax takes only 2.4% of his net income, or 119.76 guilders, \$48.14.² Government revenues in 1930 amounted to 601 million guilders, \$242 million, exceeding budgetary estimates by 20 million guilders, \$8 million. In spite of lower tax rates, the yield from the income tax was 82 million guilders, \$33 million, in the first 11 months of 1930, as compared with 76 million guilders, \$31 million, in the corresponding period of 1929.

The position of the Netherlands Bank is excellent. On February 2, 1931, the gold reserve of the Bank was 436 million guilders, \$175 million, as compared with 437 million

¹ Amsterdamsche Bank, "Financial and Economic Review," Amsterdam, January, 1931, p. 11.

² Rotterdamsche Bankvereniging, "Monthly Review," Rotterdam, February, 1931, p. 53.

guilders, \$176 million, on February 3, 1930. During the same period the Bank's holdings of foreign bills increased from 211 million guilders, \$85 million, to 250 million guilders, \$101 million. The ratio of reserves, not including foreign bills and credits, to liabilities was 53.5% on February 2, 1931, as compared with 55.0% a year ago.

TABLE 37: BALANCE SHEET OF THE NETHERLANDS BANK,
FEBRUARY 3, 1930, AND FEBRUARY 2, 1931

In thousand guilders and thousand dollars

	1930		1931	
	Guilders	Dollars	Guilders	Dollars
Gold in hand.....	437,019	175,681.6	436,088	175,307.4
Silver in hand.....	27,298	10,973.8	26,800	10,773.6
Notes in circulation.....	823,734	331,141.1	841,530	383,295.1
Other liabilities.....	20,482	8,233.8	23,623	9,496.4
Bills in hand.....	52,204	20,986.0	48,295	19,414.6
Advances.....	112,414	45,190.4	87,073	25,003.3
Foreign bills.....	211,308	84,945.8	250,373	100,649.9
Miscellaneous ¹	22,809	9,169.2	36,828	14,804.9

¹ Including balances abroad.

Capital issues in 1930 were higher than in any other year since 1920, with the exception of 1928. Table 38 shows the value of home and foreign capital issues for 1929 and 1930. The increase in 1930 was due entirely to larger foreign loans, home issues being considerably lower than in 1929. The largest single issue was the German International Loan of 73 million guilders, \$29 million. Germany was the largest single borrower, receiving a total of 132,516,005 guilders, \$53,271,434, or 55.6% of all Dutch foreign issues in 1930. Belgium and Belgian Congo borrowed 40,610,125 guilders, \$16,325,270, in 1930, or 17.0% of the total. With the exception of 3 small Chilean issues and 1 loan of 5,760,000 guilders, \$2,315,520, to the State of São Paulo, Brazil, no loans were made to South American countries. More than 80% of all foreign issues in 1930 were floated in the first six months of the year. Political disturbances in Germany and revolutions in South America brought about an almost complete cessation of Dutch foreign lending in the second half of 1930.

TABLE 38: CAPITAL ISSUES, THE NETHERLANDS,
1929 AND 1930

Type of Issue	1929		1930	
	Guilders	Dollars	Guilders	Dollars
HOME ISSUES.....	406,282,895	163,325,724	355,744,076	143,009,118
New issues.....	325,259,190	130,754,195	289,857,916	116,522,882
Conversion issues.....	81,023,705	32,571,529	65,886,160	26,486,236
FOREIGN ISSUES.....	138,100,975	55,516,592	240,164,118	96,545,975
New issues.....	138,100,975	55,516,592	238,466,618	95,863,580
Conversion issues.....	..	..	1,697,500	682,395
Total issues.....	544,383,870	218,842,316	595,908,194	239,555,093

There is considerable opposition in Holland to the Chadbourne plan for sugar control.¹ It is felt that the plan involves undue sacrifices for the Java sugar industry and is intended primarily to favor Cuban sugar producers and the American beet-sugar industry. It is pointed out that the latter are not contemplating any restriction of production, and that the duty on sugar imports from Cuba to the United States is 20% less than on sugar from other countries. Restriction of production would benefit Cuba through the increase in price, but the Java industry, whose strongest point is its low production cost, would derive a doubtful benefit from it. Furthermore, the Dutch interests feel that the cooperation of Russia and Peru is necessary for the successful operation of the plan.²

CZECHOSLOVAKIA

The effect of business depression in Czechoslovakia is seen in the large increase in unemployment, lower output of coal, pig iron, and steel, marked decline in exports and imports, and acute crisis in the textile industry and in agriculture owing to unremunerative prices. In December, 1930, the number of unemployed workers was 230,766, as compared with 52,809 in December, 1929. The output of coal declined from 22,560,000 tons in 1929 to 19,129,000 tons in 1930; that of pig iron, from 1,619,000 tons to 1,420,000 tons; and that of steel, from 2,145,000 tons to 1,820,000 tons. The difficulties of the textile industry were increased owing

¹ See pp. 87-92.

² *Rotterdamsche Bankvereniging*, op. cit., pp. 63-64.

to the cancellation of numerous Hungarian orders after the failure of commercial negotiations between Hungary and Czechoslovakia.

The index number of wholesale prices—base, July, 1914 = 100—declined from 862 at the end of 1929 to 752 at the end of 1930. During the same period the index numbers of the cost of living¹ declined from 745 to 706. In order to stimulate trade, the Czechoslovak iron and steel producers reduced the price of construction iron by 10 crowns, \$0.30, per quintal, which has led to a reduction in the wholesale price from 156.2 crowns, \$4.62, to 142.0 crowns, \$4.20, in December, 1930. Marked price reductions are also practised by the lumber, ceramic, glass, and chemical industries.²

TABLE 39: VALUE OF FOREIGN TRADE, CZECHOSLOVAKIA,
1929 AND 1930

In million crowns and million dollars

Group of Commodities	1929		1930		Percentage Increase + or Decrease -
	Crowns	Dollars	Crowns	Dollars	
Imports					
Live stock.....	950	28.1	723	21.4	-23.9
Foodstuffs and beverages.....	2,918	86.4	2,650	78.5	-9.2
Raw materials.....	9,777	289.4	7,128	211.0	-27.1
Finished manufactures.....	6,234	184.5	5,149	152.4	-17.4
Return merchandise.....	60	1.8	45	1.3	-25.0
Total.....	19,939	590.2	15,695	464.6	-21.3
Exports					
Live stock.....	35	1.0	54	1.6	+54.3
Foodstuffs and beverages.....	2,341	69.3	1,705	50.5	-27.2
Raw materials.....	3,433	101.6	2,792	82.6	-18.7
Finished manufactures.....	14,606	432.4	12,865	380.8	-11.9
Return merchandise.....	68	2.0	63	1.9	-7.4
Total.....	20,483	606.3	17,749	517.4	-14.7

The value of exports in 1930 was 17,479 million crowns, \$517 million, and that of imports, 15,695 million crowns, \$465 million. The former was 21.3% lower and the latter 14.7% lower than in 1929. The surplus of merchandise exports over merchandise imports in 1930 was 1,784 million

¹ A wage-earner's family of five members.

² National Bank of Czechoslovakia, "Bulletin," No. 1, 1931.

crowns, \$53 million, as compared with 444 million crowns, \$16 million, in 1929. The value of important exports and imports in the last ten years is shown in Table 40. On the whole, Czechoslovak industry has been able to maintain a relatively high level of exports owing partly to the great variety, good quality, and low price of products exported.

TABLE 40: VALUE OF PRINCIPAL EXPORTS AND IMPORTS,
CZECHOSLOVAKIA, 1929 AND 1930
In million crowns and million dollars

Commodity	1929		1930		Percentage Increase + or De- crease -
	Crowns	Dollars	Crowns	Dollars	
Exports					
Sugar.....	1,068	31.6	828	24.5	-22.5
Wood.....	615	18.2	503	14.9	-18.2
Cotton goods.....	2,883	85.3	2,412	71.4	-16.3
Woolen goods.....	2,106	62.3	1,674	49.6	-20.5
Iron and steel.....	1,804	53.4	1,892	56.0	+4.9
Machinery.....	547	16.2	473	14.0	-13.5
Glass and products.....	1,379	40.8	1,154	34.2	-16.3
Leather and products.....	1,420	42.0	1,148	34.0	-19.2
Paper and products.....	466	13.8	468	13.9	+0.4
Imports					
Grain, flour, etc.....	1,154	34.2	1,143	33.8	-1.0
Vegetables.....	858	25.4	650	19.2	-24.2
Raw cotton.....	1,953	57.8	1,411	41.8	-27.8
Total cotton.....	2,417	71.5	1,797	53.2	-25.7
Machinery.....	796	23.6	581	17.2	-27.0
Iron and steel.....	763	22.6	504	14.9	-33.9

The relatively favorable economic position of Czechoslovakia is to a large extent due to the sound fiscal policies of the government. Since 1925 the Czechoslovak budget has yielded a surplus of revenues over expenditures. The budget for 1931 provides for expenditures of 9,839 million crowns, \$291.2 million, and revenues of 9,844 million crowns, \$291.4 million. As compared with 1930, expenditures are 5% greater.¹ This departure from the policy followed during the last five years became necessary as a result of larger requirements for pensions and obligations assumed by the government in settlement of its war debts to the Allies.

¹ The Economist, January 3, 1931, p. 18; Commerce Reports, February 2, 1931, pp. 280-281.

The position of the National Bank of Czechoslovakia is sound. The gold and silver reserve increased from 1,262 million crowns, \$37.4 million, at the end of January, 1930, to 1,544 million crowns, \$45.7 million, a year later. During the same period the Bank's holdings of foreign exchange and balances abroad increased from 2,116 million crowns, \$62.6 million, to 2,283 million crowns, \$67.6 million, while the volume of bank notes in circulation declined from 4,101 million crowns, \$121.4 million, to 3,745 million crowns, \$110.9 million. The discount rate of the National Bank was reduced from 5.0% to 4.0% in 1930. The Bank's control over the money market, however, is very slight, and the cartel of commercial banks has kept the cost of commercial credit at about 9.0%.¹

¹ Commerce Reports, February 2, 1931, p. 280.

CANADA¹

During the first half of 1930 industrial and trade activity in Canada was on the whole fairly satisfactory in comparison with conditions in other countries of the world. In the second half of the year, however, a serious decline in business set in, and no definite signs of improvement were visible early in 1931. The index number of employment—base, 1926=100—including all lines of activity, declined from 118.9 in July, 1930, to 100.7 in February, 1931. Particularly marked declines in employment occurred in the manufacturing, transportation, and construction industries. The number of applicants for work increased from 42,000 in July, 1930, to 86,000 in January, 1931. The production of automobiles and trucks, iron and steel, and newsprint was greatly curtailed. The newsprint industry is faced with the problem of overproduction and reduced markets. Its output in 1930 is estimated at 2.5 million tons, as compared with 2,728,800 tons in 1929.

The gross value of the production of manufactures in 1930 is estimated at \$3,409 million; that of construction, at \$565 million; and that of mining, at \$245 million. As compared with 1929, the construction and mining output was 21.0% lower in value, and the output of manufactures, 15.9% lower. The per capita production in 1930 was \$530.00, or about 20% lower than in 1929.

The value of imports for home consumption in 1930 was 22.4% lower, and that of exports of domestic produce, 25.1% lower than in 1929. The value of imports was \$1,008 million, and that of exports \$905 million in 1930. The effect of the tariff legislation passed at the emergency session of Parliament in September, 1930, is perhaps reflected in the great decline in imports during the last quarter of the year.

¹Sources of information: Royal Bank of Canada, Monthly Letter, Quebec; Canadian Bank of Commerce, Monthly Commercial Letter, Montreal; Dominion Bureau of Statistics, Monthly Review of Business Statistics, Ottawa; Commerce Reports.

It also appears that the new tariff has affected Canadian imports from the United States much more strongly than those from Great Britain. In November, 1930, for example, the value of imports from the United States was \$43 million, a decline of 39% as compared with November, 1929, while the value of imports from Great Britain declined only 6%, from \$17 million to \$16 million.

TABLE 41: INDEX NUMBERS OF AUTOMOBILE, IRON, STEEL, AND NEWSPRINT PRODUCTION, CANADA, 1929 AND 1930

Base: 1919-1924=100

	Automobiles		Iron		Steel		Newsprint	
	1929	1930	1929	1930	1929	1930	1929	1930
July.....	202.9	118.1	169.4	109.8	198.4	104.5	268.0	254.0
August.....	177.5	122.1	191.0	97.6	184.0	88.0	257.9	235.1
September.....	164.8	94.8	167.9	82.1	151.4	85.3	271.0	232.9
October.....	185.6	51.6	155.2	68.0	176.9	100.0	284.0	235.0
November.....	125.9	72.0	146.9	78.7	143.1	109.5	291.0	233.0
December.....	70.3	72.0	140.4	65.0	126.0	85.8	275.0	221.9

Agricultural Conditions

According to the final estimate of the Dominion Bureau of Statistics, the acreage of all field crops in 1930 increased from 61.2 million in 1929 to 62.2 million acres in 1930. Wheat was sown to 25 million acres, or slightly less than in 1929, but increases were reported for rye, flaxseed, mixed grains, vegetables, fodder corn, hay, and clover. In 1930 the value of the field crops was \$632 million, and that of the wheat crop, \$175 million, a decline of 33% and 45%, respectively, as compared with 1929. The average price of wheat fell from \$1.05 a bushel in 1929 to \$0.44 a bushel in 1930; oats, from 59 cents to 24 cents; barley, from 59 cents to 20 cents, and rye, from 84 cents to 20 cents.

A report published by the Canadian Wheat Pool for the crop year ended August 31st, 1930, stated that in its operation nearly \$12 million had been lost on wheat sold, and that on the carry-over from the 1928 and 1929 crops, on which \$1.00 a bushel initial payment had been made, the loss would be about \$8 million more, making a total loss of \$20 million. Total Canadian stocks of wheat in store on January 30, 1931, amounted to 203,387,000 bushels, or 8% less than a

year ago. The most serious factor in the present outlook in Canada is the position of the farmer. The return of agricultural prosperity will be contingent not merely on the size of Canadian crops, but on the size of crops of other countries. Australia and Argentina are producing larger crops, Europe and the United States have a heavy carry-over. There is little prospect of higher prices during the coming year. With the lowest prices in the history of the Winnipeg grain exchange, the problem is becoming acute and is the most pressing question now before the government.

Mining Industry

Mining has proved one of the best stabilizing influences in business during 1930. New records both in quantity and value of output were established for gold, petroleum, and natural gas. In quantity, silver, copper, and zinc also reached new records of output, although low prices reduced the value of output below that of 1929. Until recent years practically all Canadian copper was refined in the United States, but refineries have been built or are under construction which will give Canada a capacity in excess of domestic requirements. The Canadian copper-using industries will have available materials of purely domestic origin.

The nickel production in 1930 was affected by the world depression. About 80% of the total world consumption of nickel comes from Canadian mines. The increasing diversification of uses for the metal gives promise of greater prosperity in the future.

The output of zinc was higher in 1930 than a year ago, largely as a result of the application of the electrolytic method of treating the lead-zinc ores of British Columbia. Canada has reached sixth place as a zinc-producing country. Gold production in 1930 for the first time exceeded two million ounces, valued at \$43,193,296. It is reported that the mining interests are speeding up production and plan to raise the output of gold to \$57 million in 1931. Canada is now exceeded only by South Africa as a gold producer, if Philippine production is excluded from the figure officially given for the United States. Petroleum output is slight, only 1.5 million barrels in 1930, but development work is pro-

ceeding steadily and the outlook for increased production is encouraging. Coal production, first in value among Canada's mineral products, declined from 17.5 million tons in 1929 to 14,780,000 tons in 1930. Domestic coal reserves are located in the eastern and western provinces. Ontario and Quebec, the industrial provinces, are largely supplied from the United States and, while domestic output declined 15%, coal imports from the United States, declined only from 13 million tons in 1929 to 12 million tons in 1930, or 7%.

Although little acceleration in industrial activity took place early in 1931, the manufacturers seemed to be gaining confidence. The improved sentiment is shown in the upward turn of security prices from the low point reached in December, 1930.

TABLE 42: INDEX NUMBERS OF SECURITY PRICES

Base=1926 average

Year and Month	General	Industrials			Mining	Utilities		
		Total	Iron and Steel	Textiles and Clothing		Total	Transportation	Banks
1930, October	111.3	129.2	146.8	64.5	61.3	112.7	107.6	113.3
November	109.6	129.0	145.9	62.7	60.5	109.5	105.7	109.3
December	103.1	120.3	142.2	65.0	59.2	104.7	96.7	108.2
1931, January	106.9	124.7	143.7	65.9	68.4	107.3	102.2	109.1

Recent orders for railway equipment, which have helped the steel mills, may be due partly to a loan floated in the United States in January, 1931. This offering, issued by the Canadian National Railways and guaranteed by the Canadian Government, was for \$70 million, a portion to be used for refunding purposes and the balance for capital expenditures.

Capital flotations of Canadian securities in the United States in 1930 amounted to \$435 million, of which \$382 million was for new capital and the balance for refunding. Government issues, provincial and city, amounted to \$138 million, of which \$7 million was for refunding. Corporate issues amounted to \$297 million, of which \$260 million were long-term bonds and notes, and the balance, stock

and short-term loans. The total foreign investments in Canada amounted to \$6,375,533,000 at the end of 1930. Of this amount, 61% was from the United States; 35%, from Great Britain; and 4%, from other countries. In 1913, only 22% was from the United States and 73% from Great Britain.

The gross indebtedness of the Canadian government at the end of 1930 was \$2,680 million; the net debt, \$2,194 million, was an increase of \$35 million over the net debt a year ago. About two thirds of the gross indebtedness consists of internal obligations, most of which were incurred for war purposes. About one eighth is floating debt. Of the external debt, somewhat over half was borrowed in London and the balance in New York. From April 1, 1930, to January 31, 1931, government expenditures have exceeded revenues by \$23 million. Revenues for the period were \$308,768,000, or 18.5% lower than in the corresponding period of 1929. During the same period expenditures increased 4%, to \$335,810,000.

CENTRAL AMERICAN COUNTRIES

CUBA

As a result of the critical situation in Cuba caused by the difficulties of the sugar industry, the attempt to unite the sugar-producing countries of the world in a program of restriction of sugar output is at present commanding greatest attention. Overproduction has affected various other industries, especially those producing staple products, such as coffee, rubber, petroleum, copper, and wheat, and many attempts have been made in these fields of production to control output. Hitherto little or no success, however, has been achieved. Whether the latest plan will restore Cuba to prosperity and point the way for others remains to be seen.

The "Chadbourne Plan," as it is called, proposes a five-year curtailment of the output and exports of sugar sufficient to permit absorption of the existing surplus and to raise prices to a point covering costs of production. The surplus to be disposed of, according to Mr. Chadbourne, amounted to about 1.5 million tons in Cuba, 1.2 million in Europe, and 500,000 tons in Java in December, 1930. The surplus in Java was created through the introduction of a new high-yielding variety of cane, combined with a sharp reduction in exports due to the state of unrest in China. In Europe the sugar-beet acreage was increased in 1930-1931, producing a crop over 25% greater than a year ago. In Cuba, abandonment of the policy of crop restriction, which had been maintained for the crops of 1925-1926 to 1927-1928, resulted in a crop of 5,156,315 tons in 1928-1929, a new record in Cuba's history. The marketing control, introduced in 1929 with the object of withholding half a million tons or more in order to let consumption catch up with production, proved unsuccess-

¹ Sources of information: Commerce Reports; U. S. Bureau of Foreign and Domestic Commerce, Trade Information Bulletins; Commercial and Financial Chronicle; U. S. Department of Agriculture, Foreign Crops and Markets; New York Times dispatches; Royal Economic Society, Memorandum No. 23, London; The Economist; U. S. Department of Commerce, Business Situation at Home and Abroad, Latin American Notes; Willer & Gray, Weekly Statistical Sugar Journal.

ful; and finally the tariff revision in the United States in 1930 removed all hope of recovery through independent action.

A policy of *laissez faire* would correct the situation. The low price for sugar would discourage production; producers whose costs were highest would be eliminated; and output would return to a level where price would again cover the costs of those producers left in the field. This process of elimination, however, is painful, and the weak producers always call for government assistance, whereby in one way or another the consumer may be made to carry the burden of their unprofitable enterprise. In Cuba there were other motives, also, which made a *laissez-faire* policy still less attractive. It would have disproportionately increased unemployment, already a serious problem, for the weaker, least efficient producers in Cuba are the small-scale concerns with a relatively high labor cost. General restriction of output would also throw out a certain amount of labor, but not so much as a complete elimination of a large number of marginal concerns. In the second place, since most of the small-scale producers are Cuban, their elimination would mean a complete surrender of the sugar industry into the hands of foreign interests. The gradual acquisition by foreign capital of the industry that has been its mainstay since the beginning of the sixteenth century has been far from agreeable to patriotic Cubans, even though the rapid expansion of sugar production under American management has meant increased prosperity.

The earlier measures for restriction were put into effect with government support, largely in order to prevent extinction of the high-cost native producers. On the same grounds, the policy of market control by the Co-operative Sales Agency, popularly known as the "Single Seller," was at first favored by the domestic producers and the Cuban Government, although it was opposed by the American mills, which had lost faith in any improvement through artificial measures and were in the strongest position to survive. Later, when the "Single Seller" found itself in financial straits, unable to obtain funds to carry the unsold stocks, the positions were completely reversed, and the Cubans,

realizing that retention of the scheme would mean bankruptcy, voted solidly to abolish the Agency, while the American mills were in favor of maintaining it. The Agency was abolished because of the certainty that, if it were retained and the Cuban producers were ruined, the government itself would dissolve it.

To be effective, restriction of production, as has been proved by repeated experience, must be practiced by all producers. Cuba's output, unrestricted, represents only about one fifth of the total world's sugar production. Co-operation of the other producers or potential producers was essential. The possibility of obtaining this co-operation was not so remote as might at first appear. The price of sugar is set in the world market. Cuba's situation must affect all, and, while the opponents of the Chadbourne Plan accused Cuba of trying to induce other countries to pull its chestnuts out of the fire, the fact remained that it would be to their disadvantage not to do so. Furthermore, the possession by Cuba of 1.5 million tons of sugar that might easily be dumped in neutral consuming markets was in itself an argument not to be disregarded.

On the other hand, the difficulty of obtaining complete unity of policy cannot be overstated. Problems of production differ widely in the several countries; some produce sugar from beets, others from cane; some are highly industrialized, others industrially undeveloped; costs of production vary greatly; problems of marketing are different. Java is the most serious obstacle. As the world's lowest-cost producer, Java is in a position to pass through the depression most easily and to emerge in the strongest position.¹ While admittedly some large American mills in Eastern Cuba can probably produce more cheaply than the best mill in Java, Cuba cannot produce 3 million tons at so low an average unit cost as can Java. Germany has its problem of indemnity payments. Small producers in Latin America may feel that they stand to gain by letting the big producers bear the burden of restricting output to maintain prices.

¹ While the leading sugar companies in Cuba are heavily mortgaged, the prominent sugar companies in the Dutch East Indies have, in most cases, written off their property account and have, with very few exceptions, no senior obligations outstanding.

In the case of Russia, which has a reported production for 1930-1931 of 2 million tons, it seems unlikely, in view of the present Soviet policy of raising credits abroad by forced selling, that this country will step into line with the others. Finally, even if the co-operation of the representative groups in each country could be secured, there would still remain the problem of effectively controlling all the individual producers within the groups.

In view of the difficulties involved and past failures, greatest care had to be exercised in the order of steps taken to carry the new plan into effect. The first essential was to secure adequate financial backing. Funds had to be obtained to buy up and carry the sugar to be withheld from the market. This was obtained from banking interests in New York. With their aid promised, Cuba next completed an agreement with producers within the United States tariff wall—the beet and cane sugar producers on the continent and the cane sugar producers in Porto Rico, Hawaii, and the Philippines—to the effect that Cuba would limit exports to the United States to 2.8 million tons for 1931, increasing the quota in the following two years in proportion to increasing consumption, while the United States producers would limit their output to the 1929-1930 level, plus a proportionate increase for increasing consumption. The exports of Cuban sugar to countries outside of the United States were to be limited to 1.5 million tons a year during the five-year period and to be marketed by the National Sugar Export Corporation. Having insured their position in their chief market, with effective financial backing available, and with a heavy surplus ready to dump elsewhere if necessary, Cuban producers next approached the Java interests, for not only is Java the least interested and therefore the most difficult prospect, but Java is the second largest sugar-exporting country in the world. Without Java's co-operation success of the entire plan would be seriously jeopardized. At Amsterdam on December 8, 1930, it was reported that a tentative agreement had been reached, after considerable negotiation, with officials of the Java Sugar "Trust."¹ Next

¹ The "Trust," as commonly referred to in Java, is the "Vereenigde Javasuiker Producenten" or V.J.P. This association represents about 90% of the total output of Java sugar. Three of its largest members control 50% of the sugar output.

came the world sugar conference at Brussels. Difficulty here was met chiefly from Germany, whose refusal to accept a sugar export quota comparable to those accepted by the other sugar-producing countries brought the Brussels parley to an end. After further negotiations in January, however, a compromise was reached whereby Germany is to have an export quota for the five years amounting to 1,750,000 tons, as compared with its demand of 1,850,000 tons and the quota originally assigned to it of 1 million tons, the extra 750,000 tons having been obtained by reducing the quota of the other beet sugar-producing countries by 175,000 tons and cutting down Cuba's quota by 575,000 tons.

On January 17 seven countries signed an agreement for restriction of production: Cuba, Java, the Netherlands, Poland, Czechoslovakia, Germany, and Belgium. Negotiations with Russia, Japan, Great Britain, Argentina, Peru, and Santo Domingo were scheduled to follow, after which it was expected that the smaller countries would readily fall into line. Finally the provisional agreements must be crystallized into permanent pacts made effective either by government ratification on the part of the signatory nations or by monetary penalties or by both. A permanent international commission, it is planned, will be formed by representatives of the industry in each signatory nation, to meet from time to time and solve problems relating to the world sugar industry; and an executive committee or a general manager will be appointed to supervise, to detect violations of the agreement, determine prices and penalties, and so on.

Meanwhile the signatory countries have been taking steps to put the restriction policy into effect. The German National Government was reported as planning to force the sugar industry to organize, in case it does not do so voluntarily, and the Verein Deutscher Zucker Industrieller has reduced its export quotas from 25% to 20% of total production, increasing the percentage to be stored by refiners or fed to livestock by the farmers. In Cuba President Machado issued a decree limiting exports to the United States to 2,577,000 tons, as agreed with Germany, and restricting the total sugar output for 1931 to 3,122,000 tons. All sugar to be exported must be charged to the quota of the respec-

tive importing country and to the individual export quota to be definitely fixed for each mill. Permits for exportation of sugar were issued prior to the publication of the decree. The contract for the dollar loan to finance operations, signed by President Machado in the middle of December, provides for a bond issue of \$42 million. These bonds are to be deposited with the bank, acting as trustee, but as they are not to be marketed until a more favorable opportunity, the National Sugar Export Corporation, which is authorized to buy up the 1.5 million tons of sugar surplus on hand, to be sold later over the five-year period, will pay at the rate of \$4 per bag, pending the ultimate sale of the bond issue, with the trustee bank's deposit receipts.

While the preliminary arrangements have been carried to the point where it seems probable that the final treaty will be negotiated,¹ the really critical period will come when the immediate crisis is over and the necessity for co-operation becomes less pressing.

General Conditions

The importance of sugar to the general welfare of Cuba is made manifest by the extent of business depression and suffering throughout the island. The chief victim has been the farm laborer. Even at starvation wages, many have not been able to obtain reasonably continuous employment. The colonos, or cane farmer, has suffered next to the laborer. Sugar mills pay for cane, outside of so-called "administration cane" ground by the mills themselves and comprising about 15% of the total, on a basis proportionate to the average price for the sugar. A price for sugar sufficient to cover costs—the average over the five years 1925 to 1929 and the price contemplated in the Chadbourne Plan—is 2½ cents per pound. On September 30 the price of Cuban raw sugar c. i. f. New York reached 0.94 cents a pound. Not only have the cane farmers had to accept a proportionate price cut for cane sold, but they have been unable to obtain the customary advances from the mills for the new crop ex-

¹The People's Council of Java, the legislative body, on March 17 authorized the government to apply the necessary restrictions upon exports during the five-year period in order to make effective the Chadbourne plan for the rehabilitation of the world sugar industry.

penses. During the past six years the cane farmers have become hopelessly indebted to the mills and are reduced virtually to the status of sub-managers. This is an advantage to the mills, in so far as it increases the control over production, but in the process the cane farmer has been able to make little more than a bare living. The evidences of depression in the cities—reduced sales, unemployment, credit stringency, and slow collections—need no comment. Business experienced a slight turn for the better early in January, due partly to buying of presents in anticipation of “Three Kings Day,” on January 6, which is the equivalent of our Christmas, partly to progress reported in the sugar negotiations, and partly to the seasonal factor of the tourist trade, although this influence was less than usual because of conditions in the United States. The resale of lottery tickets is regarded as one of the best indexes of the current buying power of the people. This year’s issue of the Christmas lottery was reduced to 9,000 tickets, as compared with 13,000 last year, and, notwithstanding decrease in the resale price from \$1.30 a fraction to \$1.05 a fraction, the sales were so slow that the drawing was postponed a day to provide extra time for the dealers to dispose of their tickets.

Financial Situation

The slight improvement of business conditions early in January was ended by the new Emergency Tax Bill. This was a very comprehensive and general upward revision of most existing forms of taxation, with the addition of several new taxes. Directly or indirectly it affected practically every kind of business activity. Among the new taxes are a tax on alcoholic liquors for export and on manufactured and leaf tobacco for export, a tax of 10% on all money definitely leaving Cuba, and a tax on profits, which is said to be virtually a tax on gross income. Important tax increases are a 400% increase in the tax on coal, an increase in the tax on petroleum and its by-products, a 100% increase in taxes on transfers of real property, and increases in consular fees running as high as 700%.

The new law, President Machado said, was necessary to restore the depleted national treasury. The Cuban Gov-

ernment, it is reported, has been currently operating with an annual deficit of about \$10 million. Revenues during the fiscal year ended June 30, 1930, amounted to \$105,134,641, while expenditures were \$117,894,515. For the period from July 15 to December 31, 1930, revenues were about \$29 million, and expenditures, \$34.5 million. According to bankers informed concerning the affairs of the island, the government debt has grown to approximately \$215 million. Of this, about \$180 million is external; \$15 million, internal; and \$20 million, floating debt resulting from the cumulative budget deficit.

With the sugar industry in dire straits, taxes raised to the utmost, the government operating with a deficit, and the public debt increasing, the plan announced on February 18, 1931, for the establishment of a central bank and the issue of a new currency, it is feared, may be the first step toward monetary inflation. At present the money of Cuba is United States currency, and as such is on a sound gold basis and quite beyond the reach of manipulation. The new currency will be Cuban pesos, on an initial parity with the United States dollar, but it is understood that it is to be made sole legal tender for all debts, even when contracts call for payment in United States money. If this should be put into effect, the result would be to drive out all United States currency circulating in Cuba.

The proposed bank, according to the plan as reported, is to have a twenty-year concession for issuance of Cuban gold, silver, and paper money, the paper money having as a guarantee 50% in gold and silver coins held in the bank's vaults and 100% in mercantile paper, except \$50 million, which will not be guaranteed in gold and silver coins, but 100% in government bonds, plus 100% in mercantile paper. The government is to float a special issue of bonds amounting to \$75 million, to be turned over to the central bank in exchange for new Cuban pesos. The bank will set aside \$10 million of this sum as its capital. The balance will be used in exchange for United States currency now in circulation in Cuba, this currency to be used to establish balances in the United States. Indirectly the United States dollars, so long as they are held intact, would serve as a gold reserve

of about 87% behind the Cuban paper currency. In addition to the paper currency, the bank is to increase the limit of its silver coinage from \$12 million to \$32 million, the contention being that silver coinage in other countries amounts to \$10 per capita, but only to about \$3.50 in Cuba. A substantial part of the silver coinage is to be held in the vaults of the bank, and paper currency similar to United States silver certificates is to be issued.

The direction of the bank would be in charge of a board of ten directors, five of them appointed by the President, and one each by Congress, the Havana Clearing House, the National Association of Cane Planters and Sugar Manufacturers, the National Cane Planters Association, and the Cuban Chamber of Commerce.¹

The announcement at the same time of a program to reorganize the school system is of interest in the light of the frequent disturbances occasioned by the university students against the continuance of the government of President Machado. Of interest from the same point of view is the passage of a bill on January 26, 1931, authorizing the President to continue indefinitely the present suspension of individual constitutional rights. Although the bill was passed without a quorum and with only one member of the opposition present, the speaker declared the measure adopted.

MEXICO²

A special session of Congress will be called in March to consider the ratification of the Mexican debt agreement prepared last summer, July 25, 1930, by Thomas Lamont and Luis Montes de Oca. The original agreement was not submitted to the last Congress, which adjourned December 30, 1930, on account of the unfavorable silver situation, which might have prevented its ratification. The unprecedented drop in the value of silver, to a record low of less than

¹ According to more recent information, the project for a central bank has been postponed for the present.

² Sources of information: U. S. Department of Commerce, Commerce Reports, Monthly Petroleum Statistics; Samuel Montagu, Weekly Review of Foreign Exchanges, London; Commercial and Financial Chronicle; Federal Reserve Board, Monthly Bulletins.

25 cents an ounce in February, resulted in a heavy discount on silver pesos. Since the revenues of the government are received chiefly in silver pesos, this would impose a corresponding increase in the burden on the Treasury to convert the revenues into gold for the international transactions.

A modification of the agreement, however, was prepared and signed January 29, 1931, which permits the government to pay to the International Committee, representing the bondholders, silver pesos equivalent at the rate of exchange prevailing on July 25, 1930, to the amounts scheduled in the original agreement for 1931 and 1932, or a total of 25.5 million United States dollars. The silver is to be deposited in a responsible bank in Mexico City until the exchange situation makes it possible to convert the fund without loss into gold for transfer to New York. The \$5 million gold already paid to the International Committee toward the interest and amortization charges due for 1931 will be returned, to be used to alleviate the exchange situation by converting it back into silver, which will be deposited with the other silver in the National Bank of Mexico.

Although the international transfers would be suspended by this plan for a period of two years, it cannot be considered as a moratorium, since the government would make its payments to the bondholders' representatives in Mexico according to the schedule. The original plan for settlement, it will be remembered, scaled down the government external indebtedness to \$350 million, a sum leaving the principal of the debt about as it was but providing for a sweeping remission of the accumulated arrears of interest. New bonds were to be issued in exchange for the defaulted obligations and made a first lien on customs revenues. In the case of the national railways, the various debts were to be consolidated into a new 5% issue, secured by a general mortgage.

A further plan for modification of the pact before it is placed before Congress was launched at the closing session of the National Economic Congress, through a reduction of the interest rate on the railway debt from 5% to 4½%, on the ground that only a small portion of the present bonds bear the 5% rate.

The federal revenue budget for 1931 amounts to 298.5 million pesos, \$148,802,250, a favorable showing in comparison with the budget plans for 1930 and 1929. The revenue law for 1931 increases the gasoline tax and also the municipal surcharge on import duties. For 1930 total customs receipts were 117,510,000 pesos, \$58,578,735, or 14 million pesos, \$6,979,000, above those for the preceding year.

Foreign Trade and Exchange Rates

The difficulty in the conversion of silver pesos of government revenue into gold for payment abroad, occasioned by the low value of silver and the discount on the silver peso as against gold, may be enhanced, unless conditions improve materially during the coming year, by the decline in both quantity and price of Mexico's exports and by the consequent difficulty in establishing credits abroad. The petroleum output for 1930, estimated at 39,530,000 barrels, continues the steady decline in petroleum production since the maximum output of 193 million barrels reached in 1921. Exports for the first 10 months of 1930 amounted to 23 million barrels. United States imports of crude petroleum from Mexico for the whole year were 10.1 million barrels, as compared with 12,660,000 barrels in 1929. The average import price was \$0.82 per barrel, as compared with \$0.90 in 1929. The United States takes practically all the copper and lead exported. United States copper imports from Mexico in 1930 were 145,244,000 pounds, or 15% less than in the preceding year, and in value \$17,776,000, or 31% less. Lead imports from Mexico declined from 173,745,000 pounds, valued at \$8.6 million, to 73,382,000 pounds, valued at \$3,470,000, a decrease of 58% in quantity and of 60% in value. Silver exports to the United States declined 38% in value, from \$40,511,000 to \$24,897,000.

Mexico's trade with the United States represents nearly 70% of its total trade with all countries. United States purchases in 1930 were 32% lower than in 1929 according to United States statistics, while United States sales to Mexico declined only 13%. Mexico's adverse balance of trade with the United States in 1930 was over twice as large as in 1929.

Normally, Mexico has a surplus of commodity exports in its trade with the United States. During the five years 1924 to 1928, purchases by the United States from Mexico were over 20% higher than purchases by Mexico from the United States.

The decline in peso exchange doubtless largely reflects the unfavorable balance of trade. The average rate for the whole year was 47.1331 cents, or 5% below par. In the last two months of 1930 there was a sharp decline to 9% below par for the December average. The favorable reaction in January was due partly to the arrangement early in the month with the National City Bank of New York for credit up to \$15,000,000 to be used for stabilizing exchange and later to the announcement of the change in the Lamont-Oca debt agreement. A special monetary commission, consisting of representatives of the Treasury Department, the

TABLE 43: COTTON ACREAGE AND PRODUCTION OF COTTON, MEXICO, 1909-1910 TO 1930-1931

Period	Acreage	Bales	Bales per Acre
Average 1909-1910 to 1913-1914.....	253,000	187,000	0.74
Average 1921-1922 to 1925-1926.....	329,000	184,000	0.56
1928-1929.....	502,000	278,000	0.55
1929-1930.....	492,000	246,000	0.50
1930-1931.....	393,000	169,000	0.43

National Banking Commission, and the Bank of Mexico, was appointed to regulate exchange, but it was thought that no effort would be made to bring the peso back to par, owing to the adverse effect of any such measure on export trade. The increase in import duties on various commodities and the support extended by the government to the "Buy Mexican-Made Goods" campaign, begun some time ago by the Monterey Chamber of Commerce, may help to restore the balance of exchange by curtailing imports.

Agriculture

Attention is being turned to modification of the agrarian laws. This is considered one of the most important factors in the future progress of the country. The outlook for the winter wheat crop was reported in January as satisfactory,

with a larger acreage under cultivation. The wheat crop for 1930 was 11,274,000 bushels, practically the same as in 1929. The 1930 corn and bean crops, on the other hand, were 14% less than in 1929, which itself was a bad year. The cotton crop for the season 1930-1931, from an acreage 20% less than in the preceding season, is reported as 31% below that of the preceding year, as shown in Table 43. Cultivation of about 42,000 acres of land in the States of Nuevo Leon and Coahiula, irrigated by the Rio Salado Dam, will be started shortly.

SOUTH AMERICAN COUNTRIES

ARGENTINA¹

Among the many adverse elements of the general economic situation in Argentina, two favorable factors stand out. The vigorous way in which the provisional government has set to work to put its house in order and the prospect of abundant harvests afford a basis for improvement during the coming year and have combined to arouse a somewhat more optimistic tone among business men.

The Financial Situation

General Uriburu, upon his assumption of control in September, 1930, found an administration deficit of 300 million paper pesos, \$127,350,000; and, in addition, expenditures for public works amounting to 395 million paper pesos, \$167,677,500, which has been paid with general treasury funds instead of the proceeds of long-term bond issues, as authorized under existing laws. The total floating debt, he reported, amounted to 1,200 million paper pesos, about \$509 million, inherited from the previous administration. Of the total, 720 million paper pesos, \$305,600,000, was a deficit left from the two years of the deposed President Irigoyen's last administration, and the balance of about 500 million pesos, \$212 million, was left over from the former President Alvear's administration, which had been unable to fund that portion of the 1,100 million pesos, \$466,950,000, deficit left by Irigoyen's first administration. More than 1,000 million pesos, \$426 million, of the national debt was owed in the form of bank advances. The Banco de la Nacion had advanced funds to the executive power to 74% of its total capital and reserve, reported to be

¹ Sources of information: Ernesto Tornquist & Co., Ltd., Business Conditions in Argentina, Buenos Aires; Samuel Montagu, Weekly Review of Foreign Exchanges, London; The Economist; U. S. Department of Commerce: Trade Information Bulletin No. 350, Latin American Financial Notes, Business Situation at Home and Abroad, and Commerce Yearbook, 1930; U. S. Department of Agriculture, Foreign Crops and Markets, New York Times dispatches.

contrary to law. The restriction of credit resulting from such heavy drafts on banking resources, General Uriburu stated, is depriving agriculture, commerce, and industry of financial assistance that might otherwise have been available during the present depression.

Calling together the heads of the various administration bureaus, President Uriburu pointed out that the provisional government felt that it had no legal authority to create new taxation, and must therefore finance itself from revenues already existing. By the end of the present fiscal year the minister of finance estimated that there would be a deficit of approximately 700 million paper pesos, \$297,150,000. The first task of the provisional government, President Uriburu declared, was to balance its budget. Once this was accomplished, Argentina would be able to obtain financial assistance from New York and London on less disadvantageous terms, to fund the floating debt, and to effect the necessary monetary reforms. To this end drastic economy would be imperative in all departments, including elimination of any duplication of functions in government offices, reduction of salaries, and dismissal of employees not absolutely necessary for operation. The minister of finance was preparing plans for more efficient collection of revenue, for flotation of a bond issue, and for mobilization of the gold resources of the country in order to bring back the peso to normal value.

A thorough investigation of the financial situation of the provinces and municipalities revealed a similar state of confusion and in some cases considerable deficits. In the Province of Santa Fé administrative expenditures had reached 60 million paper pesos, \$25,470,000, with revenues only 40 million paper pesos, \$16,980,000. In 14 years, while population had increased 40% and production 50%, the government expenditures had risen over 3½ times. For about 2 years the Province of Mendoza has been in charge of the "Federal Intervention," and once again the national government was obliged to go to the rescue of its finances with a loan of 500,000 paper pesos, \$212,250. The Province of Santiago del Estero was obliged to obtain from the Banco Español del Rio de la Plata a renewal of a loan of 970,000 paper pesos, \$411,765, for payment of which no provision

whatever had been made. The Province of Buenos Aires, according to the ministry of finance, will close the fiscal year with a large deficit. The burden of fixed charges of debt service on the external indebtedness of 420 million paper pesos, \$178,290,000, and internal debt of 209 million paper pesos, \$88,720,500, as of June 30, 1930, amounts to 50 million pesos, \$21,225,000, or 36% of the total budgetary expenditures. For five years the municipality of Buenos Aires has been operating with an annual deficit. Economies during the current year will reduce expenditures by about 6 million paper pesos, \$2,547,000, to 100 million paper pesos, \$42,450,000, but, since revenues, except in 1929, have run about 85 million paper pesos, \$36,082,500, per annum, a serious deficit is in prospect for the current year also. Service on the city's debt, 71 million paper pesos, \$30,139,500, external loans and 94 million paper pesos, \$39,903,000, internal loans, amounts to over 15 million paper pesos, \$6,367,500.

Under the provisional government the provinces are governed by federal commissioners endowed with legislative as well as administrative powers. The Commissioners, however, were instructed by General Uriburu that they were not to exercise this power to create new taxes or float loans, but as far as possible they were to reduce expenses. Nevertheless, several of the provinces and municipalities are reported to be arranging for the flotation of short-term loans, external as well as internal. The provincial treasury of Buenos Aires has been authorized to issue a six-month 6% loan of 15 million paper pesos, \$6,367,500, for local subscription, and Santa Fé has borrowed \$5 million from New York.

Progress made by the middle of January by President Uriburu and his cabinet in drawing up the budget for the current year was sufficient to justify the expectation of a balance between expenditures and revenues. On January 17, the national government issued a loan of 70 million pesos, \$29,715,000, bearing interest at 6%, under the authorization granted by the budget of 1929. Foreign loans are strongly disapproved by the Corporation of Bond and Shareholders. The volume of bank deposits, amounting to 4,000 million pesos, \$1,698 million, suggests that the country has idle funds sufficient to take care of any financing required by

national, provincial, or municipal governments. According to the Argentine banking firm of Ernesto Tornquist & Co., the total public debt of Argentina, including national, provincial, and municipal loans, foreign and internal, but not including cedulas and floating debt, already amounts to 3,418 million pesos, \$1,449 million, requiring annual service payments of 292 million pesos, \$124 million, or \$145 per capita debt and \$12 service payments. The floating debt of the national government would raise the total to 4,600 million pesos, or almost \$200 per capita, with service charges of \$16.50. The debt service requirements of the national government for 1930 and 1931 respectively, according to the minister of finance, will be 226 million, \$95,937,000, and 239 million paper pesos, \$101,455,500.¹

Agricultural Production

Thanks to rainfalls throughout most of the farming region, crops and pastures have flourished. By the middle of January the cutting of wheat, linseed, and oats was practically finished, and the early corn was ripening. The second official estimate of the current wheat crop places it at 238,832,000 bushels, or 47% higher than the short crop of 1929, and slightly lower than the average for the years 1924 to 1928. The exportable surplus for the coming year, including the carryover of 15,786,000 bushels from the 1929-1930 crop and allowing 89,700,000 bushels for seed and home consumption, should be about 165 million bushels. Exports from July 1, 1930, to January 10, 1931, were only a quarter as large as those during the same period of the preceding crop year. Exports for the year 1930 totaled 86,486,000 bushels, as compared with 250,163,000 in 1929.

We are accustomed to think of wheat as the major cereal crop of Argentina, but in recent years exports of corn or maize have several times exceeded in value the exports of wheat. While acreage of wheat has increased about 30%, from 16 million acres to 21 million since before the War, corn acreage has risen almost 60%, from 8.7 million to 13.8 million acres. Exports of corn in 1930 amounted to 184 mil-

¹ These figures do not include the obligations of the National Mortgage Bank, which are guaranteed by the national government. See pp. 307-310.

lion bushels, as compared with 200 million bushels in 1929, a decline of only 8%.

Linseed is the third major export crop. In some respects linseed is more important to Argentina than either wheat or corn. The only other important grower of linseed for export is India, and Argentina can undersell India and still make a profit. While the wage level is higher, much of the farming is of the family type, and the standard of individual energy is so much better that it is doubtful if unit labor costs are really much higher by the River Plata than by the Ganges. At the same time Argentina has the advantage of lower freight rates. Acreage sown to linseed increased from 4,113,000 before the War to 7,522,000 for 1930-1931, or 79%. The production for 1930-1931 is given as 84,408,000 bushels, which exceeds the short crop of the preceding year by 60%, and the average for the 3 years 1926-1927 to 1928-1929 by 4%. Exports for 1930 were 48,488,000 bushels, as compared with 66,218,000 bushels in 1929. The export surplus for the coming year, after deducting 9 million bushels for seed and home consumption and adding 7,330,000 bushels carry-over from last year, should be about 67 million bushels, well above the normal quantities exported.

The prices of cereals in local markets as compared with those of past years at the same date are as follows:

Commodity	January 5, 1928		January 3, 1929		January 2, 1930		January 1, 1931	
	Pesos	Dollars	Pesos	Dollars	Pesos	Dollars	Pesos	Dollars
Wheat, per 100 kilos. . . .	10.95	4.65	9.35	3.97	11.25	4.78	5.62	2.39
Corn " " "	8.05	3.42	9.10	3.86	6.65	2.82	3.84	1.63
Linseed " " "	14.70	6.24	14.80	6.28	19.50	8.28	10.19	4.33
Oats " " "	8.10	3.44	7.30	3.10	5.80	2.46	3.40	1.44

The rainfall that helped the crops also benefited pasturage. Prospects for livestock products have been improved. The livestock census, taken by the ministry of agriculture last year as of July 1, gave the number of head of cattle as about 32 million. Owing to the declining demand for wool, the number of sheep is only about the same as in 1914. Wool exports during the season ended September 30, 1930, were below those of the previous year, owing to the weakness of

the world demand, and prices for the different qualities have been so low that sheep herders have been selling more of their lamb crop for meat. From October 1 to December 31, 1930, however, shipments were 62,486 bales, as compared with 44,783 bales during the corresponding period of 1929. Total exports of wool for the year 1930 amounted to 321,000 bales, as compared with 310,000 bales in 1929. The exports of frozen and chilled meat during 1929 and 1930 were as follows:

	1929	1930	Percentage Decline
Total exports, tons.....	565,100	529,500	-6.3%
Frozen mutton, carcasses	3,513,300	3,508,500	-0.1%
Frozen beef, quarters.....	889,600	739,000	-16.9%
Chilled beef, quarters.....	5,189,200	4,901,600	-5.5%

Negotiations with France, Spain, and Italy, with a view to increasing their purchases of Argentine grain and meats in exchange for reciprocal treatment of their manufactures by Argentina, have been initiated by the government in an effort to find new markets for the products formerly sold in the United States but now excluded by the new tariff.

Foreign Trade, Balance of Payments, and Peso Exchange Rates

Total exports of all commodities during 1930 amounted in value to 612,550,000 gold pesos, \$511.4 million, at the average rate of exchange during 1930, as compared with 953,744,000 gold pesos, \$907.3 million, at the average rate of exchange during 1929, a decline of 36% in terms of pesos, but a real decline of 44% taking into account the depreciation of peso exchange. The major share of the decline was in agricultural products, which fell from 596 million gold pesos, \$567 million, in 1929 to less than half, or 297.3 million pesos, \$248.2 million, while livestock products declined only from 134 million pesos, \$127.5 million, in 1929 to 131 million pesos, \$109.4 million. In tonnage, total shipments fell from 16,703,000 tons to 10,988,000 tons.

Import figures for the same period are not yet available, but the statistical department of the ministry of finance has published the figures covering the first 9 months of the years 1929 and 1930, shown in Table 44.

TABLE 44: VALUE OF FOREIGN TRADE, ARGENTINA, FIRST NINE MONTHS OF 1929 AND 1930¹

In million gold pesos and dollars

	1929		1930		Percentage Decrease
	Pesos	Dollars	Pesos	Dollars	
Imports of merchandise.....	650.6	621.3	590.0	504.9	-9.3
Exports of merchandise.....	775.0	740.1	482.4	412.8	-37.8
Surplus of exports.....	124.4	118.8	..	..	..
Surplus of imports.....	..	..	107.6	92.1	..

¹ The average rate of exchange for 1929 was 95.13 cents per gold peso per United States dollar; in 1930 it was 83.49 cents; for 9 months in 1929 it was 95.50; in 1930 it was 85.57.

Exports of specie in 1929 amounted to 174,398,000 pesos, \$168,259,190, increasing the so-called favorable balance to 298,763,000 pesos, \$288,246,542. In 1930 specie shipments were 25,165,000 pesos, \$24,279,192, reducing the unfavorable balance to 82,408,000 pesos, \$79,507,238. The shift in balance of trade from favorable to unfavorable by 381,172,000 gold pesos, \$367,754,746, is considered sufficient explanation of the serious drop in peso exchange, even without the subsequent disturbances. The weakness and fluctuations in exchange rates toward the end of the year have brought many importers to a critical situation, but exporters have benefited by the adverse exchange, being able to sell in terms of pounds sterling, for which in turn they can obtain a larger number of pesos. A small group of grain exporters was reported as holding bills of exchange for a further drop in the peso rate, thus tending to depress the market still further. Gold pesos, par value 96.48 cents, or 104 pesos per \$100, declined to 66.5 cents, or 150 gold pesos per \$100.

The Bank of the Nation has been authorized to use its gold reserves abroad and to draw on the Gold Conversion Office (Caja de Conversion). The gold held in the latter on December 31, 1930, totaled 425,774,000 gold pesos, \$410,786,755. This, with 30 million pesos more, \$28,944,000, gives a total guarantee reserve behind the country's paper currency of 82%. The minimum gold reserve generally recognized as necessary to maintain stability is much lower. Forty per cent is considered sufficient for most countries. With a 40% gold reserve, Argentina would have avail-

able over 200 million pesos, \$192,960,000, with which to stabilize peso exchange.

Many importers failed to protect themselves against fluctuations in exchange and, unless the peso rate is restored, will face a 40% loss in paying their obligations. A moratorium on foreign payments would injure Argentine credit and obstruct other measures for restoration of prosperity. The provisional government is studying a project for a complete reform of Argentina's financial structure, replacing the Gold Conversion Office by a central bank, operating similarly to the United States Federal Reserve Bank and introducing a new and more elastic currency system. The history of the Gold Conversion Office, established in 1890, has shown that, while it has prevented Argentine exchange rates from going above par, it has been unable to prevent them from dropping below par.

Meanwhile depreciated peso exchange has resulted in cancellations of orders for agricultural machinery, automobiles, textiles, and other imported goods, since the reduction in value of the peso in terms of dollars or pound sterling is equivalent to an increase to Argentina in the price of these commodities. According to United States statistics, American exports to Argentina, \$130 million in 1930, were 38% below the exports for 1929, amounting to \$210 million. Exports of automobiles and parts in 1930 were about \$25 million, as compared with \$53.6 million in 1929. Although the new régime has announced that the special agreement made with Great Britain favoring British products will be allowed to lapse without renewal, it is impossible to say how soon Argentina will become again as favorable a market for United States export products as in 1929.

BRAZIL¹

Coffee remains the pivotal factor in Brazil's economic situation. The 1930-1931 coffee production of the world is estimated at about 23,115,000 bags, as shown in Table 45.

¹Sources of information: Anglo-South American Bank, Ltd., Cabled Reports Circular, London; Samuel Montagu, Weekly Review of Foreign Exchanges, London; U. S. Department of Commerce, Latin American Financial Notes, Business Situation at Home and Abroad, and Monthly Summary of Foreign Commerce; Federal Reserve Board, Federal Reserve Bulletins; Commercial and Financial Chronicle; New York Times dispatches; Statesman's Yearbook, London.

TABLE 45: ESTIMATED WORLD COFFEE PRODUCTION
1929-1930 AND 1930-1931

Country	In bags of 60 kilos, or 132 pounds	
	1929-1930	1930-1931
Brazil		
Santos.....	22,070,000	8,500,000
Rio.....	4,498,000	2,500,000
Victoria.....	1,666,000	1,600,000
Other.....	1,119,000	900,000
Dutch East India.....	1,369,000	1,000,000
Colombia.....	2,836,000	3,200,000
Venezuela.....	700,000	1,000,000
Other mlds.....	4,631,000	4,415,000
Total.....	38,889,000	23,115,000

The visible world supply on December 31, 1930, was about 29,686,000 bags, of which 27,154,000 bags were held in Brazil—1,398,000 bags by the São Paulo Government, 1,256,000 bags in Rio and Santos, and 24.5 million bags in the interior. World consumption is estimated at about 25 million bags or slightly less. Brazil's exports normally have amounted to about 14 million bags. This would still leave a surplus to be disposed of over the period of the Coffee Realization Loan¹ amounting almost to a full year's export supply, and trade estimates place the São Paulo crop for 1931-1932 at from 14 million to 18 million bags. Leaders of the Brazilian Agricultural League are reported as trying to reach an agreement with Russia whereby the São Paulo coffee growers would be able to exchange coffee for Russian wheat. Brazil imports annually about \$50 million worth of wheat and wheat flour, the former coming mainly from Argentina and the latter from the United States. Before the World War Russia's total coffee imports amounted to only about \$4.5 million or about 300,000 bags at \$15 a bag. Under present conditions, it is unlikely that Soviet Russia would use so much. It would be advantageous to sell wheat, but the Soviet Government wants machinery rather than coffee.

In 1930 Brazil's coffee exports were 15,288,000 bags, an increase of 7% over last year. The average price of the coffee exported, however, was \$13.14 per bag, as compared with \$22.87 a year ago. The total value of the coffee ex-

¹ See "A Picture of World Economic Conditions in the Early Fall of 1930," *op. cit.*, p. 95.

ported was only \$200 million, as compared with \$328 million during 1929, a decline of 29%.

Foreign Trade

Coffee represents about 70% of the value of Brazil's total exports. The decline in the value of coffee exports for 1930 is chiefly responsible for the decline of total exports from \$461,495,000 in 1929 to \$320,070,000 in 1930. The value of imports declined from \$421,697,000 to \$261,068,000, leaving a favorable balance amounting to \$59,001,000, as compared with \$397,980,000 in 1929. In tonnage total exports increased, but imports declined.

According to United States trade statistics, United States purchases from Brazil for the whole year 1930 amounted to \$130,854,000, as compared with \$207,686,000 in 1929, a decline of 37%. United States exports to Brazil declined from \$108,788,000 in 1929 to \$53,805,000. Of the major United States imports from Brazil, coffee declined from \$178.4 million to \$107.5 million. United States exports to Brazil are for the most part highly diversified. The value of exports of the most important item, automobiles and parts, decreased from \$28 million in 1929 to \$2.8 million in 1930, accounting for 46% of the decline in the total trade. Petroleum products, second to automobiles in importance, declined from \$19.4 million in 1929 to \$15 million in 1930.

For some time sugar planters in the State of Pernambuco, the largest sugar-growing center in Brazil, have been experimenting with the residues of sugar cane to produce a suitable substitute for gasoline. It is reported that their efforts have proved successful and that they have been able to produce a good quality of alcohol of 42°, satisfactory for driving motor engines and locomotives. The Central Railway of Brazil has given orders for the immediate conversion of some of its locomotives into internal combustion engines. If the experiment is successful, future import requirements for coal, about half of which comes from the United States, may be reduced. It is elsewhere reported that President Vargas, in order to reduce imports, proposes to issue a decree requiring certain percentages of Brazilian alcohol to be mixed with imported gasoline; of Brazilian mandioca and corn flour

with imported wheat flour; and Brazilian coal with imported coal. Further efforts to curtail imports may include the more doubtful expedient of prohibiting imports of jute and making obligatory the use of bagging made from the more expensive Brazilian cotton.

Financial Measures

If exports could be increased and imports reduced, and if export bills or credits abroad in favor of Brazil could be increased and payments due abroad by Brazil diminished, financial obligations of the government to foreign countries could be met more easily. During the past year the reduced value of coffee exports compelled payment of current government obligations abroad in gold drawn from the reserve of the Caixa de Estabilisação. In 1926, after the currency depreciation due to war-time inflation, milreis were stabilized by the laws of December 18, 1926, and January 5, 1927, at a new parity, \$0.11963 United States currency. The stabilization was based on the retention of a gold reserve in the Caixa corresponding to the volume of notes issued, which were to be convertible on demand, although the gold reserve was actually composed chiefly of European currencies derived from the proceeds of foreign loans. From the equivalent of \$150 million at the end of December, 1929, the gold holdings declined to \$65 million in September, 1930.

Early in October the late government suspended further conversion of notes and withdrawals of gold. Last November the provisional government decided to close the Caixa entirely, and transferred to the Bank of Brazil the authority to execute final operations in that connection. The balance of gold in the Caixa at that time, about \$15 million, was to be shipped to London for use in paying the government's foreign debt obligations in case the volume of export bills available should continue to be insufficient. The Caixa gold notes still outstanding, about 130,000 contos, par \$15,552,000, were eventually to be changed for sight drafts on London by the Bank of Brazil, for which special resources were to be reserved.

In effect Brazil's currency medium, as the Bank of London

and South America, Ltd., remarks, has become inconvertible. According to official records, the volume of paper currency in circulation at the close of 1930 was made up of the following:

Old Treasury emissions—balance.....	1,951,600	contos
Bank of Brazil emission now taken over by the national treasury.....	592,000	"
Bank of Brazil new emission redeemable within six years.....	170,000	"
	<u>2,713,600</u>	contos

This total at the current exchange rate represented about \$275 million.

The vital question is what measures can now be put into effect to strengthen the financial position of the government and to maintain the value of milreis. To some extent the very depreciation of milreis exchange produces its own corrective. In effect depreciation increases the prices of all goods that have to be paid for in foreign money, and consequently tends to discourage purchases from abroad. The fluctuations of milreis exchange and the decline during the second half year are shown in the following table. By the end of January, 1931, milreis reached 8.5 cents, nearly 30% below par.

TABLE 46: EXCHANGE RATES FOR BRAZILIAN MILREIS, 1930
In cents, United States currency

January.....	11.0857	July.....	10.8752
February.....	11.1533	August.....	9.9571
March.....	11.5012	September.....	10.0850
April.....	11.7206	October.....	no quotation
May.....	11.8349	November.....	" "
June.....	11.3983	December.....	9.6121

By an official decree of the deposed government, promulgated on October 22, 1930, four days before the end of the revolution, a bank holiday or moratorium for fifteen days had been enacted. This was extended with certain modifications by the provisional government to November 30, 1930, and again for an additional 60 days on obligations maturing in December, with the proviso that during this period semi-monthly payments of 25% must be made toward liquidation of the indebtedness. The new decree permitted all foreign and national banks to carry on regular operations except the

purchase of export bills. This was placed under exclusive charge of the government-controlled Bank of Brazil. The provision was made, however, that the Bank of Brazil could furnish cover to other banks for their clients not exceeding £1,000 sterling, about \$5,000, each per day. While the government has been promulgating these measures, its financial burden has been increased by the necessity of assisting some of the states that were in financial difficulties.

Sir Otto Niemeyer, who made an investigation and prepared recommendations regarding the financial position of Australia, has been invited to lend his counsel for the reorganization of Brazilian finance. The first measure adopted under his advice, before he took ship for Brazil, was the arrangement on January 21, 1931, with Messrs. Rothschild for a credit for the Bank of Brazil under the guarantee of the Brazilian Government of \$32 million, to run for eighteen months.

The budget for 1931 provides for receipts of 137,305 gold contos, \$74,996,000, and 1,480,379 paper contos, \$177,098,000; and expenses, including debt service, of 115,537 gold contos, \$63,106,000, and 1,191,897 paper contos, \$142,587,000. This compares with 199,272 gold contos, \$108,842,000, and 1,371,400 paper contos, \$164,061,000, for revenues in the 1930 budget, and 135,113 gold contos, \$73,799,000, and 1,639,114 paper contos, \$196,087,000, for expenditures. The 1931 budget thus represents a considerable improvement as compared with 1930, providing for the complete service of the Brazilian debt, including both interest and sinking fund payments.

The unsatisfactory financial position of the government, the uncertainty of exchange, and the continued low coffee prices have been mainly responsible for the unfavorable condition of business. Unemployment is becoming more and more serious. Manufacturing industries have been forced to curtail operations or even to shut down completely. Labor decrees of the provisional government compelling employment of full staffs resulted in several failures among the textile mills. Small manufacturers have been unable to comply with the regulations. Construction activity, public as well as private, has been curtailed, but this industry is rela-

tively more active than others. Although the government considered initiating a highway construction program in order to relieve unemployment, road work is still largely suspended. Measures have been taken to restrict immigration. About the only bright spot in the picture is the fact that merchandise stocks are low, and any improvement in conditions, when it does come, will be promptly reflected in increased orders.

CHILE¹

The economies planned by President Ibañez in May, 1930, were put into effect and resulted in a reduction of expenditures amounting to 90 million pesos, \$10,953,000, thus bringing expenditures, probably about 1,153 million pesos, \$140,320,100, down more nearly to the prospective revenue to be collected for the year. Whether even this reduction will prove sufficient remains to be seen. During the first three quarters of the year, with revenues, including the surplus from 1929, amounting to only 792 million pesos, \$96,386,400, and ordinary expenditures for the same period, totaling 836 million pesos, \$101,741,200, there was an apparent deficit of 44 million pesos, \$5,354,800. In November, however, revenue collections increased, bringing the total for eleven months up to 1,015.2 million pesos, \$123,549,800, while ordinary expenditures for the same period reached 989.2 million pesos, \$120,385,600, leaving a surplus of 26 million pesos, \$3,164,200.

The new policy of economy is carried further in the budget estimates for 1931. The proposed ordinary expenditures for 1931 are lower by 120 million pesos, \$14,604,000, than the total for 1930, as adjusted to the 1931 budget structure. The ordinary budget calls for the expenditure of 1,039 million pesos, \$126,446,300. Revenues are estimated at 1,040 million pesos, \$126,568,000, or 175 million pesos, \$21,297,500, under revenues for 1930.

¹ Sources of information: Banco Central de Chile, Monthly Bulletin, Santiago; U. S. Department of Commerce, Foreign Financial News, Special Circular, No. 348, Latin American Notes, Monthly Summary of Foreign Commerce, and Commerce Yearbook, 1930; League of Nations, International Statistical Yearbook.

Of the total revenues, import duties are counted on to yield 300 million pesos, \$36,510,000, or almost 30%; nitrate revenue, which is to be a specified quota of the earnings of the *Compania de Salitrera de Chile* (Nitrate Company of Chile) instead of the former export tax on nitrate, will be 180 million pesos, \$21,906,000, or 17.5% of the total; income taxes should yield 123.5 million pesos, \$15,029,950, or 12%.

TABLE 47: ESTIMATED ORDINARY REVENUES IN 1931 COMPARED WITH 1930 BUDGET ESTIMATE, CHILE

Item	Million Pesos		Million Dollars	
	1930	1931	1930	1931
National properties.....	33.0	225.4 ¹	4.0	27.4 ²
National services.....	80.5	84.0	9.8	10.2
Direct and indirect taxes:				
Import duties.....	325.0	300.0	39.6	36.5
Income taxes.....	210.0	123.5	25.6	15.0
Export tax on nitrate.....	170.0	..	20.7	..
Other revenues.....	292.5	274.9	35.5	33.5
Total direct and indirect taxes.....	997.5	698.5 ²	121.4	85.0 ²
Various revenues.....	58.7	31.7	7.1	3.9
Total.....	1,169.7	1,039.6	142.3	126.5
Surplus from previous year.....	45.0	..	5.5	..
General total.....	1,214.7	1,039.6	147.8	126.5

¹ The quota of 180,000,000 pesos, \$21,906,000, which the National Treasury is to receive from the *Compania de Salitrera de Chile* in 1931, is included in this item.

² A slight discrepancy will be noted in the summation of the items.

In addition to the ordinary budget, however, there are other expenditures to be taken into account. When the five-year plan of public works was inaugurated in 1928, with a prospective outlay of 1,575 million pesos, \$191,677,500, the financing of the program was carried to a separate account, the extraordinary budget, a temporary expedient to be abolished with the completion of the undertakings. Besides this, special financing measures have been passed from time to time, involving expenditures for national defense, road building, and so on. These undertakings are financed by loans instead of revenues from taxation. For 1930 the budget covering these expenditures amounted to 391 million pesos, \$47,584,700 of which 292 million pesos,

\$35,536,400, was allocated to the plan of public works, and 99 million pesos, \$12,048,300, to special laws. Actual expenditures under the extraordinary budget were sharply curtailed during the third quarter of 1930, and a great deal of new construction scheduled for the year was cancelled in whole or in part. The figure for the 1931 extraordinary budget, not yet published, will be in the neighborhood of 275 million pesos, \$33,467,500. To cover the service of approximately 18 million pesos, \$2,190,600, the government proposes to raise the state railway payments from 3% to 5% per annum, and to increase the taxes on tobacco and tobacco manufactures. Major items of expenditure under the plan of public works since 1928 have been port works 125 million pesos, \$15,212,500; roads 100,676,000 pesos, \$12,252,269; railways 67 million pesos, \$8,153,900; water and drainage 40 million pesos, \$4,868,000; and irrigation works 39 million pesos, \$4,746,300. The total outlay has been 597 million pesos, \$72,654,900, with expenditures under special laws during the same period of 573 million pesos, \$69,734,100.

The burden of service on the total public debt was budgeted at 261 million pesos, \$31,763,700, in the 1930 budget, increasing by about 30 million pesos, \$3,651,000, for 1931. The external direct debt amounted in June 30, 1930, to 2,528 million pesos, \$307,657,600, not counting 240 million pesos, \$29,208,000, of advances on account of loans to be floated. The internal direct debt on June 30, 1930, was 438 million pesos, \$53,304,600. Municipal loans not guaranteed by the national government increase the total by about 200 million pesos, \$24,340,000, of which 175 million pesos, \$21,297,500 are dollar loans. The grand total of indebtedness per capita amounts to about 780 pesos, \$95. The bond issue of \$45 million, to finance the *Compania Salitrera de Chile*, according to the minister of finance, will not be guaranteed by the Chilean government.

Production and Trade

The seasonal demand for nitrate resulted in increased exports during the latter months of the year. Although production has been restricted as much as possible, the export demand throughout the year has been so low that stocks in

Chile by the end of September amounted to 2,627,500 metric tons. It was expected, however, that owing to the abnormally low stocks held abroad the seasonal demand would be directly reflected in exports at a comparatively high level. The United States, which takes about a third of the total exports, increased its purchases of sodium nitrate from 9,083 tons in August to 35,512 tons in December and 45,890 tons in January, according to United States import statistics.

TABLE 48: SODIUM NITRATE: CHILEAN EXPORTS AND UNITED STATES IMPORTS, SECOND HALF OF 1930

In long tons		
	Chilean Exports	United States Imports
July.....	196,000	28,644
August.....	266,000	9,083
September.....	179,000	19,362
October.....	177,000	27,207
November.....	1	35,474
December.....	1	35,512
January, 1931.....	1	45,890

¹ Not available.

In March, 1931, the Nitrate Company of Chile completed arrangements for the sale of \$34 million in 7% bonds of an authorized total of \$50 million, to be offered in New York and London. Of the proceeds, \$26 million will go to the Chilean Government, most of it as the 1931 payment due in place of the export tax on nitrate and iodine collected hitherto. In lieu of this revenue, the Nitrate Company guaranteed the state \$22.5 million in 1931, \$20.0 million in 1932, and \$17.5 million in 1933. After 1933 the government is to relinquish its priority, and the bondholders assume preferred status; the government will merely receive dividends as the holder of 15 million Series A shares of stock—100 pesos, \$12.17, par value. The remainder of the present bond issue will probably be used for working capital and new construction. No sinking fund obligation is attached to these bonds, it is said, but the company will segregate a certain amount of the price of each ton of nitrate exported to take care of this and other charges connected with the flotation of the bonds.

By bringing the entire nitrate industry under single control, with the government participating, it is expected that economies in production can be put into effect, and that closer harmony will be possible between the interests of the producers and those of the government. The parties to the negotiations were the producers, chiefly the Guggenheim interests controlling the Anglo-Chilean Consolidated Nitrate Corporation, the largest individual producer, and the Chilean Government. The capital of the monopoly is 3,000 million pesos, or about \$365 million.¹

Copper production, according to figures for August, September, and October, 1930, increased, the increase, however, being due almost exclusively to the output of one plant, "El Teniente." At the conference held in New York

TABLE 49: ACREAGE SOWN TO CEREALS, CHILE, 1929 AND 1930

In acres			
	1929	1930	Per Cent Change
Wheat.....	1,755,000	1,610,000	-8.3
Barley.....	195,000	166,000	-14.6
Oats.....	243,000	192,000	-20.8
Rye.....	8,150	7,820	-4.0

early in November, 1930, of the European, African, and American copper producers, representing 90% of the world output of the industry, it was decided to reduce output by 20% and to raise the price of electrolytic copper to 12 cents per pound. The November output of Chile accordingly showed a marked decline. The demand, however, proved insufficient to sustain the proposed price. Actual sales by customs producers continued at about 10½ cents per pound in the face of announcements of curtailment of output in accordance with the November agreement.

While Chile is most important to the world for its minerals, farming supports the greater part of the population. Most of the agriculture is concentrated in the middle zone. Of the total of about 6,200,000 acres of arable land, 1,600,000 acres, or more than one quarter, is planted to wheat. This area is only 8½% of the wheat area of Argentina. Never-

¹ See "A Picture of World Economic Conditions," op. cit., Vol. V, pp. 99-100.

theless, Chile's wheat and wheat flour enter into foreign trade, and the world situation in the grain market, with declining prices, has had a direct influence on the agricultural conditions in the country. The areas sown to wheat and other grains declined in 1930.

With regard to manufactures, the position of food products is not unfavorable. The boot and shoe industry has been handicapped by heavy stocks on dealers' shelves, acquired when prices were higher. Before placing new orders, they must clear their shelves, and this, at prices high relative

TABLE 50: INDEX NUMBERS OF WHOLESALE PRICES,
CHILE, 1928 TO 1930

Source: The General Statistical Office of Chile
Base, 1913=100

	Agricultural and Pastoral Products	Mining Products	Industrial Products	Imported Products	General Index
Average 1928.....	129.2	83.4	136.4	136.8	119.1
Average 1929.....	132.6	88.1	131.1	132.9	119.7
January 1930.....	116.4	84.8	124.5	127.2	111.9
February ".....	109.0	84.7	125.7	126.5	110.3
March ".....	107.1	84.9	122.9	124.2	108.7
April ".....	109.3	80.0	121.3	123.5	107.5
May ".....	110.3	75.9	117.3	122.7	105.1
June ".....	112.9	74.1	114.5	122.7	104.5
July ".....	112.8	70.3	110.7	122.4	102.3
August ".....	108.5	70.4	109.4	122.9	101.1
September ".....	106.3	70.5	111.5	121.4	100.8
October ".....	94.1	69.3	111.8	118.8	97.1
November ".....	89.6	71.2	109.0	115.2	95.5

to the price of leather, is a slow process. The local cloth factories, which manufacture chiefly for the farm laborers, have been indirectly affected by the agricultural depression.

Domestic trade has continued dull, and has been in a very critical position in the nitrate zone, owing to the closing down of several of the nitrate oficinas, reduction of staff, and emigration southward of many of the employees. Banks report that collections have been increasingly difficult, bankruptcy and insolvency cases on the increase, and the credit situation in general unsatisfactory. The general index of wholesale prices has declined steadily to the level of 1913, mining products falling well below that level, while import commodities have remained relatively high.

Normally Chile has a large favorable balance of trade, the excess of exports largely representing the interest and dividends on foreign investments in Chilean mining and government bond issues. For the year 1929 the excess of exports amounted to over 40% of the value of imports. During the first 11 months of 1930, on the other hand, imports exceeded exports by 6%, owing largely to the excessive decline in prices of export products.

TABLE 51: VALUE OF FOREIGN TRADE, CHILE, 1930
In millions

Month	Exports		Imports	
	Pesos	Dollars	Pesos	Dollars
January.....	134.7	16.4	147.8	18.0
February.....	128.1	15.6	115.4	14.0
March.....	138.2	16.8	132.5	16.1
April.....	104.8	12.8	116.5	14.2
May.....	103.3	12.6	112.8	13.7
June.....	102.6	12.5	108.5	13.2
July.....	105.1	12.8	125.3	15.2
August.....	88.8	10.8	94.1	11.5
September.....	75.0	9.1	109.0	13.3
October.....	112.1	13.6	131.9	16.1
November.....	109.6	13.3	95.3	11.6
Total 11 months.....	1,202.3	146.3	1,289.1	156.9

In December, 1930, the government published a decree raising the tariff, to become effective after 60 days. The decree affects 447 articles, many of which are important export products of Europe and the United States. The purpose of this measure is to revive domestic industries and to create a balance of trade more favorable for the payment of government obligations abroad. To the extent to which it is not effective in excluding foreign commodities, it will yield additional revenue, which will improve the government's financial position.

COLOMBIA¹

Professor E. W. Kemmerer, retained to study the Colombian situation and suggest measures for relief, left Bogotá in October, reporting that, while there should be

¹ Sources of information: Banco de la Republica, Revista, Bogotá; U. S. Dept. Commerce, Latin American Notes, Business Situation at Home and Abroad, Monthly Summary of Foreign Commerce, and Commerce Yearbook, 1930; Commercial and Financial Chronicle; N. Y. Times dispatches.

neither exaggerated optimism nor exaggerated pessimism, Colombia appeared to be weathering the crisis and was on the road to recovery. The government revenues for 1930 amounted to only 49 million pesos, \$47,691,700, as compared with 75 million pesos, \$72,997,500, for 1929, a reduction of 35%. It is reported that the finances of some of the departments and cities are in a bad state, notably, perhaps, the Departments of Valle del Cauca and Caldas, and the City of Cali. Nevertheless, utmost efforts are being made to reduce expenditures and effect economies in all branches of the government, and Congress passed a budget for the year 1931 balanced at 51,740,000 pesos, \$50,328,000. Further cuts are expected to reduce this amount.

In accordance with the recommendation of the Kemmerer Commission, an emergency revenue bill was passed in December, 1930, doubling import duties on various commodities and establishing higher domestic taxes on insurance premiums, gasoline, beer, matches, and playing cards, and a tax on commercial travelers and resident representatives of foreign concerns. Imports of foodstuffs may receive higher rates later. The chief items imported are rice, wheat and flour, lard, and preserved meats. Some of the new duties are 4 cents per kilo, about \$1.09 per bushel, on wheat; 9 cents per kilo, \$8.00 per barrel, on wheat flour; and 15 cents per kilo, 6.8 cents per pound, on pure lard.

On October 23, 1930, the Colombian Government floated an internal issue of 6 million pesos, \$5,839,800, of Treasury notes. The only producing oil company and the operators of an American owned pipeline, according to reports, each subscribed for 1 million pesos, \$973,300, of these notes. Further assistance has also been extended to the government by international bankers of New York and London. Arrangements for loans amounting to \$16 million, later raised to \$20 million were planned in the summer of 1930, and \$9 million advanced, to be renewed in January, 1931. An additional \$3 million was made available under special conditions and in March a further loan of \$4 million extended. It is expected that the final \$4 million will be advanced within the next few months. At present the total external funded indebtedness—of the central government, \$67 million, plus

the government-guaranteed Agricultural Mortgage Bank loans, \$20 million, and the departmental and municipal flotations, \$63 million and \$24 million respectively—is in the neighborhood of \$173 million. The internal debt, national, departmental, and municipal, funded and floating, amounts to \$80 million. With a population estimated at about 8 million, the total per capita debt is \$31. In addition, the United States has direct or private investments in Colombia amounting to \$145 million. The annual interest charge on external public indebtedness is over \$16 million and must be at least \$10 million on the private investments, the aggregate being about 20% of the total value of exports.

Colombia has been fortunate in that the coffee exports, in spite of the depressing influence of the situation in Brazil, have been maintained. During 1930, 3.3 million bags were brought to points of shipment, or 15% more than in 1929, and over 3.1 million bags were exported. Prices, of course, were lower, the average invoice value of Colombian coffee in 1929 was 25.3 cents a pound and in 1930 only 20.5 cents. This was a decline of less than 20%, whereas the average price for Brazilian coffee decreased 45%. The value of United States imports of Colombian coffee in 1930 was only 8% less than 1929, with an increase in quantity imported of 14%. For the coming season a larger crop is expected than a year ago. The decision of the Banco de la Republica to discount coffee and tobacco receipts, issued by warehouses owned by the Colombian Coffee Federation, up to 70% of their face value, at 8% and not to exceed 90 days, will be of further assistance to coffee and tobacco producers.

Official estimates of the total exports of Colombia indicate a decline of about 12% from last year, or 112 million pesos, \$109,009,600, as compared with 127 million pesos, \$123,609,100, in 1929. Imports for 1930 were 60 million pesos, \$58,398,000, as compared with 107 million pesos, \$104,143,100, in 1929, or about 44% lower. Purchases by the United States declined from \$103,525,000 in 1929 to \$97,139,000 in 1930, but Colombia's purchases from the United States decreased from \$49 million in 1929 to \$25 million in 1930, a decline of almost 50%.

Enactment of new petroleum legislation early in March, 1931, removes the uncertainty which has prevented expansion in oil production during the past three years. The act creates more attractive operating conditions for the concerns holding concessions to develop the country's great oil resources, and it is expected that the coming year will see a large increase in production and exports. Output in 1930 was kept at about the same level as in 1929, or 20,346,000 barrels, as compared with 20,385,000 barrels in the preceding year. If production is increased in 1931, the balance of trade will be improved and the revenues of the government will be increased.

The new law provides for a surface tax on concessions amounting to 10 cents a hectare for the first two years, and an additional 10 cents yearly during the possible six-year exploration period. Surface taxes are to be collected when they exceed the royalties already assigned to the government. The government royalties, which may be paid either in kind or in money, are at a rate of 11% in public lands within 100 kilometers of the ocean terminal, with 1% decrease for each additional distance of 100 kilometers. Natural gas is taxed 1 cent per thousand cubic feet wasted or $\frac{1}{2}$ cent per thousand cubic feet used. Helium and other rare gases are reserved to the state. Oil companies must furnish a bond of 1 peso, \$0.97, for each hectare, 2.47 acres, of their concessions, with a minimum bond of 25,000 pesos, \$24,333, as guaranty for payment of royalties.

The measure includes other provisions—one requiring the employment of a certain proportion of Colombians for given grades of work. The position of the private land owner with regard to sub-soil rights is improved.

The enactment of this petroleum legislation, it is believed, will have a very important influence upon the future development of Colombia, and upon United States relations with the country. American investments in Colombian petroleum fields at present are estimated at about \$100 million. The Gulf Oil and Standard Oil of California have about \$25 million invested between them, and the Andean National Corporation and Tropical Oil Company, Ltd., have holdings of about \$65 million.

General business conditions throughout Colombia show very little improvement. Statistics of bank clearings, shown in Table 52, may be used as an index for comparison of the volume of business in previous years:

TABLE 52: BANK CLEARINGS, COLOMBIA, 1928 TO 1930

In million pesos and million dollars

	1928		1929		1930	
	Pesos	Dollars	Pesos	Dollars	Pesos	Dollars
January.....	53.4	52.0	65.7	63.9	37.4	36.4
February.....	52.3	50.9	54.3	52.8	30.1	29.3
March.....	59.8	58.2	53.9	52.5	30.0	29.2
April.....	55.2	53.7	56.8	55.3	29.2	28.4
May.....	65.0	63.3	55.6	54.1	34.3	33.4
June.....	53.4	52.0	50.2	48.9	28.5	27.7
July.....	69.9	68.0	57.9	56.4	30.5	29.7
August.....	66.5	64.7	49.0	47.7	26.2	25.5
September.....	61.7	60.1	47.9	46.6	29.3	28.5
October.....	64.3	62.6	45.5	44.3	29.5	28.7
November.....	57.3	55.8	38.0	37.0	25.8	25.1
December.....	49.2	47.9	29.8	29.0	22.4	21.8
Total.....	708.1	689.2	604.6	588.5	353.2	343.7

Circulation of notes of the Banco de la Republica declined to 25,540,000 pesos, \$24,858,000, on November 30, 1930, but stood at 27,357,000 pesos, \$26,627,000, on December 31, 1930, with gold reserves at 27,417,000 pesos, \$26,685,000. Notes and gold reserve on December 31, 1929, were 39,074,000 pesos, \$38,031,000, and 37,748,000 pesos, \$36,740,000, respectively.

AUSTRALIA¹

The financial problem continues to be of outstanding importance in the economic position of Australia. The public debt as of September 30, 1930, reached a total of £1,115 million, \$5,429 million, or \$830 per capita. Of this total £578 million, \$2,813 million, was borrowed from abroad, about £151 million, \$735 million, from London and £17 million, \$82.7 million, from New York, involving interest and sinking fund payments abroad of about £35 million, or \$170 million, annually. In addition, £43 million, \$209 million, of principal falls due for repayment or refunding during the year, and it is estimated that the floating debt by the end of February, 1931, will have reached £57 million, \$276 million, of which £38 million, \$184.9 million, has been borrowed abroad.

Measures to facilitate transfers of payments due abroad have met with difficulties. The scheme for pooling the banks' London funds so as to provide £3 million, \$14.6 million a month for the government's obligations, which was put into effect on September 1, 1930, and the attempt of the banks to "peg" exchange in favor of the government, has resulted in the establishment of a bootleg exchange market. Exporters can sell their bills of exchange directly to importers without the bank intermediary at better rates than the banks offer, and the importers do not suffer from the government's precedence. There is a tendency for exchange business to go by the banks. Pound quotations are now reported as official rates and open-market rates. While the banks have struggled to maintain their policy, the pressure brought to bear upon them has finally forced them to follow the market rate, reluctantly but steadily, downward.

¹ Sources of information: Commonwealth Bureau of Census and Statistics, Quarterly Summary of Australian Statistics, Official Yearbook; National Bank of Australia, Melbourne; Australian Institute of Economic Research, Bulletin, Sydney; National Council of Wool-selling Brokers of Australia, Melbourne; U. S. Department of Commerce, Foreign Financial News, Special Circular, No. 351, Far Eastern Financial Notes, Business Situation at Home and Abroad, Weekly Commerce Reports, and Commerce Yearbook, 1930; U. S. Department of Agriculture, Foreign Crops and Markets; New York Times dispatches.

During 1930 the Australian-London rate remained fairly normal. In January, 1930, Australian currency was worth £102 for £100 sterling; in October the rate was £108/10 for £100 sterling. With the turn of the year, however, the Bank of New South Wales, without conferring with the other trading banks, which had hitherto been acting together, decided to raise its buying rate for telegraphic transfers from £108/10 to £115/2/6 Australian per £100 sterling. The other banks were obliged to follow suit or lose business. On January 14, 1931, the Bank of New South Wales again changed its rate to £118/7/6. By the end of the month, the official buying rate stood at £130/10 with the open market at £134 per £100 sterling.

TABLE 53: TOTAL AND PER CAPITA DEBT, AUSTRALIA, JUNE, 1913, AND JUNE, 1930

Type of Debt	June, 1913				June, 1930				Percentage Increase	
	Total in Millions		Per Capita		Total in Millions		Per Capita		Total	Per Capita
	Pounds	Dollars	Pounds	Dollars	Pounds	Dollars	Pounds	Dollars		
Total.....	302.0	1,469.7	62.5	304.0	1,100.0	5,353.2	170.0	827	264	172
External.....	208.0	1,012.2	43.5	212.0	573.6	2,791.4	88.3	430	176	103
Commonwealth.....	7.4	36.2	1.5	7.5	373.0	1,815.2	57.3	279	4,920	3,600
War debt.....	..	..	..	..	282.0	1,372.4	43.4	211	..	..
External.....	3.7	17.8	0.7	3.5	168.0	817.6	25.8	125	4,500	3,530
War debt.....	..	..	..	..	92.3	449.2	14.2	69	..	..
States.....	294.4	1,433.2	61.3	298.0	727.6	3,540.9	112.0	545	147	83
External.....	204.4	994.7	42.2	205.0	406.0	1,975.8	62.5	304	99	47
Exclusive of the War Debt										
Total.....	..	..	..	..	818.0	3,980.8	126.0	613	170	100
External.....	..	..	..	..	481.0	2,340.8	74.0	360	131	70
Commonwealth.....	..	..	..	..	91.0	442.9	14.0	68	1,120	800
External.....	..	..	..	..	75.7	368.4	12.0	56	1,980	1,530

Foreign Trade and the Balance of Payments

Although the depreciation of the Australian exchange increases the financial burden of the government in meeting its obligations abroad, it tends to stimulate Australian exports, inasmuch as the lower exchange value for the Australian pound is equivalent to a lower price for Australian products to the buyer in foreign countries. In fact, a strong argument in favor of unpegging and unrationing Australian

exchange is that, while the present rate little more than offsets the abnormally depressed world prices for wool, grain, etc., which Australia has for export, a lower exchange rate would give the Australian exporter a distinct advantage over competing sources of supply.

Under present circumstances an export balance of trade is especially desirable. While Australia was able easily to obtain capital abroad, the annual service on the debt outstanding was more than offset by the annual increase in loans. The balance of international payments was established with an import balance of merchandise. Now that increased borrowing on a large scale is no longer possible, outgoing transfers must be effected through an excess of exports. The depreciated exchange rate both discourages imports and accelerates exports.

Australia's foreign trade during the first three quarters of 1930 was less influenced by exchange rates than by other factors, such as the decline in purchasing power of the country, but the recent depreciation of Australian exchange has doubtless accelerated the favorable trend observable during the past year. Both exports and imports show a sharp decline from the totals for 1929, but, whereas the value of exports for the first quarter of the year 1930 was only about 50% of that for the corresponding period in 1929, the discrepancy has been reduced, and the total value of exports in 1930 was only 27% below 1929. Imports, on the other hand, in the first quarter of 1930 were 9% lower than in the first quarter of 1929, but declined in the last quarter of 1930 to less than 50% of those in the corresponding period of a year ago. The total value of imports in 1930 was 35% below 1929. As a result of this development, Australia had a surplus of commodity exports in 1930.

Normally the United States contributes about a quarter of Australia's total imports, and affords a market, by direct trade, for about 5% of Australian exports. In 1930 Australia's purchases from the United States amounted to only \$76 million, as compared with \$150 million for the preceding year, a decline of almost 50%. Direct imports of the United States from Australia decreased from about \$32 million in 1929 to \$17.5 million, or 45%.

Measures have been adopted by Australia for artificial stimulation of exports. The most important of these measures was the Wheat Advances Act, guaranteeing a price for wheat of three shillings per bushel, f. o. b. According to the plan the buyer of wheat would have to pay an advance of two shillings per bushel net on delivery at country railway stations, and the farmer would sign an authorization to sell the wheat at the best price available. The difference between the price realized and the guaranteed price of three shillings f. o. b. was to be collected from the government toward the end of the year or when the season's wheat was all sold. To

TABLE 54: VALUE OF FOREIGN TRADE, AUSTRALIA, 1929 AND 1930

In million pounds and million dollars

Quarters	Exports					Imports					Balance			
	1929		1930		Per-centage De-crease	1929		1930		Per-centage De-crease	1929		1930	
	Pounds	Dol-lars	Pounds	Dol-lars		Pounds	Dol-lars	Pounds	Dol-lars		Pounds	Dol-lars	Pounds	Dol-lars
January to March....	45	220	24	118	46	35	172	32	157	9	+10	+48	-8	-39
April to June	29	141	24	115	18	35	171	24	116	32	-6	-30	0	-1
July to Sep-tember...	20	98	17	82	16	38	184	20	98	46	-18	-86	-3	-16
October to December	32	156	27	131	17	37	180	18	88	51	-5	-24	+9	+43
Total.....	126	615	92	446	28	145	707	94	459	35	-19	-92	-2	-13

finance the Act would require a large sum of money. The Commonwealth Bank offered to make an advance on wheat to organizations at the rate of 2 shillings per bushel, f. o. b., equal to 1s. 6d. per bushel at country stations. The terms apparently were not satisfactory, and, as wheat prices in overseas markets continued to decline, announcement was finally made that the guarantee scheme was to be abandoned.

Nevertheless, wheat exports have apparently done well enough without the artificial stimulus. For the period from July 1, 1930, to February 7, 1931, the volume of wheat and flour in wheat equivalent exported was 61 million bushels as compared with 31 million bushels during the corresponding

period of a year ago. The crop for the 1930-1931 season is estimated at 190 million bushels as compared with 127 million in the preceding season.

On the other hand, world prices are at a level only about half that of a year ago, and a heavy surplus in Europe, with Russia straining to increase production and selling in foreign markets in order to establish credits for purchase of machinery and equipment, with a favorable prospect for the Argentine crop, and with all the grain-importing countries except England endeavoring to encourage the extension of cereal production at home, there seems little chance that the total value of Australian wheat exports will increase much to sustain the credit side of the balance of payments and assist the government in meeting its foreign obligations.

An export bounty of $4\frac{1}{2}$ d. a pound on butter, according to the Paterson plan, was to be paid from a fund provided by a levy on output of $1\frac{3}{4}$ d. a pound, "voluntarily contributed by producers," but the decline in domestic consumption due to the depression upset the ratio between domestic consumption and exports upon which the bounty had been calculated, and the rate had to be reduced to $3\frac{1}{2}$ d. a pound. For the first quarter of the fiscal year 1930-1931, July, August, and September, exports were 11,432,200 pounds, as compared with 8,750,000 pounds for the same quarter in 1929. Shipments to London, which takes over three quarters of the total, for the period from July 1 to December 27, 1930, reached over 60 million pounds, as compared with 43 million pounds for the corresponding period last year.

The major export product of Australia, however, is wool, usually representing about 45% of the total value of merchandise exports. According to the National Council of Wool-selling Brokers of Australia, sales and shipments of wool for the second half of 1930 amounted to 1,155,520 bales, as compared with 1,010,000 bales during the same period of 1929 and 1,226,000 bales in 1928. The carry-over in storage was 935,464 bales, as compared with 1,258,000 bales in 1929 and 1,159,000 bales in 1928.

Australia produces about a quarter of the world's annual output of gold. Recently a law was passed by the Federal Parliament providing for payment of a bounty of £1 Austra-

lian currency for each fine ounce of gold produced in excess of the average output for the three years 1928 to 1930, or about 486,000 ounces, payable for a period of ten years. It is unlikely, however, that this will be an appreciable factor in Australia's problem of balancing international accounts. The maximum production ever reached in Australia was 16 million ounces in 1903. Since then the output has steadily declined. The value of 486,000 ounces is less than £2 million, \$9,733,000, but during the fiscal year of 1929-1930 over £27.7 million, \$135 million, of bullion and specie had to be exported to uphold Australian credit in London, and £6.4 million, \$31 million, more during the months of July to September, 1930.

Proposals for Reconstruction at the Premier's Convention

The most extreme proposal to correct Australia's economic situation was made by the Labor Premier, Mr. J. T. Lang, of New South Wales, in the Conference of State Premiers held on February 6, 1931, to discuss a three-year reconstruction plan. Mr. Lang suggested that: (a) the Commonwealth and State Government should not pay any further interest to British bondholders until Great Britain should settle the Australian war debt floated abroad in the same manner that the United States settled the British debt; (b) within Australia interest on all government loans should be reduced to 3%; and (c) the government should abandon the gold standard and substitute a currency "based on the wealth which Australia can produce in her primary and secondary industries." Already, according to Mr. Lang, the State of New South Wales has decided to adopt this policy as far as applicable. Mr. E. G. Theodore, Federal Treasurer, suggested moderate inflation to restore the higher price level of two or three years ago.

Officials of the Federal Treasury prepared a sound but unspectacular program to reduce government expenditures by £15 million, \$72,997,500, annually, to revise old age, invalid and war pensions, and the maternity bonus, and to revise public salaries and railway management. These suggestions, however, met with little favor in the eyes of the administration, and Prime Minister Scullin considered that

the officials had exceeded their instructions in making the recommendations.

Immediately upon the news reports of the Conference, Commonwealth 5's, one of the leading Australian securities, fell seven points, to 67. Other securities declined similarly. The sound recommendations made by Sir Otto Niemeyer, of the Bank of England, last August, despite the formal resolutions passed to follow them, have hitherto been neglected.

In the meantime many of the measures adopted to increase the government's revenues have fallen short of expectations. The new sales tax, which was calculated to yield a revenue of £500,000, or \$2,433,000, monthly, returned only £1,068,000, \$5,197,000, in the first four months of its operation. In October, £392,000, or \$1,908,000, was collected and in November only £371,000, or \$1,806,000. The new import duties have failed to stimulate domestic industrial activity. Consumer demand never seems to respond favorably to increased prices, and production must wait upon demand. Thus, instead, imports have been sharply reduced, and the reduction of revenue from import duties has more than offset the increase in rates. Customs revenues for the second half of 1930 amounted to only £15,443,000, \$75,153,000, as compared with over £17.4 million, \$84,677,000, for the corresponding period in 1929. The increased postal charges yielded £875,413, \$4,260,000, less than the budget estimate of £7.5 million, \$36,499,000.

The monthly statement issued by the Federal Treasury in accordance with the terms of the Melbourne Agreement¹ shows an excess of government expenditures over revenues for the five-month period ending November 30, 1930, amounting to £6,035,000, \$29,369,000. The total deficit of the government at the end of January, 1931, reached £27 million, \$131,395,000, or already almost double the deficit previously estimated for the entire year.

¹ See "A Picture of World Economic Conditions in the Early Fall of 1930," *op. cit.*, p. 110.

FAR EASTERN COUNTRIES

JAPAN

The most important development in Japan in 1930 was the removal of the gold embargo. Since the World War Japanese industry and trade had been operating on the basis of an artificial price level, and the return to the gold standard made necessary a painful adjustment to a new level of money values. The return to the gold standard meant, in other words, that Japanese prices had to be brought down to the level of prices prevailing in the other gold standard countries. The adjustment would not have been so painful if world prices had not taken a precipitous downward course during the year 1930. This world decline of prices increased the disparity between Japanese and foreign price levels and made the deflation all the more serious.

Toward the end of the year, however, the price decline seemed to come to an end. This was due to marked reduction in stocks of commodities, which, however, was not accomplished through any increase in demand, but rather through continued restriction of production in the most important industries.¹ By the end of the year, also, the Japanese price level was brought down to the world level of prices, and this development is interpreted as a sign that, in the absence of a new decline in world prices, the worst phase of the business depression in Japan had run its course.

A most disturbing element in the Japanese situation during 1930 was the great decline in the price of silver, which decreased enormously the purchasing power of China, the best customer for Japanese goods. In 1930 the value of Japanese exports to China was 400 million yen, \$198 million, as compared with 530 million yen, \$262 million, in the preceding year. The second most important market for Japanese products, with the exception of the United States, is British India. The effect of political disturbances in that country

¹ Mitsubishi Goshi Kaisha, "Monthly Circular," Tokyo, January, 1931, p. 3.

is reflected in the decline of Japanese exports from 162 million yen, \$80 million, during the first ten months of 1929 to 110 million yen, \$54 million, during the corresponding period of 1930. During the same period exports to the United States declined from 776 million yen, \$383 million, to 426 million yen, \$210 million.

In 1930 the total value of Japanese exports was 1,470 million yen, \$726 million, a decline of 25.5% as compared with 1928, and 31.6% as compared with 1929. A great part of this decline, however, was due to lower prices, particularly of raw silk and cotton and silk tissues. The value of raw silk exports, for example, was 417 million yen, \$206 million, or 46.7% below that of 1929, while the volume of these exports declined only 18.3%. Similarly the value of exports of cotton tissues declined to 272 million yen, \$134 million, or 34.1%, while their volume declined only 12.2%.

The total value of imports in 1930 was 1,546 million yen, \$764 million, showing a decline of 29.6% as compared with 1928 and 30.2% as compared with 1929. This decline was also due to a considerable extent to lower prices, particularly of raw cotton, raw wool, copper, wheat, and lumber. The decline in the value of imports was greater than that of exports, and the import surplus on merchandising account was reduced to 76 million yen, \$38 million, in 1930, the lowest figure since 1919.

The effect of lower prices on the domestic purchasing power is reflected particularly in the figures of the value and volume of the important rice and cocoon crops. While the volume of the rice crop increased from 60 million koku in 1929 to 67 million koku in 1930, its value declined from 1,769 million yen, \$874 million, to 1,170 million yen, \$578 million. The corresponding figures for the cocoon crop are 102 million kwan and 106 million kwan for the volume, and 655 million yen, \$324 million, and 304 million yen, \$150 million, for its value.

Wholesale prices in Japan declined 22.2% in 1930. In December, 1930, the index number of wholesale prices—base, July, 1914=100—was 119, as compared with 153 in December, 1929. During the same period the index number of

retail prices declined from 171 to 140. While, however, the general index of wholesale prices declined 22.2%, the index number of prices of domestic commodities declined only 16.7%, from 204 in December, 1929, to 170 a year later. The prices of grain, clothing, and metals declined below the pre-war level by the end of 1930. Since the middle of October, 1930, however, wholesale prices, particularly of such commodities as raw silk, cotton yarn, rice, sugar, copper, and cement, remained remarkably stable, indicating that perhaps a period of stability had been reached.¹

The general situation in Japan is on the whole less gloomy than a few months ago. While there is no evidence that a business recovery is in immediate prospect, there are signs that sound policies are being pursued in the management of private and public economy. It is not unreasonable to assume that the depression has reached the low point.

CHINA²

Prospects of improvement in the internal conditions of China appear to be brighter than a year ago, although the situation is changing so constantly that no definite judgment can be formed. In the North, the rebellious generals, Yen Hsi-shan and Feng Yu-hsiang, seem to have been eliminated as a military factor, but there still remains a difficult problem as to what to do with Feng's surrendered army of 250,000 soldiers. To turn them loose in the country would merely create new roving bands of brigands and communists. In conference with their generals, the Nationalist Government offered to pay \$800,000, but this sum the Shansi generals refused as altogether too small. Marshal Chang Hsueh-liang, the Manchurian governor, who was placed in charge of this region as "Rehabilitation Commissioner," in return for his support of the Nationalist Government, has insisted that \$3 million Mexican, \$750,000 gold, was needed to reorganize the troops, and \$20 million Mexican additional "for reha-

¹ *Ibid.*, p. 10.

² Sources of information: U. S. Department of Commerce, *Far Eastern Financial News*, *Business Situation at Home and Abroad*, and *Trade Information Bulletin*, No. 742, *The Silver Market*; *The Statist*, London; *New York Times* dispatches.

bilitation of the North." The situation is reported to be threatening.

In the South, the movement started by Chang Fa-Kwei, the notorious "Ironsides," and leaders of disaffected factions in Kwangsi, Yunnan, Szechuan, and Kweichow to seize this section and declare their independence of the Nanking Government was brought to a temporary halt, and a truce declared to negotiate terms. The opportunity was favorable for Nanking to launch a determined attack upon the communist bands infesting Hupeh, Hunan, and Kiangsi, in an effort to quell revolutionary outbreaks prior to the National People's Conference, to be held in Nanking on May 5.¹

Improvement in the interior is offset by uncertainty regarding the future trend of silver exchange. The price of silver has continued to decline, reaching a new low record of 24 cents an ounce in February, 1931. Imports of silver into Shanghai were greatly reduced during the second half of 1930, but Canton bought large quantities for mint operations. The prospect of improvement in the near future does not appear favorable, with India still a potential seller on a large scale. To carry out the policy adopted in accordance with the recommendations of the Royal Commission on Indian Currency and Finance, it will be necessary to dispose of much more silver than has already been sold with such disastrous effect. "When the Commission reported, in 1926, the silver stocks in the paper currency reserve stood at about 85 crores, and it was recommended that over a period of ten years these should be gradually reduced to 25 crores by sales in the gun market. Since that date the Government of India has sold about 30 million fine ounces of the metal, to the great detriment of the market price, but owing to (various) factors . . . the silver stocks held in

¹ The People's Conference, summoned for May 5, 1931, will consist of 520 delegates, 450 representing the Chinese provinces; 22 representing the 8 leading cities, Nanking, Shanghai, Peking, Hankow, Harbin, Tsingtao, Canton, and Tientsin; 12 representing Mongolia; 10 representing Tibet; and 26 representing overseas Chinese, including 2 from the United States, 1 from the Philippines, 1 from Hawaii, 2 from Canada, and 1 from Cuba. Membership in the Conference is restricted to members of farmers' unions, labor unions, chambers of commerce, trade guilds, educational societies, national or registered universities, professional associations, and the Kuomintang. Five years of membership in such groups is further stipulated as a condition for all candidates for election as delegates to the People's Conference, but for farmers 10 years' membership in a farmers' union is required.

paper currency reserve today exceed by about 35 crores the figure at which they stood when the Commission published its report."¹

The depressed price of silver does not affect the currencies of the gold standard countries, and in India silver is used chiefly for ornaments, which have a sentimental value quite apart from the material value of the silver. In China, on the other hand, the purchasing power of the country is affected by the decline in the price of silver, precisely as it would be by currency inflation. From each trade center of the country reports reiterate the depressing or retarding influence of low silver prices on business.

In terms of haikwan taels, the Customs' official unit of valuation, imports during 1930 increased 10% over the previous year. Imports from the United States increased 17%; from Japan, 5%; from India, 133%; while imports from the United Kingdom declined 13%. In gold value, however, China's imports actually decreased by 22%, as compared with 1929, with specific declines reported as follows: United States, 28%; Japan, 25%; United Kingdom, 38%; while imports from India increased 65%. Similarly, Hong Kong trade, both imports and exports, increased in terms of depreciated Hong Kong dollars. Dairen's trade, on the other hand, even in terms of haikwan taels, declined from 191 million haikwan taels, \$122,240,000, of imports in 1929 to 181 million haikwan taels, \$83,260,000, estimated for 1930, and 283 million haikwan taels, \$181,120,000, of exports in 1929 to 216 million haikwan taels, \$99,360,000, estimated for 1930. The haikwan tael was worth about \$0.64 in 1929 and only \$0.46 in 1930. China's purchases from the United States in 1930 amounted to \$89,391,000, a decline of 28% as compared with 1929, and United States imports from China were \$101,465,000, or 39% below those of 1929.

With China suffering from an oversupply of silver, the proposal for the United States to lend the Nanking Government one billion ounces of silver to finance an extensive road-building program seems like adding fuel to the flames. This appears to be the view held by Mr. T. V. Soong, Minister of

¹ The Statist, February 14, 1931, p. 252.

Finance, who plans to settle all old accounts before borrowing more from abroad. On the other hand, there is question whether China's ills come more from too much silver or from the slowing up of currency circulation due to internal disorders. The British Chamber of Commerce in Shanghai early last year thought that China did not have too much silver, and the same opinion has been frequently expressed in other quarters. If this is correct, then anything that could start productive activity in China would soon remove the present redundancy of silver and its unfavorable effects on trade.

The proposal for a silver loan to China raised the question of China's present debt status. In the latest edition of Kimber's Record of Government Debts, published in February, 1931, it is estimated that China's government debt, including arrears of interest but not including the Chinese Railway loans outstanding, is close to \$1 billion. Service on all the external loans, except those secured by maritime customs revenues, which are collected in gold and therefore are not directly influenced by the value of silver, has been paid only intermittently. Recently, noteworthy progress has been made in redemption of considerable sums of China's foreign obligations secured on customs revenue and on the Salt Gabelle. Most of the railway loans, secured by earnings of the respective roads and also guaranteed by the Chinese Government, have fallen into arrears for the past ten years. Before any new loan can be successfully raised, it is evident that some sort of settlement would have to be reached in regard to the obligations already outstanding.

While no new foreign loans were solicited during 1930, China successfully floated four internal loans aggregating \$174 million. Of these, \$24 million was secured by the tobacco tax. The balance was raised against the increased revenue, estimated at \$100 million a year, expected from the revised import duties. The investing public in China seems to have confidence in the integrity of the government, even though the funds borrowed have been used largely to finance military campaigns. The government has been most careful to maintain its credit. On the loans raised by the Nanking Government there have been no defaults or arrears, and

30% of the total domestic debt outstanding represents an inheritance from the Peking régime. A new internal loan for \$60 million Yuan was issued for public subscription in January. The interest rate, equivalent to 8.4% per annum, as compared with 9.6% on previous loans, reflects the improved credit standing of the government. Redemption of the loan is to be effected by monthly drawings, and completed by the end of June, 1937. It is secured by revenues of the Rolled Tobacco Tax Bureau. One of the objects of the loan is to make up the loss of revenue due to the abolition of *likin* and certain other internal taxes.

The abolition of *likin*, or taxes on goods in transit from one province or political district to another, as recommended by the Kemmerer Commission, was to be put into effect with the beginning of the year 1931. In some places, however, it has merely been continued under other names, or substitute taxes were created. But this condition is probably transitional. By circular order the various provincial and municipal governments throughout the country have been strictly prohibited from imposing surtaxes or additional levies on commodities, and are directed to obtain special authorization from the ministry of finance for the imposition of any kind of tax or levy whatsoever. The government plans three new taxes to supply the revenue lost. The special consumption tax and the factory tax will be national taxes, and a business tax will be for the local governments.

THE UNITED STATES

The general business situation in the United States at the end of 1930 was characterized by extreme depression. Productive activity was approximately 25% below the average for the five-year period 1925 to 1929. Conservative estimates placed the number of unemployed workers at 5 million to 6 million. This situation was the outgrowth of a practically continuous decline in activity which started in the summer of 1929. The year 1930 as a whole, apart from a temporary upturn in the spring, presents a gloomy picture of business recession.

The comparison of the volume of production in various fields presented in the accompanying table indicates the widespread character of the depression as well as the extent of decline. Except for a negligible increase in the output of gasoline, production in 1930 was substantially below that in 1929. The industries most seriously affected were the automobile industry, in which the number of cars produced decreased by 37.4%, and copper mining, which showed a decline of 31.4%. In 1930 car loadings amounted to 45,887,413 cars, as compared with 52,827,925 cars in 1929, a decline of slightly more than 13%. Electric power production fell from 97,352 million kilowatt hours in 1929 to 95,638 million kilowatt hours in 1930. In view of the normal yearly increase in power production, the decline is more significant than these figures indicate.

The effect of the diminished volume of production during 1930 was intensified by the decline in wholesale prices. Between December, 1929, and December, 1930, the index number of wholesale prices, compiled by the United States Bureau of Labor Statistics—base, 1923-1925 = 100—declined from 95.0 to 74.2 in the case of raw materials; from 94.3 to 74.3 in the case of semi-manufactured articles; and from 93.9 to 81.9 in the case of finished products. It may be conservatively estimated that the total value of industrial production in 1930 was approximately 30% below that of the preceding year.

The early months of 1931 showed no definite signs of improvement in the business situation, although there were scattered indications that an upward turn was in prospect. During the months of January and February the production of pig iron, steel ingots, and automobiles increased more than seasonally. Building and engineering construction, as reflected in contracts awarded, showed less than the customary seasonal decline. These slight signs of improvement, however, were too limited in extent and too brief in duration to be taken as an indication that a business recovery was definitely taking place. During the month of March business trends were of a mixed character, and should perhaps be interpreted as indicating that expectations of recovery in the spring season are somewhat premature.

TABLE 55: INDUSTRIAL PRODUCTION, UNITED STATES,
1929 AND 1930

Source: United States Department of Commerce

Commodity	1929	1930	Per Cent Change
Bituminous coal.	534,989,000 short tons	461,630,000 short tons	-13.7
Anthracite coal.	73,828,000 short tons	69,802,000 short tons	- 5.5
Coke, by-product.	53,412,000 short tons	45,514,000 short tons	-14.8
Crude petroleum.	1,007,323,000 barrels	895,556,000 barrels	-11.1
Gasoline, raw.	439,393,000 barrels	441,534,000 barrels	+0.5
Copper, mines.	1,006,203 short tons	690,263 short tons	-31.4
Copper, smelter.	1,179,269 short tons	857,007 short tons	-27.3
Lead, domestic, refined	716,840 short tons	615,105 short tons	-14.2
Pig iron.	42,286,000 long tons	31,400,000 long tons	-25.7
Steel ingots.	54,312,000 long tons	39,653,000 long tons	-27.0
Steel castings.	1,353,118 short tons	991,872 short tons	-26.7
Structural steel, new orders.	3,597,825 short tons	2,804,800 short tons	-22.0
Automobiles, total.	5,358,420 cars	3,354,870 cars	-37.4
Passenger.	4,569,811 cars	2,805,413 cars	-38.6
Taxicabs.	17,589 cars	8,936 cars	-49.2
Trucks.	771,020 cars	540,521 cars	-29.9

Agriculture

The agricultural situation during 1930 was in some respects worse than the situation in other fields of economic activity. Agriculture, already weakened by several years of depression, suffered severely from drought which materially reduced the volume of important crops, particularly corn and hay, and which also created a shortage of the feeds

required for the maintenance of livestock. At the same time the prices of farm products underwent a sharp decline. The accumulated supply of wheat in this and other producing countries rendered ineffective the attempt of the Federal Farm Board to support the price of that commodity. As a matter of fact, it is by no means certain that the farmer will in the long run benefit through price-fixing measures of the government. On March 22, 1931, the Federal Farm Board announced that it would not attempt to maintain prices after

TABLE 56: AGRICULTURAL PRODUCTION, UNITED STATES, 1929 AND 1930

Source: United States Department of Agriculture

Crop	1929		1930		Per Cent Change	
	Quantity	Farm Value	Quantity	Farm Value	Quantity	Farm Value
Wheat.....	809,176,000 bushels	\$843,030,000	850,965,000 bushels	\$517,407,000	+5.2	-38.6
Corn.....	2,614,132,000 bushels	2,042,893,000	2,081,048,000 bushels	1,378,874,000	-20.4	-32.5
Oats.....	1,228,369,000 bushels	533,807,000	1,402,026,000 bushels	453,973,000	+14.1	-15.0
Barley.....	302,892,000 bushels	166,613,000	325,893,000 bushels	129,137,000	+7.6	-22.5
Potatoes, white.....	359,048,000 bushels	469,837,000	361,090,000 bushels	326,457,000	+0.6	-30.5
Cotton.....	14,828,000 bales	1,217,829,000	14,243,000 bales	674,044,000	-3.9	-44.7
Hay.....	113,658,000 tons	1,336,946,000	94,767,000 tons	1,135,294,000	-16.6	-15.1
Tobacco.....	1,524,677,000 pounds	282,764,000	1,510,308,000 pounds	216,895,000	-0.9	-23.3

May, 1931, and that it will not authorize the Grain Stabilization Corporation to make stabilization purchases from the new crop. The total wheat holdings of the Farm Board amount to about 200 million bushels, purchased at prices considerably above the world level. At what prices and in what manner this large surplus will be sold by the Board has not yet been announced.

The aggregate value of farm crops in 1930 is estimated by the United States Department of Agriculture at \$6,274 million, as compared with \$8,675 million in 1929, a decline of about 28%. During the first ten months of 1930, meat

packers paid a total of \$1,554 million for all cattle, calves, hogs, sheep, and lambs slaughtered under federal inspection. The corresponding figure for the preceding year was \$1,783 million, a decrease of 8%. The curtailment in agricultural purchasing power, resulting largely from a decline of more than 25% in the price of farm products, has undoubtedly been an important factor in prolonging the business depression.

In the foregoing table are shown the quantity and farm values of production of the more important crops for the years 1929 and 1930. In every instance there was a substantial shrinkage in value. The price of hay at the end of 1930 was approximately the same as at the end of the preceding year. In the case of the other crops, the decline in prices either more than offset increases or accentuated decreases in volume. The size of the cotton crop in 1930 was approximately the same as in 1929. The farm value of the production of raw cotton, however, declined 44.7%.

Conditions in Important Industries

Production in the iron and steel industry followed the general course of the business depression. During the first three months of 1930 steel ingot output was only 13% smaller than in 1929. The balance of the year, however, was characterized by a steady decline, interrupted only by an abortive recovery in August. From a peak of 86% of capacity in February, production declined to 35% of capacity in December. The decline in production was accompanied by a decline in the prices of steel products, reaching in some cases the lowest level since 1922.

Construction activity, including all types of construction work, was 21.3% lower in 1930 than in 1929. This decline resulted largely from the reduced amount of residential building. The valuation of new commercial and industrial buildings was also substantially lower. As a result of the activities of various governmental agencies in encouraging the development of public enterprises, the amount of construction in the field of public works and utilities was notably increased. The greater decline in automobile production, as compared with the decline in building and engineering con-

struction, placed the latter industry in the lead as the largest consumer of steel mill products in 1930.

So far as the oil industry is concerned, the year 1930 opened with an accumulation of excess stocks from the oversupply of 1929. Depressed demand, low prices, and keen competition in both the domestic and foreign markets characterized the year's operations. As a result of efforts to curtail output, crude production in the United States declined by 109 million barrels, from 1,007 million in 1929 to 898 million in 1930. Total stocks of all oils were reduced by about 23 million barrels, whereas they had increased by 68 million in 1929. About 40 million barrels less crude oil was treated in refineries than in 1929. As the result of increased cracking operations, the refinery production of motor fuel increased slightly, from 435 million to 436 million barrels, but the output of kerosene declined almost 7 million barrels, while the balance of the decrease was in gas and fuel oils. The curtailment of refinery operations was due to an effort to reduce the excess stocks of refined oils accumulated in 1929, to a decline in both domestic and foreign demand, and to an increased import of gasoline and fuel oil.

Imports of all oils in 1930 were about 3 million barrels less than in 1929. Crude imports declined by 17 million barrels, but imports of gasoline increased 8 million barrels and of fuel oil almost 6 million barrels. This change was primarily due to the expansion in the refining industry of the Netherlands West Indies, which uses Venezuelan crude oil. Exports of all oils declined by 6 million barrels. Motor fuel exports increased by only 3.5 million barrels, mainly in the North-European markets, while a loss of almost 3 million barrels in gas and fuel exports occurred. Kerosene exports declined 3 millions, lubricants 1 million, and crude exports about 2.5 millions. This decline is even more significant in view of the fact that exports had increased by 8 million barrels in 1929. To the depressed market in foreign countries was added the increasing competition with Russian and Venezuelan oil products abroad.

The apparent domestic consumption of all oil products declined by about 16 million barrels. The consumption of motor fuel showed an increase of less than 20 million barrels,

whereas in 1929 the increase was about 44 million barrels. The consumption of lubricants declined 2 million barrels and of kerosene, over 1 million barrels, while the major decline in oil consumption occurred in the use of gas and fuel oil. Depressed industrial demand combined with the increasing competition of natural gas, for domestic and industrial uses, were the major factors in the decrease in fuel oil consumption.

Conditions in the various branches of the textile industry in 1930 were not uniform. The industry has been faced with overproduction for a number of years, and the advent of the general business depression served to enhance that problem. Production in 1930 for the industry as a whole is estimated to have been about 22% below 1929 and 16% below 1928.¹

TABLE 57: BUILDING AND ENGINEERING CONSTRUCTION,
UNITED STATES, 1929 AND 1930

Source: United States Department of Commerce
In thousand dollars

Type of Construction	1929	1930	Per Cent Change
Commercial buildings.....	\$929,188	\$628,810	-32.3
Industrial buildings.....	756,512	459,943	-39.2
Educational buildings.....	381,908	376,050	-1.5
Hospital and institutional buildings.....	152,204	163,121	+7.2
Public buildings.....	120,778	139,816	+15.8
Religious and memorial buildings.....	106,111	92,837	-12.5
Social and recreational buildings.....	140,019	113,298	-19.1
Residential building, all types.....	1,915,728	1,101,315	-42.5
Public works and utilities.....	1,248,342	1,447,928	+16.0
Total construction, all types.....	5,750,791	4,523,115	-21.3

In the cotton branch of the industry, the average daily spindle activity during the first eleven months of 1930 was 252 million spindle hours, representing a decrease of 23.6%, as compared with the corresponding period in 1929. Stocks at the end of the year were substantially lower. During the last two months production, stimulated by the moderate buying wave in September and October, exceeded sales. A new attempt to remove the evils of excessive productive capacity was recently inaugurated by the formulation and discussion of an agreement to restrict night work throughout the industry.

¹ Textile World, February 7, 1931, p. 80.

The wool industry, in which production activity in 1930 was about 28% below 1929, suffered the largest slump experienced in any of the major textile branches. A few mills were operating at capacity, but a larger proportion were relatively inactive. No solution of the problems of excessive capacity and overproduction appears to be in sight.

The silk industry benefited from the unprecedented decline in the price of raw silk, apart from the resulting losses in inventory. Silk spindle activity in 1930 was only about 5.3% below 1929. Broad loom activity during the first ten months was about 9% lower than in 1929, while narrow loom activity declined 21%.

Earnings, Employment, and Cost of Living

The result of the monthly investigations of the National Industrial Conference Board with respect to earnings, employment, and the cost of living during 1930 are presented in the accompanying table. The data relating to earnings and employment cover 21 branches of manufacturing indus-

TABLE 58: AVERAGE MONEY AND REAL EARNINGS, EMPLOYMENT, AND HOURS OF WORK IN MANUFACTURING INDUSTRY, AND COST OF LIVING, UNITED STATES, 1930

Source: National Industrial Conference Board

Month	Average Earnings		Index Numbers of Earnings Base, July, 1914 = 100		Index Numbers of Employment Base, June, 1920 = 100	Average Hours of Work per Wage-Earner	Cost of Living Base, July, 1914 = 100	Real Earnings Base, July, 1914 = 100	
	Hourly	Weekly	Average Hourly	Average Weekly				Hourly	Weekly
January	\$0.592	\$27.51	237	215	83.4	46.4	160.4	148	134
February	0.597	27.90	239	218	83.8	46.7	158.8	151	137
March	0.596	27.59	238	216	82.9	46.3	157.4	151	137
April	0.598	27.64	239	216	81.6	46.1	157.5	152	137
May	0.597	27.05	239	212	80.3	45.2	156.2	153	136
June	0.594	26.48	238	207	78.0	44.5	154.8	154	134
July	0.595	25.72	238	201	72.4	43.3	152.4	156	132
August	0.597	25.38	239	199	70.8	42.6	151.6	158	131
September	0.593	25.22	237	197	69.9	42.5	152.9	155	129
October	0.590	24.85	236	194	68.2	42.3	151.9	155	128
November	0.586	23.99	234	188	67.6	41.0	150.0	156	125
December	0.584	24.23	234	190	67.4	41.7	147.6	159	129

try, but in the table only the general averages are shown.¹ The significant feature of the current business depression has been the general tendency on the part of employers to maintain wage rates as indicated in the slight change in hourly earnings during 1930. Weekly earnings, however, declined 13.5% from December, 1929, to December, 1930, largely as a result of the decline in the average hours of work. A small increase in hours at the end of the year produced a slight recovery in weekly earnings. Except for an insignificant improvement in February, 1930, the index number of employment declined continuously, reaching in December, 1930, a point 19.1% below the index for December, 1929.

As a result of a consistent fall in the cost of living, the effect of the decline in weekly earnings was somewhat lessened. Real weekly earnings declined less than 4% during 1930, while hourly earnings were about 6% higher at the end of the year.

The downward trend in the cost of living was due to generally lower prices for all of the budget items upon which the Conference Board's index is based. The largest decrease was in food prices, which amounted to 13.2% between December, 1929, and December, 1930. Rents declined 5.4% during the same period, and clothing prices 12.8%. The purchasing value of the dollar at the end of 1930 was 67.8 cents, as compared with 100 cents in July, 1914, and 109.3 cents as compared with 100 cents in 1923.

Financial Conditions

The year 1929 was noteworthy for the extraordinary increase in the flotation of new capital issues, and, in view of the business depression, contraction in 1930 was inevitable. New financing in 1930 reached a total of \$7,676 million, as compared with \$11,592 million in 1929.² While the volume was greatly reduced, the character of new financing was improved. It is noteworthy that investment trusts, which contributed \$2,224 million of the capital issues in 1929, contributed only \$233 million in 1930.

¹ The detailed figures for the separate industries can be found in the Conference Board's Service Letter on Industrial Relations and annual report on Wages and Employment in the United States.

² Commercial and Financial Chronicle, January 17, 1931, pp. 374-384.

As shown in the accompanying table, new financing by foreign countries in 1930 was 45.6% higher than a year ago. In the preceding year the absorption of funds by the stock market and the prevailing high rates for money not only acted as a check upon loans to foreign countries but also attracted large sums of short-term funds from abroad. While the removal of that check resulted in a large increase in the flotation of foreign securities, the total new financing on behalf of foreign countries did not approach the levels of 1927 and 1928. Furthermore, there was an almost complete cessation of foreign financing during the second half of the year owing to unfavorable political developments in many parts of the world. The increase in foreign capital issues was due entirely to governmental loans, which increased 606.1%, while private loans declined considerably below the 1929 level.

TABLE 59: CAPITAL ISSUES IN THE UNITED STATES, 1929
AND 1930

Source: Commercial and Financial Chronicle

Type of Issue	1929	1930	Per Cent Change
Canada, its provinces and municipalities.....	\$61,812,000	\$137,744,000	+122.8
Other foreign governments.....	68,250,000	481,886,000	+606.1
Canadian corporate issues.....	314,113,900	297,097,390	-5.4
Other foreign corporate issues.....	335,694,386	219,052,000	-34.7
Total.....	779,870,286	1,135,779,390	+45.6
Domestic issues.....	10,712,293,743	6,540,528,187	-38.9
Grand total.....	11,592,164,029	7,676,307,577	-33.8

Of the total of \$620 million in loans to foreign governments during 1930, South American issues represented \$227.5 million; European issues, \$141.8 million; and Canadian provincial and municipal issues, \$137.7 million. In the case of corporate issues, Canada ranked first, with \$297 million, and Germany second, with \$86.6 million. The combined governmental and corporate foreign financing in 1930 amounted to \$1,135.7 million, of which Canada accounted for \$434.8 million, Germany \$185.9 million, and Argentina \$147.2 million.

Except for a short-lived recovery in the spring, the trend of stock prices in 1930 was downward. An index based on the

average weekly closing price of 402 stocks—base, 1926 = 100—showed a decline from 153.8 in December, 1929, to 109.4 in December, 1930. The price of bonds, on the other hand, in general rose during the year and closed at a slightly higher level than at the end of 1929 in spite of a reaction in December. The monthly total of brokers' loans, as reported by the New York Stock Exchange, increased from \$3,990 million on December 31, 1929, to \$5,063 million on April 30, 1930. At the end of 1930 such loans amounted to only \$1,894 million. In order to expand credit and support the declining security market, the Federal Reserve Bank of New York made repeated reductions in the discount rate, until at the end of 1930 that rate was reduced to an unusually low point of 2%.

TABLE 60: BUSINESS FAILURES, UNITED STATES, 1929 AND 1930

Source: Dun's Review

Type of Business	1929		1930	
	Number	Liabilities	Number	Liabilities
Manufacturers.....	6,007	\$186,735,000	6,278	\$238,640,000
Trade establishments.....	15,417	224,732,000	18,443	273,431,000
Agents and brokers.....	1,485	71,786,000	1,684	156,715,000
Total commercial.....	22,909	483,252,000	26,355	668,283,000
Banks.....	437	218,797,000	934	908,158,000

In spite of the depression, interest and dividend payments exceeded those of the previous year, the total of such payments amounting to \$8,208 million in 1930, as compared with \$7,588 million in 1929. In many instances, however, dividends on common stocks were reduced or omitted, and to a large extent the increase in total payments represented the distribution of the accumulated surpluses of other years. In 1931 the full force of decreased earnings in 1930 will be felt.

Business failures during 1930 were more numerous and involved larger liabilities than in 1929. As shown in the accompanying table, the liabilities represented in commercial failures amounted to \$668 million in 1930, as compared with \$483 million during the preceding year. The number of

bank failures more than doubled, and the liabilities of the failed banks rose from \$219 million in 1929 to \$908 million in 1930. The most noteworthy failure was that of the Bank of United States, taken over by the New York State Superintendent of Banks on December 11, 1930. This institution had 62 branches in New York City and deposits of approximately \$200 million at the time it was closed.

Foreign Trade

The decline in the foreign trade of the United States in 1930 furnishes evidence of the widespread character of the depression. The value of domestic exports amounted to only \$3,782 million, a decline of 26.7% as compared with 1929. The value of imports declined to \$3,061 million, or 30.4% below that of the preceding year. The decline in both cases is partially explained by the fall in prices. Exports of raw cotton, for example, were only 13.1% less in volume in 1930 than in 1929, while the decline in value was 35.6%. Similarly, in the case of imported raw silk there was a decline of 15.4% in volume and of 38.5% in value. That lower price levels tended to accentuate the decrease in the total value of exports and imports is also indicated by the relatively smaller percentage decline in the cargo tonnage of water-borne commerce. Data collected by the United States Shipping Board show that the cargo tonnage of water-borne exports during the first ten months of 1930 totaled 42,796,744 tons, as compared with 48,178,365 tons during the corresponding period in 1929, a decline of 11.2%. Water-borne imports declined only 5.1%, from 42,206,957 tons in 1929 to 40,079,102 tons in 1930. While the foreign trade picture as a whole appears less dismal when volume rather than value data are considered, it should be noted that in the case of individual commodities, for example, automobiles, the decline in value represented primarily diminished volume rather than lower prices.

The decline in value in 1930, as compared with 1929, extended to all commodity groups of both imports and exports. A decline of over 30% is shown in the case of imports of crude materials, manufactured foodstuffs, semi-manufactures, and exports of crude foodstuffs. Exports and im-

ports of finished manufactures declined least in total value, a fact that may be partially explained by the relatively smaller decline in the prices of those commodities.

Trade with individual countries during 1930 was not equally affected by the economic situation, but, with the exception of Soviet Russia, the decline in exports and imports was general. American exports to Russia increased 36.6% in 1930, as compared with 1929, and reached a total of \$111,361,847. Purchases by that country included more than \$29 million for tractors and over \$7 million for raw cotton. An increase of only 2.1% in imports from Russia resulted in an excess of exports over imports of more than \$89 million.

TABLE 61: VALUE OF FOREIGN TRADE BY COMMODITY CLASSES, UNITED STATES, 1929 AND 1930

Source: United States Department of Commerce
In thousand dollars

Commodity Group	Imports		Per Cent Change	Domestic Exports		Per Cent Change
	1929	1930		1929	1930	
Crude materials	\$1,558,620	\$1,002,159	-35.7	\$1,142,352	\$829,034	-27.4
Crude foodstuffs	538,560	400,705	-25.6	269,590	178,533	-33.8
Manufactured foodstuffs	423,622	292,996	-30.8	484,304	362,649	-25.1
Semi-manufactures	885,051	608,123	-31.3	729,013	512,865	-29.6
Finished manufactures	993,508	757,108	-23.8	2,531,823	1,898,747	-25.0
	4,399,361	3,061,091	-30.4	5,157,083	3,781,828	-26.7

The percentage decline in exports to different countries varied from 13.2% in the case of Mexico to 50.5% in the case of Brazil. On the whole, exports to Europe declined less than exports to South America and Oceania, a fact which may be in part attributed to differences in the character of the trade. European purchases from the United States, exclusive of those made by Russia, consist largely of foodstuffs and commodities, such as gasoline, which are in the nature of necessities and are consequently less seriously affected by unfavorable business conditions. Exports to South America and Oceania represent chiefly machinery and vehicles, the purchase of which is usually curtailed during periods of depression, as indicated by the decline in the total value of this class of exports from \$1,201 million in 1929 to

\$843 million in 1930. Moreover, unstable political conditions in several South American countries also contributed to reduce exports to that region. For example, the number of motor trucks exported to Brazil declined from 18,856 in 1929 to 575 in 1930, and the number of passenger cars from 17,250 to 649.

TABLE 62: GEOGRAPHIC DISTRIBUTION OF FOREIGN TRADE, UNITED STATES, 1929 AND 1930

Source: U. S. Department of Commerce

	Imports		Per Cent Change	Exports		Per Cent Change
	1929	1930		1929	1930	
North America...	\$981,531,831	\$761,822,549	-22.4	\$1,395,063,511	\$1,019,473,101	-26.9
Canada.....	503,496,245	402,306,451	-20.1	948,446,342	659,325,575	-30.5
Mexico.....	117,738,122	80,293,493	-31.8	133,863,144	116,214,072	-13.2
South America...	639,757,160	433,487,250	-32.2	539,309,461	337,531,425	-37.4
Argentina....	117,581,273	71,890,069	-38.9	210,288,027	129,828,522	-38.3
Brazil.....	207,686,130	130,853,892	-37.0	108,787,578	53,805,103	-50.5
Chile.....	102,024,606	54,784,528	-46.3	55,776,014	46,408,832	-16.8
Europe.....	1,332,627,061	908,821,747	-31.8	2,340,844,818	1,838,387,708	-21.5
France.....	171,485,155	113,775,442	-33.7	265,591,895	223,961,243	-15.7
Germany.....	254,688,470	176,984,050	-30.5	410,448,493	278,237,440	-32.2
United Kingdom.....	329,750,565	209,982,700	-36.3	847,999,841	678,108,376	-20.0
Italy.....	117,066,598	79,333,972	-32.2	153,967,819	100,424,185	-34.8
Soviet Russia..	21,519,984	21,962,623	+2.1	81,547,760	111,361,847	+36.6
Asia.....	1,280,281,380	856,586,758	-33.1	643,215,557	447,855,849	-30.4
China.....	166,233,149	101,464,511	-39.0	124,163,547	89,391,284	-28.0
Japan.....	431,872,906	279,113,055	-35.4	259,127,502	164,658,158	-36.5
Oceania.....	56,556,162	32,792,815	-42.0	192,024,086	107,810,755	-43.9
Africa.....	108,607,472	67,579,500	-37.8	130,537,769	92,332,511	-29.3

The decline in the value of imports from the principal countries of the world was more uniform. Imports from Canada were only 20.1% lower in 1930 than in 1929, while those from Chile were 46.3% and from Oceania 42.0% lower. The decline for nearly all the other important countries or regions was in the neighborhood of 35%. While this general decline in the value of imports is indicative of the lessened demand on the part of the United States for the products of other countries, resulting from the decline in business activity, the lower price levels during 1930 for such

important import commodities as silk, rubber, and coffee must be considered in evaluating the contraction of imports. With relatively few exceptions, however, the volume as well as the value of imported commodities decreased materially. The most noteworthy exception was coffee, which showed a decline in total value from \$302 million in 1929 to \$209 million in 1930, while the volume increased from 1,482 million pounds to 1,599 million pounds.

The foreign trade situation at the end of 1930 afforded no definite signs of improvement in economic conditions in the United States. Total imports and exports in November were smaller than during the preceding month. December showed a slight increase over November in the total value of imports as a result of somewhat larger imports of crude materials. Exports declined further in total value during the final month despite relatively small increases in the value of exports of both semi-manufactures and finished manufactures. These changes, however, were not sufficiently important to justify any conclusions in regard to the current trends in foreign trade or in the general business situation.

Public Finances

The Seventy-first Congress during the two years of its existence made total appropriations of \$10,249,819,000. During the final session ending March 4, 1931, appropriations for the fiscal year 1932 totaled \$5,180,107,522, representing a per capita expenditure of over \$42 and an increase of \$518 million over the appropriations made during the preceding session.

The increase in expenditures was in part the result of special appropriations intended to relieve the conditions created by the drought and the general business depression. Such appropriations amounted to \$450 million. In addition, \$174,651,331 was provided to meet the requirements of the soldiers' bonus legislation. The agricultural marketing fund of the Federal Farm Board was increased \$150 million.

This upward trend in the expenditures of the Federal Government, accompanied by a corresponding, if not larger, increase in state and local expenditures, contribute another disturbing factor to the economic and financial situation.

The necessity for governmental borrowing to provide for the undetermined amount required for loans on veterans' bonus certificates and to cover tax deficits involves the withdrawal of considerable funds from the money market in the immediate future and the consequent decrease in the money available for private industry and trade. The short-term debt of the Federal Government at the beginning of 1931 was approximately \$2,500 million, and a continuance of easy money and low interest rates are of great importance in order to facilitate future refinancing of that debt as well as the re-funding of the first Liberty Bond issue, due in 1932. The increase in governmental expenditures coinciding with a decline in revenues not only imposes a difficult task on the Treasury Department but also foreshadows increased tax burdens prejudicial to business recovery. A budgetary deficit of about \$600 million is expected by the Federal Government during the current fiscal year, ending June 30, 1931, and will have to be met by borrowing.

PART II
SPECIAL REPORTS RECEIVED BY
NATIONAL INDUSTRIAL CONFERENCE
BOARD, INC., FROM ITS FOREIGN COR-
RESPONDENTS BY MARCH, 1931

FACTS AND PROBLEMS IN WORLD TRADE

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

THE year 1930 will be regarded as the period of one of the worst industrial and commercial slumps that have been experienced within the memory of those living. No country seems to have escaped the after-effects of the War, with the great destruction of wealth which then took place, although France up to the present seems to have suffered less than other countries. Agricultural countries have been particularly affected, but manufacturing countries have not escaped, and Great Britain, which is perhaps dependent more than any other country on her export trade, has had to face very hard times.

Practically every British industry has been affected by the shrinkage of exports, but especially the basic industries which have been more or less under a cloud of depression since 1920. Exports have declined about twenty per cent in value during the past year, and, though the fall in volume is hardly so serious, since the fall in prices to some extent emphasizes the decrease, it is serious enough to cause considerable anxiety for the future.

The alarming feature is that for the first time Germany has overtaken us in the export market and, in spite of a tremendous unemployment burden and depression in the home market, has managed to maintain her export trade better than we have. A close scrutiny of the situation, however, will perhaps make it clear that British exporters have been suffering from adverse conditions which have not affected the German markets to the same extent.

The decrease in British trade with the American, Australian, Indian, and Chinese markets accounted for approximately half the total decrease, and these markets have been particularly affected by economic vicissitudes and exchange problems, on the one hand, and political disturbances, on the other. In the markets on which Germany is more dependent for the bulk of her export trade, conditions,

though bad, have not been quite so disturbed. In view of the universal depression, there is small wonder that there were 718,000 fewer persons employed in British industry than a year ago.

We have perhaps been too prone in the past to place undue stress on the importance of production alone and to imagine that it was the sole key to progress. To find a system under which production received the strongest stimulus seems to have been our *Ultima Thule*, and after that everything would be for the best in the best of possible worlds.

Certainly invention has made it possible to produce, first, necessities of life and, afterwards, luxuries in ever-increasing amounts much more easily and at a speed which would have been simply astonishing to an age that knew not the secrets of mass production. It was inevitable that, when machinery could be made to perform processes which previously had involved human labor, unemployment on an increasing scale would sooner or later occur unless the plant and machinery for such production could be increased methodically to re-absorb labor. Such a development would be contingent on the perfection of distribution methods over an ever-increasing area.

The United States has made a valiant attempt to reconcile distribution methods with an increasing mass production system. Perfection of salesmanship, hire-purchase methods, the deliberate infusing of a new psychology into the purchasing public, which was all to the benefit of trade, and the payment of higher wages to give practical scope to this new mentality succeeded for many years in promoting a prosperity in which all seemed to share. Whether or not this new universal prosperity directly contributed to the speculation, which was not without its effect on the slump that occurred towards the end of 1929, is a matter for experts on the spot to decide. However that may be, when the slump came and the agricultural section of the community was unable to play its part in the trade cycle owing to the decreasing returns on the sale of primary products, the importance of export trade became at once apparent.

The increasing tendency toward economic nationalism has aggravated the situation for every exporting nation and

has brought home the economic truth that no country can be a law unto itself. American export trade has been affected to an extent even more pronounced than British trade, having decreased by something like twenty-three per cent. This is a particularly serious matter at a time when internal trade has decreased to an unprecedented degree.

We are apt to overlook the fact that the population of the world has not increased in similar ratio to the improvement in productive capacity, and this is bound to have affected capacity to absorb the world's agricultural products, raw materials, and manufactures; but, apart from this, the standard of living varies in different countries to such an extent that there are vast areas in the world the populations of which exist under conditions that never permit them to come in contact with the products of more developed countries, and so a vast potential market remains comparatively untapped. It has been computed that there are eight or nine hundred million people in China, Russia, and India, whose standard of living over a long period has remained more or less stationary and in some cases has gone back, and who have remained untouched by the improvements that have taken place in the production of agricultural products, raw materials, and manufactured articles. In China internal conditions and civil warfare have for many years prevented economic development. The policy of the Soviets has tended towards the isolation of Russia from the rest of the world, while in India a doctrine that advocates a return to the spinning wheel and the institution of boycotts on foreign goods is bound to be inimical to an improvement in the standard of living of the masses, whatever its professions may be. I have mentioned three areas the potentialities of which are considerable, but there are others.

It is perhaps hardly true to state that industry has failed to realize the importance of adequate world distribution methods.

In the United States the perfection of sales methods in the home market has certainly kept pace with the perfection of mass-production methods. American methods have spread to Europe, and the incidence of tariff barriers in practically every country as aids to the development of home industries

and the growth of economic nationalism has, in effect, tended to concentrate efforts toward the perfection of distribution methods in national and insular channels.

With the growth of economic nationalism on every side, the importance of export trade to a country is becoming increasingly significant. To Great Britain, of course, exports are of paramount importance, and Germany must maintain her export trade if she is to fulfill her engagements under the Young Plan. America is certainly the greatest exporting nation in respect to total value, although we must not lose sight of the fact that Great Britain exports more than £12 worth of goods per head of population, as compared with £5.10.0 and £7.10.0 on the part of America and Germany respectively. In view of the tremendous internal resources of America, however, and the volume of her domestic trade, we have hitherto been apt to consider her export trade as of subsidiary importance to her. Perhaps her apparent desire to dissociate herself from European affairs and the belief that a country which reduced imports to a minimum could not hope to carry on an expanding export trade have contributed to this belief.

However that may be, it is obvious that America must make increasing efforts on behalf of her export trade, and, in view of her high standard of living and costs of production, it is important for her to be able to sell a substantial proportion of her products at home at remunerative prices. We shall doubtless witness an intensive competition for world markets among America, Great Britain, Germany, and the other industrial nations, and the situation will be still further complicated by artificial trade barriers in such markets as are desirous of encouraging growing national industries.

With so many industrial nations in the field, there is naturally keen competition, and goods are often bound to be sold at unremunerative and uneconomic prices. Whether or not this forcing down of prices by competition will in the long run be beneficial to world trade is a debatable point. Hitherto, speaking in a general way, the wholesale prices of manufactured goods along with retail prices have fallen to a much smaller extent than the prices of primary products.

It is, of course, natural that this should be so, as industrialists are able to combine in the maintenance of prices and restriction of output to a much greater degree than agriculturists. If the fall in wholesale prices of manufactured goods can be made to approximate that which has taken place in the case of primary products, it is argued in some quarters that the way to recovery will be smoothed. However that may be, prices of manufactured goods certainly are being forced down to uneconomic levels in markets such as the Japanese and South American by fierce international competition. In such a struggle the manufacturer, whose initial costs are burdened by high taxation, local rates, and similar charges, is tremendously handicapped.

Let us take a case in point. Before the War competition in the Japanese steel market was by no means so intense as it is at the present time. To the competition among British, German, Swedish, and American firms is added competition from East European countries, where phenomenally low wages make possible the manufacture of goods at extremely low prices. In the midst of this international competition, we see the spectacle of infant Japanese steel industries gradually growing to power, helped initially by American and Continental technicians, and eventually being artificially brought to adolescence by a policy of intensive economic nationalism which seeks to exclude all external competition. Finally, as in the case of textile manufactures, we see Japan entering the field as an exporter, assisted by low wages and standards of living, and adding to the number of competitors in some particular market, thus further assisting to force down prices to uneconomic levels.

International action has been taken from time to time in certain industries in the direction of rationalization of distribution and limitation of markets, and doubtless the future will witness still further advances along these lines. Psychological similarities appear to be leading the constituent units of the British Commonwealth of Nations toward a much closer economic union, although much distance has still to be traveled. Complete free trade within the Empire, while it might have been feasible many years ago, does not appear to be possible of achievement at the present time, as there

are too many barriers and difficulties to permit of its being carried out. Outside economic pressure, however, might conceivably change the situation.

At the same time we cannot altogether lose sight of M. Briand's plan for closer European economic union, although little has been heard about the subject for some time. It may well be that the project of a United States of Europe is not altogether as chimerical as we believe and may be revived at some future time.

We must also remember that there is for the first time a formidable body of public opinion in Great Britain that is advocating a really protectionist policy. This is hardly remarkable, in view of the tremendous volume of unemployment in the country, the extent of foreign imports, and the fact that they have not fallen in ratio with the fall in British exports, hampered as they are in most countries by high tariff barriers.

Thus, in a general review of the markets of the world, we find fierce competition in individual markets among the different manufacturing nations, and the situation is further complicated in the case of countries that are developing secondary industries by ever-increasing protective restrictions. In Australia certain articles have been definitely excluded altogether, although there the position is somewhat unique and is likely to be modified in the near future. We must look for keener competition still in the world's export trade as the nations that are going in for increasing economic nationalism strengthen their positions and begin to export manufactures.

Side by side with this intensive competition, there seems to be a growing tendency toward what we may term a psychological demarcation in certain areas of economic activity. The United States has long been an area more or less self-contained, producing foodstuffs, raw materials, and manufactures, and the natural tendency of the component states to trade with one another has been further strengthened by protective barriers. Geographical considerations have doubtless assisted to a great extent in cementing trade relations between Canada and the United States, and it remains to be seen whether or not Canada and the rest of the

British Empire will draw closer economically to the Mother Country. Inter-Imperial trade is developing, but at present it is only assisted by Imperial preferences, the efforts of such bodies as the Empire Marketing Board, which is certainly doing good service in creating an atmosphere and a certain sentimental feeling, although it must not be overlooked that Great Britain gives substantial naval and military protection and pays for the cost. At the same time, it would be rash to prophesy that inter-Imperial economic ties will never be strengthened by an increase of protective measures against nations outside the Empire.

M. Briand's tentative scheme, to which I have previously referred, at least indicates that there is also a desire in certain European circles for closer economic co-operation among a certain group of states. Amidst all these divergent tendencies, such bodies as the International Chamber of Commerce and the League of Nations pursue their efforts to bring about increasing good-will, understanding, and economic co-operation among all nations.

In my view, we shall make an important step in the direction of restoring international economic equilibrium if we can secure some kind of concerted action towards the cultivation of a desire on the part of the more primitive peoples for products that are at present in circulation among only a limited portion of the world's population. If some of the effort that is now expended by national salesmen on the cultivation of a desire for a particular national brand of article in a market which has already been initiated into the uses and advantages of that article apart from any particular brand, could be spent on the cultivation of a desire for the article itself apart from considerations of brand in a market that had never heard of it, we should considerably increase the volume and circulation of world trade. In consideration of this question, account must be taken of the dislocation caused by the War and the subsequent necessity of adjusting productive power to post-war conditions. This has demanded the use of resources that would otherwise have been available for world development and the creation of new markets.

Before the War financial stability was more or less assured,

but the post-war influences of inflation and deflation and the various expedients of nationalist economic policies, combined with the burden of reparations and allied debts, have delayed the return to really balanced conditions.

It is heartening to review the numerous concerted efforts that the nations have made to restore stability to a world impoverished by war, and America has been among the foremost in this endeavor. The Young Plan represented a determined effort to settle the reparations question, but opinion is crystallizing in many directions toward the belief that a nation cannot be saddled for several generations with war debts, which entail the payment of vast sums and no compensating return, without creating an unbalanced state of affairs. Further, the transference of sums of money from country to country without corresponding services or merchandise ultimately benefits neither giver nor receiver and throws the world's economic machinery out of gear.

Whatever the causes may be, it is obvious that at the present time world finance is not functioning properly as the medium of industry and the exchange of commodities. The tremendous fall in commodity prices which has taken place has been attributed to the lack of availability of gold in relation to the production of commodities in general, while the central banks of certain countries have been accused of sterilizing gold and restricting credit.

I am convinced that the central banks of the world do not lack comprehension of the problem, but, in view of the urgent need for stabilization, we must not neglect the possibilities of concerted action by governments and central banks to deal with certain aspects of the financial problem and perhaps pursue a more sharply defined policy.

An outstanding feature of the post-war situation has been the extent to which speculation has wasted credit by causing it to flow in illegitimate channels. It is not a healthy sign when share or stock purchasers develop the habit of ignoring entirely the dividend-bearing features of their purchases and trust to appreciation of capital value in order to benefit. This inflation of speculation has undoubtedly resulted in the flow of credit being hindered for legitimate business enterprise. Production has continued to expand owing to im-

proved methods, but, when credit facilities fail to keep pace with that expansion, disaster follows.

The use to which the supply of money is put, as well as the volume of the supply, must be considered, and a wave of speculation in the stock markets may have to be checked by restricting the supply of money through the bank rate, as actually happened before the depression. This restriction may come at a peculiarly inopportune time for industry and trade.

On the one hand, we have witnessed speculation on an unprecedented scale, and, on the other, we have seen the investing public, to which industry must turn for necessary funds, less inclined to invest in schemes connected with business enterprise but seeking gilt-edged securities with high fixed rates of interest. A feeling of confidence is now lacking, and, until this returns, urgent schemes for the re-organization of industries must be held up.

It certainly cannot be said that the level of national saving has fallen in Great Britain. Quite the reverse is true, and with the growth of various savings movements there is ample evidence of increased saving on the part of the masses. In spite of unparalleled economic depression and the encouragement of citizens to look to the state for help, £1,000 million now stand to the credit of holders of National Savings Certificates. Confidence is more essential than ever at the present time, if the small investor is to be directed along the lines of wise saving and equally wise spending.

It has been frequently stated that the slump through which we are passing is due to a retardation of new real investment so that it is falling behind the current level of saving. The present deliberate tendency of governmental policy in this country to prevent, by means of discriminating taxation such as death duties, the accumulation of large capital resources in private hands is emphasizing the importance of the small investor as a source of supply for fresh capital for the needs of industry. Confidence cannot be restored by repeating with parrot-like insistence that conditions are bound to improve. Improvement must be induced by the resolute facing of facts and the removal as far as possible of financial burdens on trade and industry.

Much criticism has recently been leveled against the British banking system. It has been suggested that banking holds a position in the industrial and economic life of the country which is too aloof, and that its prosperity has remained unaffected by the general depression in trade and industry. The majority of the great banks have certainly been able to maintain their dividends during the past year, but this is partly due to the urgent necessity at the present time of maintaining confidence in our banking system.

Long years of conservative finance have enabled reserves to be built up out of profits, instead of being distributed in dividends, and a proof of this is the fact that dividends were not increased during the War, in spite of the prosperity that national expenditure brought to the banks. Responsibility is centralized to a greater extent than in the United States, for example, where there is more localization and where a bank may be particularly affected by local troubles. Public attention must necessarily be focused on the activities of the big British banks, and any action that might be interpreted as denoting a less secure position would probably have far-reaching effects on the whole industrial and economic situation at a time when confidence is of paramount importance. We have an example of the importance of the steady maintenance of dividends in the position of the British railways. Failure to maintain dividends in the face of prevailing conditions may easily result in some of them being removed from the list of trustee securities, which would adversely effect their capacity to obtain fresh capital so urgently needed for purposes of reorganization.

Actually, the banks have a very strong hold on industry, through the overdraft position, and it speaks well for their desire to be of the utmost assistance during a time of depression that they have used their powers with wise discrimination.

It is frequently maintained that the banks, in view of their unique position, should use their powers to bring about the enforced rationalization of industries. So far, while they have done something to encourage reorganization schemes, they have done little to compel. This cautious policy has, in my view, been the wisest, as many so-called rationaliza-

tion schemes are not indisputably in the general interest, particularly from the point of view of displacement of labor and the needs of the consumer, in a time of depression. Further, it is an undoubted fact that frequently not only in Great Britain but also in America and elsewhere, it has been found that the larger corporations sometimes tend to become unwieldy and uneconomical, while the smaller and more compact firms are often able to compete successfully with their larger rivals.

If the banks have hitherto refrained from measures of coercion, it cannot be said that they have failed sympathetically to examine any schemes that have been submitted to them by the basic industries. The Bankers' Industrial Development Company has been formed for this specific purpose, and the Securities Management Trust, which is a subsidiary of the Bank of England, is charged with the special duty of controlling the bank's relations with the industries of the country. A portion of the shares of the former company are divided up among all the important banks and financial houses in the City of London. The object is not the actual initiation of schemes to raise capital, but the provision of a liaison between the issuing houses of the city and industries in need of fresh capital for the financing of rationalization schemes. Industries or sections of industries will be assisted in preparing schemes, and, though the capital needed for their execution must, as in the past, be obtained through the usual city channels, the investor will receive the assurance that the scheme is a sound one and that he will be justified in investing in it. In other words, the hallmark is placed upon a scheme signifying that it is sound.

The cotton industry is one which is particularly in need of reorganization at the present time, and it is hoped that some plan will be evolved that will introduce fresh life and new capital. At the same time, it is not the intention to permit overcapitalized and derelict units from escaping their share of losses incurred in the past. Moreover, the present attitude of the trade unions in the industry must be taken into consideration. That spirit of co-operation, which is so essential for the successful rejuvenation of the industry, seems to be lacking at the present time.

To sum up, one of the vital causes of the present world-wide depression is the fact that the standard of living of a considerable proportion of the world's inhabitants is, relatively speaking, on a distinctly low level, and they cannot be regarded as immediate potential consumers of the products of the more highly developed countries.

Prior to the War, Great Britain was the greatest investing nation and supplied the world with a greater amount of capital than any other nation. This cannot, of course, be attributed to altruistic motives, as the investment of capital abroad in railway construction and in opening up the undeveloped parts of the world causes trade activity and exports and creates new markets for manufactured goods in exchange for the products of newly developing countries. In addition, the interest on these investments provides an important invisible export, which helps to offset any adverse trade balance that may occur. There is considerable difference of opinion as to the wisdom of the policy that Great Britain has adopted in the past. Many contend that we, in this country, should have confined ourselves more to the provision of capital for, and the stimulating of activity in, our home industries, particularly in view of the rapid growth of national industries in other countries. However that may be, the fact remains that before the War British capital assisted to a great extent in opening up the remoter parts of the world to settlement, thus creating new markets, whereas since the War it has not played the same important part. A definite policy of development by the leading nations acting in concert might have the effect of opening up hitherto undeveloped markets for the world's products. It also seems desirable that some international rapprochement should take place with regard to financial policy, and the conversations between British and French Treasury officials that have recently been taking place in Paris and London are a hopeful sign. The Bank for International Settlements at Basle should help to bring the heads of the great central banks in closer touch with one another.

A new kind of industrial revolution has been taking place for some time, which is rendering more and more obsolete the idea that nations can remain more or less isolated eco-

nomically from the rest of the world. The phase of economic nationalism that had developed since the War seemed to indicate that this was the tendency, and perhaps the world-wide slump that has occurred during the past year was needed to teach opinion in every country the interdependence of nations in the economic sphere.

Perhaps the peculiar feature of the slump for Great Britain has been that industry has been obliged to proceed with necessary schemes of reconstruction more rapidly than would have been the case in normal times. There is danger in proceeding at too rapid a pace, however, and it is comforting to know that in the Bankers' Industrial Development Co. we have a powerful combination of financial interests, which will act as a brake and prevent the stampeding of particular industries into taking steps that may be of doubtful ultimate benefit.

Sheffield
January, 1931

BRITISH ECONOMIC CONDITIONS IN 1930

Contributed by the Intelligence Department of the Midland Bank,
Limited, London; transmitted through the Rt. Hon.
Reginald McKenna, Chairman

THE close of the year enables a balance to be struck on account of debits and credits in the economic record of 1930. Unfortunately the credits cannot easily be discerned and are far outweighed by the debits. The general position is clearly indicated by three outstanding characteristics: a large growth in unemployment, a catastrophic fall in wholesale prices, and a continuance of excessively cheap money. To go one stage farther, these conditions have been reflected in a marked deterioration in the position of public finances, a shrinkage in overseas trade, and an accumulation of difficulties regarding terms of employment.

The trend of business is epitomized in the movement of the percentage of insured persons unemployed from 11.0% in December, 1929, to 20.2% a year later, a small part of the increase being due to legislative changes. Complementary with this tendency was a decline of 4.3% in the estimated average number of insured persons employed in Great Britain, from 10,207,000 in 1929 to 9,764,000 in 1930. A reflection of the magnitude of these variations can be found in the index of production prepared by the London and Cambridge Economic Service, which fell precipitously from 114.8 for the fourth quarter of 1929 to 93.5 for the corresponding period of last year.

As a result of the varied character of the different elements in the situation the whole problem of unemployment has tended to become somewhat confused. The growth of unemployment in the past year is doubtless a phenomenon of world-wide application. This becomes clear when current trade reports are studied, with their predominant note of difficulties in export trade owing to exchange depreciation in debtor countries, the fall in the value of silver, and the rais-

ing of tariff barriers. The universal aspect of the slump has tended to obscure the underlying problem of the past decade, represented by a volume of unemployment enveloping between 1 million and 1.5 million people. The reactions of the two sections of our unemployment problem are fairly obvious, and one of the principal results of the slump has been to intensify the depressed conditions in some industries. This becomes clear from a rapid survey of the field of industry and trade as a whole.

The heaviest incidence of unemployment has been recorded in the cotton industry, in which 47.4% of the insured work-people were unemployed on December 22. In comparison, conditions were relatively better in the woolen industry, though even in this case the percentage of insured persons unemployed rose from 14.8% in December, 1929, to 27.7% a year later. The minor textile industries, such as silk, rayon, linen, and jute, also experienced extremely slack times, which grew in intensity as the year drew to a close.

Coal-mining, after a less unfavorable tendency early in the year, added a growing weight to the declining level of general activity. In this case the position has been aggravated by uncertainty as to the terms on which collieries could offer their coal, in view of the resurgence of the wages controversy towards the end of the year and the gradual coming into force of the provisions of the Coal Mines Act in 1930. Iron and steel firms likewise met with increasing difficulty in disposing of their products as the year advanced. The volume of orders is dependent largely upon the work that firms engaged in general and marine engineering and shipbuilding and repairing have on hand, and in all of these severe contraction has been noticeable.

The weight of unemployment, which we have shown is most severe in the older, staple industries, is naturally distributed unequally over the different geographical areas of the country. Relatively fewer workers are idle in London and the southern counties than in other areas. The position is most acute in South Wales, Northern England, and Northern Ireland, where the staple industries are largely concentrated.

The marked growth of unemployment has led to grave

misgivings as to the basis and operation of our unemployment insurance system. The fund ceased to be on an actuarially self-supporting basis several years ago, and public apprehension over the rapidity with which its indebtedness is growing was met at the beginning of December by the appointment of a Royal Commission to inquire into the whole subject. When it is realized that the cost of the scheme to the Exchequer in the current financial year will probably amount to £37 million, it can readily be perceived that the matter is from all points of view one of extreme urgency.

While economic and political arguments have been proceeding as to the most effective methods of dealing with the situation, British industry has been steadily moving in the direction of higher efficiency in production and marketing arrangements. This process has become more urgent because of the precipitate decline in world prices, following upon a steady downward tendency resulting from our own monetary policy. Wholesale prices in Great Britain have declined by 18% during 1930, or slightly more than in the preceding four and one half years, and are now in close proximity to the general level prevailing in 1913. So far as commodity group movements are concerned, the heaviest falls were registered in wool and cotton. Cereals also declined heavily under the influence of abundant carry-overs from 1929 and satisfactory harvests in the chief exporting countries. Coal prices have fallen relatively less than most of the other groupings included in the Board of Trade index. Some explanation of this may be found in the ultimate passage of the Coal Mines Act and limitation of the amounts placed on the market. Iron and steel firms have contended with intense foreign competition, even within the home market, but prices have held reasonably well in spite of the break-up of the continental iron and steel cartel, which freed a large volume of competitive power at lower price levels. Among the notable falls in individual commodities, those in rubber and tin exercised an important influence on our overseas trade position. The movements in these two commodities, together with wool, were principally responsible for the heavy fall in the value of re-exports, which was 21% less

than in 1929, though the shrinkage in volume was much smaller.

The reduction on this account of the theoretical surplus on our balance of payments available for overseas investment, important though it is, is overshadowed by the difficulties raised by the disparities between wholesale and retail prices and industrial costs. The fall in wholesale prices tends, certainly, to provide industry with cheaper raw materials, but it means that the producers of these materials have less money with which to make purchases from this country. If prices for British finished goods fall away but little from their previous levels, primary producers overseas cannot, unless they possess large reserves of gold available for export, buy the same volume of goods from us as formerly. If, therefore, our export business is to be maintained, it seems clear that either British costs must come down or prices of primary commodities must rise. To achieve the first of these alternatives is by no means easy. The cost of living index number fell only 8% during 1930, while the decline in the general level of wages was even less.

These two vital elements in our structure of prices are evidently closely associated. It is widely recognized as difficult to achieve a drastic fall in the cost of living without substantial reductions in wages; on the other hand, it is argued that wage reductions cannot be coupled with any guarantee of lower costs of living. Accordingly, attempts to reduce wage costs are commonly characterized as part of a concerted attack on the workers' standard of living. In consequence, the present position is fraught with unpleasant possibilities in the field of labor relationships. Existing wages agreements expired towards the end of 1930, or were due to terminate early this year, in the coal-mining, railway, linen, boot and shoe, and engineering industries. Reductions have already taken place among woolen workers, after a protracted partial stoppage. The dispute in Lancashire, which has involved the idleness of roughly 160,000 workers, with regard to an increase in the number of looms in a weaver's charge is merely another form of an attempt to reduce the wages burden per unit of output.

Wages reductions, however, are only a part of the general

process involved in arriving at a lower level of production costs. The other parts of the process may be grouped under the convenient heading of rationalization, in which considerable progress has been made during the past year. The government's plans for reorganization of the coal industry took much longer to formulate and put into force than had been anticipated, and it was not until late in the year that the rigorous centralization imposed by the new Act became effective. The owners claimed that, in view of the condition of the industry and the reduction in working hours, lower wages and some form of spreadover of hours were necessary. Further difficulty arose from the fact that most of the existing wages agreements expired about the beginning of December. After two short stoppages in Scotland and South Wales, provisional agreements, most of them allowing for some form of spreadover, were arrived at, giving time for the negotiation of more permanent agreements. The industry is still, then, in a condition of great uncertainty, which is added to by the provision of the recent act that a further reduction in hours to seven per day is due to become effective on July 1.

In the iron and steel industry several substantial regroupings have taken place or been arranged. The report drawn up by the committee appointed by the government early in the year to consider the condition of the trade, was issued privately to firms in the industry. No details have been made public, but copious alleged extracts from the report have appeared in Germany, and if these are authentic it would appear that the committee recommends a speedy and drastic reconstruction through adequate horizontal groupings of uniform undertakings and the elimination of uneconomic concerns. The adoption of any measure of safeguarding would be dependent upon the industry's competitive position after this reorganization.

The national scheme of electrical development, besides setting up a substantial flow of orders to electrical engineering firms, represents an outstanding advance towards rationalization of power supplies for industry as well as domestic and trading purposes. The shipbuilding industry, too, has been prominent in this connection during the past year.

The conditions ruling in this branch of our heavy industries may be illustrated by a few figures. The tonnage completed last year, both for United Kingdom and overseas customers, has tended to give the impression of a moderately thriving trade, but the true situation has been revealed by the increasing scarcity of orders for new tonnage. Shipowners have been deterred from ordering new cargo vessels by the lowness of freight and time charter rates, which have fallen below pre-war levels, and the large increase in idle tonnage all over the world. It seems clear, indeed, that the capacity of the industry as a whole is excessive in relation to demands. To meet this situation, and to strengthen the competitive position of British shipyards, the National Shipbuilders Security Limited was formed early in 1930. The new company represents practically the entire shipbuilding industry of the British Isles, and its general scheme of operation is indicated by the fact that it has already acquired four shipyards, which it considers redundant, with a view to closure. As part of the financing arrangements, a debenture issue of £1 million was recently offered to the public, the service being guaranteed by a deed under which each constituent company undertakes to pay a levy of 1% of the value of all contracts received after November 30, 1930.

The general trend of business under the various influences we have noticed is shown in the following composite table, which is designed to reflect not only the condition of industry as a whole, but of some of the leading branches of our export activities:

	1928	1929	1930
Production of coal: million tons.....	237.8	256.7	243.6
Production of pig iron: million tons.....	6.6	7.6	6.2
Production of steel: million tons.....	8.5	9.6	7.3
Merchandise carried on railways, 11 months: million tons.....	284.3	306.5	282.1
Shipping laid up, end of year: thousand tons.....	329.8	359.8	1,570.1
Exports of			
coal: million tons.....	50.1	60.3	54.9
iron and steel: million tons.....	4.3	4.4	3.2
machinery: £ million.....	53.7	54.4	46.9
cotton yarns: million pounds.....	169.2	166.6	136.7
cotton piece goods: million square yards.....	3,866.5	3,671.6	2,406.8
woolen and worsted yarns: million pounds.....	41.5	38.8	31.9
woolen and worsted piece goods: million square yards.....	170.4	155.4	113.8

The volume of British exports as a whole in 1930, as the above figures suggest, was substantially smaller—actually 18%—than in 1929. Imports, on the other hand, showed a shrinkage of only 2.5%. On account of the wide disparity in price movements, however, the decline in total values was moderately well balanced, the net result being that the excess of imports was only £5.5 million larger last year than in 1929, though still far in excess of the pre-war figure. Since the excess of invisible exports is doubtless substantially smaller in view of lower shipping receipts, diminished income from overseas investments, and smaller earnings by way of commissions, it seems likely that the surplus on account of our current international payments, which measures the amount available for investment abroad, was probably as much as £50 million less last year than in 1929. It is not surprising, then, that sterling was almost invariably at a depreciated level in relation to the principal foreign currencies, and it seems clear that Great Britain has been over-lending, in the sense of attempting to invest abroad more than the current balance of payments would of itself permit.

This is one outstanding fact that has rendered the monetary position difficult, uncertain, and befogged. Extremely easy conditions prevailed in the money market almost throughout the year. Credit has not been utilized for justifiable trade purposes as freely as lenders would have wished, and open market rates have remained substantially below Bank rate for lengthy periods. The effects of a falling off in the bill supply and of stock market depression have been strengthened by a larger volume of available short-term funds, with the result that the average discount rate for three months' Treasury bills was about $2\frac{2}{8}\%$, as against $5\frac{1}{4}\%$ in 1929. The Bank of England's rediscount rate remained at 3% from May 1 onwards. The low level of money rates, associated with a rise in prices of gilt-edged securities, has been held to offer possibilities of a conversion of the £2,000 million of 5% War Loan, which the Treasury is now entitled to redeem at par at three months' notice. No definite indication of such an operation occurring in the immediate future has so far been given, though market anticipations ebbed and flowed with varying intensity during

the second half of the year. The possibilities in this direction added another uncertainty to the monetary situation, and until it is cleared business in investments can hardly proceed on a secure foundation. Last year the total of new money raised by capital issues for all purposes amounted to only £236 million, the lowest figure since 1925, and of this amount an unusually large proportion was placed by public and quasi-public bodies. Even in this direction, however, there is hesitancy to appeal to the public until the effects of a public conversion operation are fully apparent.

Another cause of uncertainty has been provided by the gold situation. The Bank of England ended the year with a gold stock almost as large as at the beginning, but wide fluctuations occurred between the two points of time. France has displayed an insatiable appetite for gold, and altogether took more than £31 million from the Bank of England, and a further £20 million of the total of £39 million offered in the open market. The movement was not entirely the result of underlying special forces now fairly generally understood, but, particularly later in the year, of the exigencies of the banking difficulties in France. The announcement by the Bank of England, early in June, that in future it would exercise its legal right to deliver only bars of standard gold (0.9166 fine) limited the daily drain to amounts between £250,000 and £300,000, which represented the daily capacity of refiners to bring the gold up to the fineness required by the Bank of France. This stringent requirement was recently removed by the decision of the Bank of France to purchase gold of any degree of fineness down to 0.900. Last year the drain of gold to France was counter-balanced by imports mainly from debtor countries such as Australia, but no such supplies appear now to be forthcoming, so that the Bank has to face the full brunt of any further movement to France. The stock on January 28 had already fallen below £140 million, and a lively controversy had sprung up as to whether active measures should be adopted by the central bank to stiffen money rates, particularly on account of the dangerously high premium on the dollar, or whether the Bank's fiduciary issue should be raised in view of the special nature of the movement to France.

STATISTICS RELATING TO PRODUCTION, FOREIGN TRADE, AND EMPLOYMENT

Month	Index of Production ¹ Base, 1924 = 100	Coal Output in Million Tons	Pig Iron		Steel Production in Thousand Tons	Shipbuilding Tonnage Begun in Thousand Tons	Percentage of Insured Persons Unemployed	Net Imports £ Million	British Exports £ Million
			Production in Thousand Tons	Number of Furnaces in Blast					
1929:									
January	..	22.4	564	139	765	..	12.2	106.3	66.9
February	..	21.1	520	140	775	..	12.1	81.0	55.7
March	..	22.6	590	145	860	..	10.0	88.6	58.6
1st quarter	108.3	66.1	1,674	..	2,400	362	..	275.9	181.2
April	..	20.9	611	152	809	..	9.8	93.8	60.2
May	..	20.7	655	159	844	..	9.7	93.0	67.4
June	..	19.9	658	165	831	..	9.6	81.9	49.9
2nd quarter	111.0	61.5	1,924	..	2,484	428	..	268.7	177.5
July	..	21.1	672	167	805	..	9.7	85.6	66.5
August	..	20.5	682	170	753	..	9.9	92.0	63.0
September	..	20.9	665	168	848	..	9.9	91.6	55.1
3rd quarter	108.2	62.5	2,019	..	2,406	360	..	269.2	184.6
October	..	23.0	689	166	890	..	10.3	101.1	64.6
November	..	22.3	631	163	815	..	10.9	100.0	63.1
December	..	21.4	643	162	661	..	11.0	98.6	58.4
4th quarter	114.8	66.7	1,963	..	2,366	499	..	299.7	186.1
1930:									
January	..	23.8	650	159	771	..	12.4	93.7	58.3
February	..	21.7	607	162	776	..	12.9	79.6	51.9
March	..	22.4	666	157	826	..	13.7	85.8	53.9
1st quarter	109.6	67.9	1,923	..	2,373	427	..	259.1	164.1
April	..	19.7	620	151	696	..	14.2	76.1	46.9
May	..	21.3	615	141	692	..	15.0	82.0	51.0
June	..	17.0	563	133	600	..	15.4	75.6	42.8
2nd quarter	100.9	58.0	1,798	..	1,988	230	..	233.7	140.7
July	..	18.9	486	105	621	..	16.7	78.5	50.7
August	..	17.9	417	104	451	..	17.1	73.6	42.8
September	..	19.5	425	104	581	..	17.6	73.3	42.7
3rd quarter	90.7	56.3	1,328	..	1,653	161	..	225.4	136.2
October	..	21.0	415	96	513	..	18.7	83.7	46.9
November	..	19.8	384	92	434	..	19.1	72.6	44.1
December	..	20.7	350	76	337	..	20.2	84.4	38.5
4th quarter	93.5	61.5	1,149	..	1,284	132	..	240.7	129.5

¹ London and Cambridge Economic Service.

BANKING STATISTICS
Averages of weekly figures: £ million

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Month	Bank of England				Notes in Circulation	Ten London Clearing Banks			
	Gold Holdings ¹	Total Deposits	Total Securities	Reserve in Banking Department		Deposits	Cash	Percentage Cash to Deposits	Advances
1929									
January.....	153.7	121.9	90.2	49.8	363.9	1,846	202	10.9	972
February.....	150.5	113.4	74.7	57.0	353.6	1,814	190	10.5	983
March.....	152.6	114.0	76.1	56.2	356.4	1,777	188	10.6	996
April.....	155.7	116.8	79.3	55.3	360.4	1,781	192	10.8	1,003
May.....	161.5	109.6	67.8	59.6	361.9	1,770	192	10.8	993
June.....	162.9	115.8	72.4	61.3	361.7	1,808	196	10.8	994
July.....	152.1	116.3	91.3	43.2	368.9	1,816	193	10.6	1,001
August.....	139.5	115.3	103.0	30.4	369.1	1,796	192	10.7	996
September.....	136.3	115.8	101.4	32.7	363.5	1,792	195	10.9	987
October.....	132.1	112.8	99.2	31.4	360.7	1,802	193	10.7	987
November.....	133.3	112.1	93.1	36.8	356.5	1,789	190	10.6	986
December.....	139.6	107.6	95.3	30.2	369.4	1,811	205	11.3	988
1930									
January.....	149.5	131.5	95.8	53.7	355.8	1,805	195	10.8	986
February.....	151.6	108.2	62.1	64.3	347.3	1,751	185	10.5	990
March.....	153.8	108.1	62.4	64.1	349.7	1,719	184	10.7	992
April.....	161.3	119.1	75.3	61.6	359.8	1,750	191	10.9	986
May.....	161.1	116.1	69.2	64.7	356.4	1,780	190	10.7	974
June.....	157.3	112.8	73.7	56.9	360.4	1,826	193	10.6	975
July.....	155.7	117.1	84.5	50.7	365.0	1,831	194	10.6	968
August.....	154.7	112.7	81.8	49.0	365.8	1,804	191	10.6	952
September.....	156.8	110.0	71.0	57.3	359.5	1,801	190	10.5	943
October.....	159.1	115.0	71.0	61.8	357.2	1,828	192	10.5	940
November.....	159.5	110.4	62.8	65.4	354.2	1,838	192	10.4	937
December.....	151.3	123.0	98.5	42.4	368.9	1,876	207	11.0	931

¹ The figures include a small amount of silver coin in the banking department.

OTHER FINANCIAL STATISTICS

Month	Bank Clearings £ Million		Postal Receipts Daily Averages: £ Thousand	New Capital Issues ¹ £ Million		Rate for 3-Months' Treasury Bills Monthly Averages: Per Cent	Wholesale Prices ² Base, 1913 = 100	Cost of Living ³ Base, July, 1914 = 100	London- New York Exchange ⁴ Monthly Averages: \$ to £ ¹
	London	Provincial		Home Purposes	Overseas Purposes				
1929									
January	£4274.3	£147.7	£124.9	£18.0	£29.4	49 $\frac{1}{2}$ ₃₂	138.3	167	4.8500
February	3592.2	137.8	120.1	26.2	6.9	48 $\frac{1}{2}$ ₃₂	138.4	165	4.8524
March	3692.8	141.2	127.9	24.8	9.0	5 $\frac{1}{16}$ ₃₂	140.1	166	4.8528
April	3677.1	132.2	129.6	28.8	6.0	5 $\frac{1}{16}$ ₃₂	138.8	162	4.8537
May	3647.1	128.1	128.1	12.3	8.8	5 $\frac{1}{16}$ ₃₂	135.8	161	4.8510
June	3428.2	126.9	128.1	14.0	11.4	5 $\frac{1}{16}$ ₃₂	135.6	160	4.8486
July	4143.7	145.5	131.3	13.9	8.3	5 $\frac{1}{16}$ ₃₂	137.4	161	4.8515
August	3658.4	121.9	123.0	2.2	1.4	5 $\frac{1}{16}$ ₃₂	135.8	163	4.8486
September	3351.9	118.9	129.2	1.5	1.2	5 $\frac{1}{16}$ ₃₂	135.8	164	4.8486
October	4042.7	138.9	136.7	7.5	4.1	6 $\frac{1}{32}$ ₃₂	136.1	165	4.8703
November	3865.2	133.1	135.5	6.3	6.7	5 $\frac{1}{16}$ ₃₂	134.0	167	4.8777
December	3523.0	126.9	175.7	4.0	1.2	4 $\frac{3}{4}$	132.5	167	4.8819
1930									
January	3934.0	134.1	130.6	11.3	5.6	4 $\frac{1}{2}$ ₃₂	131.0	166	4.8691
February	3442.9	121.4	125.6	8.0	18.2	3 $\frac{3}{32}$ ₃₂	127.8	164	4.8622
March	4162.3	129.8	130.7	16.9	9.4	2 $\frac{1}{32}$ ₃₂	124.5	161	4.8634
April	3614.1	114.0	131.6	11.9	9.4	2 $\frac{1}{32}$ ₃₂	123.7	157	4.8636
May	3900.2	117.0	130.9	17.8	20.1	2 $\frac{1}{8}$ ₃₂	122.0	155	4.8599
June	3464.5	101.9	130.1	7.7	5.5	2 $\frac{1}{16}$ ₃₂	120.7	154	4.8589
July	4026.7	115.7	132.4	13.1	3.3	2 $\frac{1}{8}$ ₃₂	119.2	155	4.8660
August	3285.7	99.0	122.8	3.5	3.1	2 $\frac{1}{16}$ ₃₂	117.8	157	4.8709
September	3371.1	96.9	131.5	2.4	2.6	2 $\frac{1}{16}$ ₃₂	115.5	157	4.8612
October	3820.0	107.1	136.5	12.8	17.7	2 $\frac{1}{8}$ ₃₂	113.0	156	4.8591
November	3360.1	104.5	135.0	11.5	8.4	2 $\frac{1}{16}$ ₃₂	112.0	157	4.8566
December	3176.6	107.0	174.0	10.4	5.4	2 $\frac{1}{16}$ ₃₂	108.9	155	4.8567

¹ Midland Bank compilation.

² Board of Trade index number.

³ Ministry of Labour index number.

⁴ "Statist" averages.

Surveying all these uncertainties in industry, trade, and finance, it cannot be claimed that the outlook for the coming year is by any means pleasant. Certain it is that industry has to carry to a much farther point than was originally foreseen the adjustment to a lower level of world prices, and one of the most serious anxieties of the future rests on the question whether the downward trend is to continue or will be arrested and perhaps reversed, with consequent relief to all concerned in productive and trading activities. One further element in the financial situation calls for brief mention, and it lies in the fact that the possibility of some slight easing of the burden of taxation has become distinctly more remote during the past year. The Chancellor, with the aid of an increase in standard rates of income tax and surtax, budgeted for a surplus of £2 million in the financial year to March 31, 1931, after allowing a sum estimated at £55.5 million, but probably proving still larger, for sinking fund. It now appears probable, however, that a substantial accounting deficit will have to be faced, though we have not yet reached the point at which current, as distinct from capital, outgoings exceed our income. Nevertheless, the chances of any material reduction in taxation have faded into oblivion, and speculation concentrates itself rather on possible directions in which increased supplies of government income may be sought.

Finally, the whole position is overshadowed by political instability. All that can now be said is that a dissolution, involving a general election, is possible at any moment and that when it comes it can hardly fail to create some additional disturbance to industry and trade. On the whole, there can scarcely have been a time when the future was more shrouded in uncertainty than it now is. At least, however, there is cause for satisfaction that no possible avenues of improvement are being left unexplored; that the nation as a whole is becoming more fully cognizant of the seriousness of the position; and that the past has shown us the invariable capacities for recovery which lie within the powers of the nation when it realizes that a situation of great gravity has been reached.

THE PROBLEM OF GOLD AND PRICES¹

Report of Hon. Charles Rist, Honorary Deputy Governor, Bank of France, Paris

THE question of the world decline of prices in terms of gold arose not merely after the New York stock market crash in 1929, but has existed since the year 1925. With the exception of a slight recovery in 1927, the movement of prices during the last five years has been constantly downward in all countries whose currencies are on a gold standard. The accompanying table shows the index numbers of wholesale prices in Great Britain, United States, Germany, Switzerland, Japan, and France.² The decline is continuous and universal.

On the other hand, the annual production of gold is practically stationary, as shown in the following table containing the figures of the Gold Delegation of the League of Nations:

Year	World Production in Kilograms	Value in Million Dollars
1924.....	583,688	388
1925.....	584,741	389
1926.....	598,624	398
1927.....	594,955	396
1928.....	600,400	399

What is more natural than to establish a connection between the movements of gold production and prices, and attribute the decline of the latter to the inadequate increase in the world production of gold?

To present the problem in this oversimplified form, in my opinion, conceals the true nature of the mechanism. It seems to admit that the decreased production of gold brings with it the decline in prices. The real cause of this decline, however, is the continued increase in the world production of merchandise.

In a world where the instruments of production are multiplying, where their output is being improved all the time, and, consequently, where the volume of products to be

¹ Translated by the National Industrial Conference Board.

² "Federal Reserve Bulletin," April, 1930, p. 256.

absorbed by the consumers is constantly increasing, the normal movement of prices is necessarily downward.

INDEX NUMBER OF PRICES, IMPORTANT COUNTRIES,
1925 TO 1930

Year	United States	Great Britain	Germany	Japan	France	Switzerland
1925.....	104	159	142	267	..	162
1926.....	100	148	134	237	695	144
1927.....	95	141	138	225	642	142
1928.....	98	140	140	226	645	145
1929.....	97	137	137	220	627	141
1930 November.....	80	112	120	162	551	120

In certain periods this decline is stopped or even replaced by an increase, which occasionally lasts a long time, for example, from 1896 to 1914. During that period an influence, independent of the former, exerted an opposite effect on the level of prices. That influence can be no other except the increase in the means of payment due to greater production of the metal which serves as the monetary unit. If that compensatory influence fails or is insufficient, a more or less rapid decline of prices must necessarily take place.

But it must never be forgotten that the real cause of the decline is the increase in world production. The greater the rate of that increase, the greater must be the quantity of gold to offset its effect on prices.

After the War, when the entire world began to work with passionate zeal after a long interruption, the annual rate of increase in the production of gold should have been considerably higher in order to maintain the level of prices at the point which they had reached at that time.

In 1920 the only gold standard country was the United States. Since immediately after the war all the newly produced gold in the world could be sold in only one place where it could be changed into money at a fixed price, that is in New York, where already a good part of the European gold was accumulated during the war, this concentration of gold in a single country resulted in an artificial increase of about 60% in gold prices, accompanied by a corresponding increase in nominal incomes. Such an increase was due to circumstances which were too artificial to make it lasting.

Beginning with 1924, about twenty states, among them the countries most highly developed economically, such as Germany, Great Britain, Italy, France, Japan, Argentina, returned to the gold basis either integrally or through the medium of the gold exchange standard. Their level of prices was automatically and suddenly tied to the American price level.

But in the countries which took part in the War the income of the consumers in terms of gold did not rise to the same extent and did not continue to increase to the extent necessary to maintain, after their monetary stabilization, the world prices at the level prevailing in the United States.

I am perfectly aware of the fact that the retardation in the increase of consumable income through the increase in prices is a phenomenon, the theoretical explanation of which cannot be easily formulated and may even appear as a contradiction in logic. But the fact is incontestable in spite of the difficulty that the economists have found so far in discovering a satisfactory explanation for it.

At the same time the quantity of gold retained in the United States has remained practically unchanged since 1924, while the country's production during this period increased enormously. The decline of prices, therefore, became inevitable. Since from this time on American prices reacted directly on the prices of all other gold standard countries, in my opinion there is nothing astonishing in the world decline of gold prices which became apparent in 1925, that is, precisely at the time after Germany and Great Britain joined the group of countries on the gold standard.

This much for the past. What are we to think of the future?

According to the estimates of experts, such as Mr. Kitchin, the world production of gold will decline to about \$370 million by 1940, as compared with \$404 million at the present time.¹

Certain more pessimistic estimates foresee that the production of gold in the mines of Transvaal will decline by 1949 to £10 million, as compared with £35 million at the present time.

¹ See the First Report of the Gold Delegation of the League of Nations.

Under these conditions, with a production of merchandise continuing to increase at the present rate, it will not be possible to find purchasers for the growing quantity of goods except by offering them at lower and lower prices. Nothing is more discouraging to the producers of industrial or agricultural commodities than the prospect of a prolonged decline of prices.

On the part of the governments the concern is no smaller. In the course of the last ten years, as a result of innumerable agreements, the former belligerents have assumed obligations toward each other and all of them toward the United States amounting to enormous sums to pay the loans which were spent on the war and which consequently do not represent any productive investment. They are therefore burdened for a long time to come with debts that do not correspond to any increase in their economic power.

The increase in the value of gold makes these debts even more onerous. There is nothing agreeable in the prospect of seeing the nominal return on capital and the profits of the entrepreneur go lower while at the same time the annuity to be transferred abroad each year becomes higher.

This is the future of the world—if the events take the course which is foreseen by certain economists.

But this pessimism appears entirely premature. Many factors in the future economic development remain unknown today, and nothing would be more dangerous than to consider as certain the consequences of a decline of prices of which we cannot know either the duration or the intensity. First, the production of gold may be increased by the discovery of new mines. The mines of South Africa have played their role only since the decade of 1890–1900. On the other hand, the treatment of poorer minerals, made difficult today by all kinds of regulations which render it unremunerative, may increase the intensity of production.

Regarding the decline of prices, if it takes place, probably it will not be so rapid as during the last few years because the present level is much more normal than that of 1924 or 1925. It may, moreover, offer more advantages than disadvantages provided it is not too precipitous. The idea that even a moderate decline of prices constitutes a catas-

trophe is entirely unreasonable. Declining prices do not in the least hinder a continuous improvement in the well-being of the workers, as was shown by the experience of the years 1873 to 1895. It leads to economy of forces and rationalization in all fields. It benefits consumers, as well as those who as producers encounter the greatest difficulties. Saving, which has been so abused during the last twenty years in all countries and the assistance of which is demanded today in so many public and private activities, is encouraged more by declining prices than by an increase in the price level. Quick profits, speculative gains, the multiplication of which is a cause of general demoralization, become more difficult and less frequent.

Without doubt, the task of adaptation which a period of declining prices imposes upon industry is appreciably greater. But the variety and systematization of industrial inventions have made such progress during the last 25 years that this adaptation appears less difficult now than formerly. In all fields, particularly in chemistry and physics, scientific discoveries and their application to agriculture and industry have been so extended that a lowering of net costs appears much easier today than in former years.

The solution of present-day difficulties is found in the systematic reduction of net costs, that is, by general acceptance of improved processes so far discovered. It is a matter of recovering for the producer a margin of profit and of stimulating consumer buying by the lowest possible price. It is, however, necessary to take into account certain general conditions which such a policy implies.

In the first place, it is entirely incompatible with uninterrupted increases in tariff barriers on the part of producing states. There is an evident contradiction between the effort to lower prices and a policy that tends to limit the markets for the very products the sale of which it desires to increase. The same contradiction exists between the provision of less expensive transportation facilities and the closing at the same time of national markets to transported merchandise. To the extent that manufactured merchandise is made from imported products, the reduction in their net cost implies the largest possible opening to the importation of these products.

Finally, the modern system, resting on mass production, cannot operate except by finding the widest possible markets for its mass of merchandise. Unfortunately the decline in prices creates in general an exactly opposite reaction on the part of the producers; each new decline gives rise everywhere to cries demanding new tariff barriers. Governments require a great deal of energy and clear-sightedness to conduct their policy in a different way.

The policy of lowering net costs is equally incompatible with certain remedies persistently extolled during the last year or two, the principal remedy being an indefinite increase in credit, and particularly of that which is so justly known as "circulating credit."

The partisans of this remedy accuse the excessive credit restriction of having precipitated the decline of prices in the course of the last three years and thus opened the door to the present crisis. To put a stop to that crisis and to restore the level of prices, the only solution is an increase in credit, and particularly of short-term credit furnished by the banks and especially by the banks of issue.

It is impossible for me to share these views. On the contrary, in my opinion excessive short-term credits during the last few years have contributed most to the intensity of the current crisis. A policy that would tend systematically to increase these credits in the future could produce only the same deplorable effects as it has done in the past.

When in the last quarter of the nineteenth century the bimetallists began their campaign for higher prices, they could at least assume that the increase in metal silver would be continuous and that the adoption of a double standard would assure a regular and permanent increase in prices. But those who recommend today a systematic expansion of credit, on the basis of arguments entirely borrowed from the doctrine of the bimetallist of the last century, are far from opening similar prospects to us.

Even supposing that it will be possible to increase the proportion of credit based on a certain quantity of gold, it will be, nevertheless, that quantity of gold which will regulate the volume of credit. Let us admit that a sudden increase in credit can be realized by a general measure and independently

of the economies in the use of gold that result normally from the constant improvements in the methods of payment. This sudden increase in credit will bring only a momentary relief of the situation. In a short time the world will find itself face to face with the same problem, the same difficulties, as long as the production of gold remains insufficient. There would, however, be one difference; that is, credit would be given to many bad debtors and a much more intense crisis would without doubt result.

This is precisely what happened during the last few years. It would not be becoming for me to criticise the policy followed by the central banks from 1925 to 1930. The motives which guided that policy have been inspired by the best of intention and a sincere desire to manage the transition in a period of difficult reconstruction as well as to provide effective assistance to other money markets. So far as France is concerned it should be stated that the long duration of the *de facto* stabilization made it necessary for the Bank to leave on deposit in foreign markets considerable sums which would have normally been repatriated, and these created in those markets an illusion of monetary abundance which was in reality precarious. Likewise, the maintenance of an extremely low discount rate in the United States market has facilitated the rise in stock exchange securities, and this rise has attracted to the American market an enormous volume of short-term funds which facilitated the realization of profits by international speculators. The artificially obtained fund of capital was employed in consumption, and it contributed to maintain the prices of commodities for a longer time than was reasonable. After the stock market crash in New York, the sudden withdrawal of short-term funds and the following reduction in the purchasing power of the consumers brought about a decline of prices much more unexpected than would have been the case if they had not been arbitrarily supported.

It is, therefore, the superabundance of short-term credits, and not a lack of them, to which can be attributed a part of the burden of the present crisis.

All policies that tend towards the similar ends must necessarily have the same effects. Credit can not and should not ever be anything except an anticipation of the purchasing

power of the consumer. If this purchasing power does not increase to the same extent as credit, it will necessarily end in a diminution of wealth.

The idea of preventing the decline of prices through a systematic increase of short-term credit is in its basis a disguised and partial form of socialism. If one wishes to exercise an influence on the price level, one must not only control credit, but also production and consumption. Is there anybody who is disposed to make such an experiment after all that we have seen? It is just as dangerous to ask the central bank to undertake such a mission as to ask the state to organize production and consumption. Controlled economy, no matter in what new disguise it may appear, does not inspire us with any confidence.

In a period of declining prices, business does not need so much short-term capital as long-term capital. It is in this direction that efforts must be directed.

Without doubt, the remuneration of that capital will tend to diminish more and more. We have already come to rates of interest approximately the same as those before the war for really sound investments. The coming years hold in store without doubt new reductions in that rate. It is a matter for rejoicing. That reduction will assure to the present-day capitalist a superior value on his investments, and it will permit the governments by means of conversions to reduce the burden of internal debts which weigh upon them. If they are sufficiently wise not to increase their budgets in proportion to that relief, we shall be able to enter a period of tax reductions that will bring us gradually to the situation that existed before the War.

Unfortunately a considerable part of the external debts of the states is expressed in the form of fixed annuities, which cannot benefit by the possibilities of conversion of ordinary debts. On that side no relief is to be expected. But in my opinion it appears entirely legitimate to apply systematically to these fixed annuities the rate of reduction corresponding to the reduction in the rate of interest in the world. It is a contradiction that only one of the elements that today burden the budgets of the important states should remain fixed while all others tend to decline. It is a contradiction

that the charge of certain long-term debts remains unchanged while all other charges are being automatically reduced. In a modification of this kind there would be no violation of private contracts. It would simply be an effort to adapt to a new situation governmental contracts concluded more on the basis of political than economic considerations and, consequently, not subject to the general action of economic laws.

The changes in the value of money, demonstrated innumerable times, react with an inexorable logic upon the position of debtors and creditors. They favor sometimes the former at the expense of the latter, and sometimes the latter to the detriment of the former.

The uninterrupted increase in prices which we have assisted during the first quarter of this century did not cease to favor the debtors who have seen their charges being steadily reduced under various forms. According to all indications, we are now entering a period of declining prices, unless sensational discoveries increase the production of gold. The position of creditors will be automatically improved, while that of debtors will change for the worse.

There is no more justice in that situation than there was in the preceding situation. The problem would not exist if it were possible to stabilize the world level of prices. But in spite of all ingenious theories of economists, no practical system has been discovered so far to effect that stabilization. Even if one were to agree regarding the technical conditions of such an operation, no international authority at the present time possesses the necessary powers to realize it.

Under these conditions, the only thing that can be done is to ameliorate to some extent the injustice from which the debtor is suffering and to do that entirely within the spirit of the contracts already concluded. Nobody dreams, it is hoped, of renewing in our times the policy of numerous countries which in the eighteenth and even nineteenth century did not hesitate to issue paper money to relieve the distress of the debtors, which had become intolerable. The solution of a great many difficulties in the coming years, on the other hand, will be facilitated if in the management of

these debts they are as much as possible adjusted to the decline in the rate of interest, provided that the contracts themselves do not contain an automatic agreement making the annuities vary with the purchasing power of gold.

Paris
March, 1931

FRANCE AS A CREDITOR POWER¹

Report of Professor André Siegfried, L'École Libre des Sciences Politiques,
Paris

I

ONE of the most able economists of the preceding generation, M. Alfred Neymarck, summed up the financial position of France before the War in a striking formula: "We are creditors everywhere," he said, "debtors, nowhere." No phrase, indeed, summarizes better the economic and financial equilibrium of France in the years that preceded 1914.

The reasons for this favorable position were complex, but none the less very clear.

First, there was an excellent economic situation. Some other nations were more active in international trade, but France had the characteristic, which is at the same time an inconvenience and an advantage, of having little need of the outside world either to buy from it or to sell to it. She herself produced on her own territory the great majority of the food products which she consumed; moreover, her domestic market also absorbed by far the largest part of her production of manufactures; exportation represented only odd change, doubtless very useful, but nevertheless exportation was only odd change. These various phenomena were reflected in the figures of our foreign trade in 1913, small in amount, especially if one compares the volume with that of countries like England, for example. Imports amounted only to 8,421 million francs; exports, only to 6,880 million francs. The deficit of this balance—about one and a half billion francs—ought not, however, to be regarded as disturbing, for it was made up easily by foreign credits of the first order: let us mention, for one thing, the expenditures made in France by tourists from abroad but above all the income from French investments abroad. In 1913

¹ Translated by the National Industrial Conference Board.

income from foreign investments was estimated at about two billion francs, a total that probably had doubled since 1900 and quadrupled since 1870.

Of course, under these conditions the balance of payments of France was favorable; this credit surplus reached and even exceeded doubtless two billion francs, gold francs, naturally. This was one of the factors which maintained the national economy. According to certain estimates, the total annual private revenues of the country amounted to about 39 billion francs; the expenditures were not more than 32 billion francs; the total saving, productive or unproductive, must then have reached annually at least 5 billion to 6 billion francs. Out of this total of 5 billion to 6 billion francs saved annually, it is thought that about 1,800 million francs was used in purchasing foreign securities; in addition, about 500 million francs was imported in the form of gold. The domestic savings must have amounted to about 3 billion francs. Out of the total savings of France, 4 billion francs on an average were appropriated annually for new investments in securities. These investments, representing a fortune of 110 billion francs, were divided into 70 billion francs of French securities and about 40 billion francs of foreign securities.

Thus, the balance of payments of France was favorable, and at that time France was, as she is again today, an importer of gold. This allowed our country to play an important rôle in the international capital markets, for the French savings were in a large proportion—some said between 50% and 60%—turned toward foreign investments: Russia, Anglo-Saxon countries, the Balkans, the Orient, South America, and so on. The rôle of France in world economic development at the end of the nineteenth and beginning of the twentieth century has been considerable.

This creditor character of the French balance of payments was of old standing; this favorable state of affairs existed already in 1870. If it had been otherwise, we should not have been able to pay, without our exchange even feeling it, the war indemnity of five billion francs, tremendous for that time, demanded by Germany.

This traditional freedom with respect to foreign countries

had created in France an atmosphere of security, of economic satisfaction which won for us an extraordinary independence from the outside world. We exported capital while scarcely ever going out of our own country, and the world remained always for us somewhat unreal. A brilliant French writer, M. Paul Morand, has portrayed in his novel, *Lewis and Irene*, this atmosphere of autonomy, so specifically French: "Other countries are only mouthfuls of a continent, of the world; France is a complete nourishment, which interests Europe, but which Europe does not interest . . . Also one has more than elsewhere, in leaving France, the impression of escaping, of extricating oneself from a domesticated happiness . . ."

II

The war threw France into an extremely disturbed state of affairs. Her commercial balance, the fundamental element in its balance of payments, was for some months entirely upset. In order to keep up the struggle, the French State had, as the popular saying goes, to leave no stone unturned to buy everywhere while being able to sell nowhere. Returning to the formula of Alfred Neymarck, one could say for the end of 1914 that France became "debtor everywhere, creditor nowhere."

The deficit of the French commercial balance was chronic but limited; it tended to become enormous, appalling. Whereas imports swelled without end—8,421 million francs in 1913; 11,036 million francs in 1915; 27,554 million francs in 1917; 22,306 million francs in 1918—exports, on the contrary, declined—6,880 million francs in 1913; 3,937 million francs in 1915; 6,013 million francs in 1917; 4,722 million francs in 1918. The proportion of exports to imports decreased from 80.8% in 1913 to 21% in 1917 and 1918. During the single year 1917 the deficit of the commercial balance rose to more than 21 billion francs; during the five years 1914-18 this accumulated deficit reached 57 billion francs.

The balance of payments of the country could not naturally, under these conditions, remain favorable nor even in equilibrium, for any reserve, however formidable it might be, was not shaped to cover such huge disparities. The marks

of inequality between our foreign credits and debits made themselves felt, from the first months of 1915, in a significant weakness of the exchange. The franc fell with reference to the dollar and to the pound sterling. It would have fallen even further at this time if France had not found financial support either among her allies and associates or among certain neutrals. Nevertheless, in order to pay for its purchases of war supplies and its increasing food imports, the country had to find at any price the means for foreign settlements; the State felt a pressing need of devices to effect its payments; it utilized then all the means of exchange that it could find; the French holders of gold were canvassed, as well as the French holders of foreign securities; the relinquishment of these claims made possible the easing of the exchange and the payment for purchases for which credits had not been obtained. Let us add that certain very unexpected factors chanced in some measure to lighten the load without recompense which weighed upon France; the allied or associated armies which fought on our territory brought there money; and similar payment came indirectly in spite of everything from the huge exports of capital to which the position forced us. Nevertheless, when after the Armistice foreign creditors, American, English, and so on, were pressing us, we could measure the extent of our financial enfeeblement. The value of the franc decreased rapidly. At this time the French portfolio was pretty completely emptied of foreign securities. We had voluntarily converted a part of them into money in order to secure the means of payment; another part was lost, sometimes destroyed; the depreciation of the Russian investments, of loans to enemy countries, and of many foreign industrial securities had made cruel gaps, some of which have not been filled.

After the return of peace, the history of our commercial balance may be divided into four periods.

First, a period of restlessness in 1919 and 1920, during which France re-established in a short time exhausted stocks of goods by means of importation. With the Armistice one had hoped to see the imports stopped, but one perceived, not without surprise and discouragement, that on the contrary they redoubled. The truth is that it was necessary to

continue to buy from abroad because the country had not recovered its normal production. That signified that the impossibility of exporting continued. In 1919 imports were 35,779 million francs, exports only 11,870 million francs; in 1920 exports increased again, largely because of the advance of prices, to 27,894 million francs, but imports rose at the same time to 49,904 million francs. The deficit of the balance remained tremendous, and, as the exchange was no longer maintained by the financial support of the allies, the franc gave way.

Next comes a period of world crisis and of declining prices during which France reestablished fairly rapidly her commercial balance. Imports in 1921 were 25,548 million francs, exports 21,553 million francs; in 1922 imports fell to 23,930 million francs, while exports were maintained at 21,379 million francs. In this balance, which was recovered very rapidly on the whole, the proportion of exports to imports even reached a level that the pre-war times had not known: 83% in 1921, 89% in 1922. From this moment the balance of trade ceased to be a factor in the depreciation of the exchange. If the franc fell in value, it was for other reasons.

The period which extended from 1923 to 1927 was characterized chiefly by the dominant influence of the fall of the franc. But this decline did not have only bad effects; it forcibly stimulated exportation. Thus the very depreciation of our money contributed indirectly to the restoration of our national industry. In 1926, for example—the year when for some hours the dollar came to be worth 50 francs—imports increased to 59,598 million francs, but exports rose to 59,678 million francs. It was a favorable balance. In 1924 the proportion of exports to imports was 105%; in 1925, 104%; in 1926, 100.1%. This credit balance on account of merchandise trade, which had practically never been seen in France, allowed French exportation to enlarge easily its conquests. Expressed in gold, French prices were lower than world prices, giving an obvious advantage to French manufacturing in competition with foreign countries.

But a fourth period began with the de facto stabilization of the franc in December, 1926. In 1927 there was still a

favorable balance of trade—imports 53,050 million francs, exports 54,925 million francs, exports being 100.7% of imports. But in 1928 the balance was upset—imports 53,448 million francs, exports 51,347 million francs, exports being only 96% of imports. In 1929 the disparity further increased—imports 58,285 million francs, exports 50,072 million francs, exports being only 86% of imports. What happened is clear; French prices tended, slowly but surely, to approach world prices, which made the premium on exportation disappear. Under these conditions imports increased, and exports declined.

Here we are then, in our short exposition of the events of yesterday and today, at the present period. Beginning in 1928 and especially in 1929, France returned to a balance of her foreign trade very like that of before the war; the same surplus of imports, with almost the same percentage of exports with regard to imports. The parallelism is even more striking since the balance of payments, a debit balance during the war and the first years after the war, has again become favorable. Thus, the surplus of exports has coincided with a debtor position; the surplus of imports begins again when our position becomes a creditor position.

One can conclude that the country has again found in what concerns its trade, its credits, and its debits a balance very like that from which it formerly benefited. It is no longer proper to say, doubtless, as formerly, that France is creditor everywhere, debtor nowhere; but one can without hesitation state that the position of France has again become a creditor position. It is permissible to speak of her as of a "creditor country." What are the credits that change into a favorable balance of payments the unfavorable balance of trade?

III

We have reached now, after this brief historical introduction, the very subject of this study. The moment has come, indeed, to analyze the true elements of the French balance of payments. We will take as the base in this discussion the year 1929, the receipts and expenditures during 1930 being still too recent for one to be able to take cognizance advantageously of all their elements.

In order to proceed with such a study, we shall depend on two recent authoritative publications. One is that of Mr. Pierre Meynial, "The French Balance of Payments," published in the *Revue d'Economie politique* of May and June, 1930; the other that of Mr. Jules Perquel, "The International Accounts of France," published in the issues of the *Capital*, 1930.

We begin, as you already know, with a deficit of 8,122 million francs in the trade balance of 1929. It is by such an amount that imports exceeded exports. These 8,122 million francs correspond quite closely, do they not, to the 1,500 millions of deficit in the 1913 balance of trade, if only one takes into consideration the coefficient 5 in the depreciation of the franc.

How is at present this deficit made up by credits abroad? This is a question of the balance of revenues, which goes to show in what measure France is a creditor country. We will make a distinction in this analysis, as it is classic to do: (1) on one side, the exchange of services; (2) on another, interest received from or paid abroad; finally (3) government payments to, or receipts from, abroad.

SERVICES

Contrary to appearances, there is no need to set down freights to the debit of our balance of payments. It is true, doubtless, that overseas transportation costs us more than it brings back to us, for we pay to foreign merchant marines more than foreign countries pay to ours. However, freight charges paid by French importers are included in the value of the imported products and thus already figure in the debit of our trade balance. Having taken this circumstance into consideration, it is proper to carry to our credit the sum total of the freights paid by foreign countries to our merchant marine. The published statistics are entirely too inadequate to enable us to evaluate the exact amounts. M. Meynial, however, estimates this income from freights at 3,100 million francs for the year 1929. According to his statements, transit insurance gives rise, furthermore, to an income of about 500 million francs.

The sums remitted by foreign workmen living in France must, on the other hand, be included on the debit side, for they considerably surpass the sums that the French nationals living abroad can send back to their country. France, one knows, is not a nation that emigrates, while foreign immigration into France has been considerable since the War. It amounted in 1927 to 164,018 persons and to the still very important net total of 124,268 persons if the number of people who became repatriated is taken into consideration. We are chiefly concerned with workers, people earning their living, many of whom send money to their families, living in their native countries. It is estimated, indeed, that in a year such as 1929 an exportation of 2.5 billion francs could have been produced.

However, this figure of 2.5 billion francs is very small compared with the huge inflow of money into France from the expenditures of foreign tourists. The total income on this account is usually valued at 10 billion francs in 1929. According to American statistics, American tourists alone should have left in France in 1929 more than \$175 million, or about 4.5 billion francs. The National Tourist Bureau estimates all foreign tourist expenditures at 12 billion francs. In accepting simply the figure of 10 billion francs and in deducting 1,500 million francs in order to take into consideration expenditures made by French tourists in foreign countries, there still remain 8 billion francs in favor of France. This is a figure that cannot very well be maintained, especially in times of crisis; but if we consider the year 1929, which was still—at least until October—a year of prosperity, the estimate is not at all excessively optimistic.

If we add up the credits and subtract the debits on account of services, we find a credit surplus of 9,600 million francs, which is sufficient in itself to make up the deficit on account of merchandise trade.

PAYMENTS AND RECEIPTS ON ACCOUNT OF INTEREST

From the figures published by the Department of Registry, the *Revue d'Economie politique* estimates that income from foreign securities held by the French exceeded 4,100 million

francs in 1929. The estimate for 1928 by the same authority was only 3,700 million francs. This increase is explained by new purchases of foreign securities, by the dividend increases on certain foreign securities, and by the payment of interest on various bonds, which until then had in some cases been suspended.

It is here that the War made its presence felt! The foreign investments of France before 1914 were valued, as we have seen, at 40 billion to 45 billion gold francs, which is more than 200 billion present francs. But today French foreign holdings amount doubtless to less than 100 billion present francs. The income from this portfolio, which must have been in 1913 nearly 10 billions of our present francs, has decreased 60%, as one can see, since it is only a little more than 4 billion francs. This decline is easily explained. By selling a part of its holdings of foreign securities France paid a considerable portion of the expenses of the War. A large volume of securities escaped in this way from French ownership. Each of us can verify, from his own experience, the perfect accuracy of this statement. Nearly all French investors before 1914—and is not every Frenchman more or less an investor?—owned some foreign securities. An important part of the annual savings was used in investments of this kind. A part of this capital was liquidated because the country had need of disposable funds during the War; another part disappeared because the debtor states disappeared, or at least were so completely transformed that today they are unrecognizable and have repudiated their debts. This is the case especially with all the French money formerly invested in Russia.

However, if one stopped there, one would have a false and much too pessimistic idea of the true situation. There has been since the close of the War a very important amount of investments made abroad by the French; but a very large proportion of these investments assumed and maintained until now the form of short-term credits. When, especially from 1923 to 1926, the franc depreciated without ceasing, confidence in the value of the national currency was strongly shaken. The phenomenon known under the name of the "flight from the franc" was general. One understands from

this that all those who could invest their money in a form other than that of a depreciating currency tried to do so. Especially the merchants, and particularly those who conducted business with foreign countries, profited from their exports and credits to which they gave rise, in order to put in safe-keeping abroad a large part of their resources in the form of pounds, dollars, pesetas. So great was the flight from uncertainty! In short the money was not repatriated. The government opposed this flight, this bleeding, but in the last analysis it could do nothing; its threats, its thunder, remained most frequently of no effect. Under these conditions important French holdings were placed abroad; when they began to be repatriated, it was apparent that they were not only important but also enormous.

Their importance can be evaluated on the basis of certain known elements. The Bank of France in 1929 possessed 25 billion to 30 billion francs of foreign short-term holdings; the Treasury about 10 billion francs more. To these holdings of 35 billion francs must be added those of private banks, perhaps another 15 billion francs. In all here we have some 50 billion francs, yielding an annual interest of 1,500 million or 2,000 million francs.

Aside from these short-term investments there were doubtless, although the amount is not known, some long-term investments made abroad by the French after the War. There were also some revenues collected abroad brought into France by foreigners living here. In adding up all these annual returns on capital invested abroad, one gets a sum, which is not without importance, of 6.5 billion francs. From this figure, however, must be deducted the sums that France pays annually as interest on sums borrowed by her abroad. This indebtedness, however, seems to be decreasing quite rapidly, either because France is redeeming the bonds which she placed abroad, or because foreigners are selling back the French securities bought by them. The *Revue d'Economie politique* estimates that this figure has fallen from 1,200 million francs per year to 700 million francs. The net income of France on account of foreign investments and credits in 1929 would have been then about 5.5 billion francs.

PAYMENTS OF THE GOVERNMENT TO THE OUTSIDE

The payments of the government abroad for interest and amortization of the commercial debt—distinct, as one knows, from the political debt—were about 600 million francs in 1929, about \$20 million for dollar loans, and 100 million francs for obligations issued abroad. These 600 millions must be written on the debit side of the balance of payments.

GENERAL SURVEY OF THE BALANCE OF PAYMENTS OF FRANCE

If we seek now to obtain a view of the total of the balance of payments of France in 1929, we ascertain, first, that the debits amount to about 13 billion francs. This figure is obtained by adding to the deficit of 10 billion francs on account of merchandise trade 2.5 billion francs of remittances of foreign workers residing in France and about 500 million francs of payments made by the government to foreign countries on account of its commercial indebtedness.

On the other hand, the credits amount to about 17 billion francs, or 17.5 billion francs. This figure is reached by adding three sources of credits from abroad: 3.5 billion francs resulting from various "services"; 8.5 billion francs accruing from foreign tourists in France; and about 5.5 billion francs from interest received from abroad either on long-term investments or on short-term credits.

The active balance of France in a year such as 1929 is then about 4.5 billion francs. Its most important element remains, notwithstanding, the balance of commercial transactions, followed closely, it is true, by the factor of expenditures of foreign tourists. If one takes into consideration that these tourist expenditures are, in large measure, disguised exports of goods, one must infer that the creditor position of France depends chiefly on its commercial activities. But one must not lose sight of the fact that the reserves of capital accumulated abroad, although they play only a minor rôle, deserve to be considered as holding a very important place in this balance-sheet. France today, as yesterday, is a country that lives by her labor, by her activities, but that makes thrift

enter into her system as an essential and, in her eyes, an indispensable factor.

Under these conditions the position of France can be considered as favorable. The peculiar thing, to which we have already drawn attention, is that it tends to return to the situation which existed before the War. By an instinctive process of redress, which proceeds less from the intention of her rulers than from the spontaneous and individual effort of her citizens, France has simply tended to become again what she was before.

France has then changed relatively little. In post-war Europe it is perhaps the country which has modified least the fundamental bases of its economic and social equilibrium. To some, this is a matter for reproach; others—and this is, I believe, the opinion of the French themselves—see in this persistence of the traditional character of the nation a sign of strength and vitality. If indeed one tries to go to the bottom of this matter, one finds a country that spends less than it earns, in short a country that saves. From our personal experience a Frenchman does not feel at his ease when his private budget is not balanced. He feels no more at ease so long as he has not put something aside for his old age. Fundamentally he feels a certain distrust toward life, which perhaps would not be in place in a very young country like America, full of resources not yet exploited, but which is justified after all in a very old continent like Europe, where even work and good intentions will not always keep a man alive. One might grow old, fall ill, lose one's job without finding another. The Frenchman, prudent and even a little skeptical, thinks of all this, and that is why he lays something by. These savings are assured doubtless in a certain degree by restraint. The French opinion after the War felt that such restraint was necessary. Such was the advice given by the government; but I believe that each Frenchman would have acted thus in his private life, not because he was told to do so, but because he felt that it was the advice of reason. If France had purchased more, imported more, perhaps she would not have had at the end of this practice the same credit balance as today. If she had not proceeded thus, it is thought that she could not have reconstructed with the same ease her capital, her stock of tools, and her floating capital.

IV

Since 1926, that is to say since the stabilization of the franc, there has occurred an indisputable flow of capital toward France. At the same time thrift was re-established; as soon as the French again found themselves in possession of a stable national currency they began to save. An excess thus tended to be produced, capable as in the past of seeking again investments abroad. Some movements of capital of great importance were thus produced, which necessitated a study of the balance of capital funds.

M. Meynial, in the same study in the *Revue d'Economie politique* that we have already cited, analyzed as follows this balance of capital of France during the year 1929.

On the incoming side the sums paid to France on account of reparations figure first. The net amount, deduction having been made of 330 million francs for the expenses of troops of occupation in Germany, reached 6,700 million francs. French issues abroad came next. They were of very little importance, amounting only to 200 million francs. Under the same head must be included the sales of foreign bills held by the Bank of France, amounting to 6,576 million francs. The total of these three sources of foreign credits was 13,476 million francs.

Against these capital exports are to be placed (1) the payment of debts to foreign countries, England, the United States, Switzerland, which in 1929 amounted to 2,237 million francs; (2) the issue and introduction of foreign securities into France, amounting to 1,100 million francs; and (3) the purchase of foreign bills either by the Bank of France or by the Treasury, amounting to 1,459 million francs. This second total, which is to be deducted from the first, amounts to 4,796 million francs.

One thus obtains a net balance of 8,680 million francs in favor of France.

V

France finds herself then, either as regards movements of capital or as regards income, in possession of a surplus, of an active balance. How is she going to turn it to account?

Until now she has either imported gold or left abroad

short-term holdings. Imports of gold are the sign and the natural consequence of a general credit balance of payments. The reserve of the Bank of France at present is certainly sufficient for the amount of notes in circulation, since the percentage required by the statutes is much higher than the minimum legal percentage. This situation being a shortcoming, one is inclined to think that an introduction of foreign securities is opportune. As a matter of fact the policy of the French Government has been in this direction. By lowering the tax on the yield of foreign securities from 25% to 18%, it has wished indeed to encourage investments in foreign securities in order to create a current of capital exportation capable of bringing about a diminution of the paper currency.

A logical solution for France is then to become again a market for long-term investment. The fact is not contested; France can again invest annually many billions of francs abroad. That stands out in the analysis of our balance of payments; so much so that we have given it much emphasis. One can consider France as a country overflowing financially through its thrift. From this point of view—although from other points of view she is very different from the young American colossus—her situation resembles that of the United States more than of any other country. However, France differs from the United States in that its natural riches are already largely improved. Under these conditions, money in France tends to be plentiful. With a population which scarcely grows at all and with habits of saving that persist, we must look forward to decreasing rates of interest unless we are going to seek abroad more remunerative investments. Before the War this possibility of obtaining by investments abroad a more favorable rate of interest was one of the factors which induced French investors to invest their money abroad. There is no reason to think that the Frenchman is in this regard less intrepid than formerly. However, it must be confessed that he has had some bitter experiences; the Russian and Turkish investments, for example. It must be understood, too, that in the present period, which is at least disturbed politically, the French are not tempted to send out their savings. Moreover, they say

to themselves that France at the present time is the country in Europe that offers the greatest guarantees of stability and safety. One must not be astonished to see the French reasoning in this manner, since so many foreigners, making the same decision, are sending their capital to France.

Here then we come back to the political aspect of the problem. When tranquility shall have returned, when peace shall seem completely assured, France will be able to assume again the rôle that she played before the War as an international lender of capital. Is it not curious to ascertain to what point the traditional characteristics of different peoples persist, even through the convulsions of the earth as marked as those of the last war?

Paris
February, 1931

ITALIAN AGRARIAN POLICIES

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

RECENT estimates made by the Minister of Agriculture and Forests Acerbo show that, of the 400 billion lire worth of property owned by Italians, farm lands and buildings account for 160 billion, livestock for 20 billion, and farm machinery and equipment for 5 billion. Minister Acerbo also estimates the Italian agricultural income at 30 billion to 32 billion lire, equivalent to 40% of the national income. These figures clearly show the great importance of agriculture in Italian economic life.

In its policy for the development of productive activities Signor Mussolini's Government has not lost sight of this fact, and agriculture has received a stimulus far beyond anything heretofore done for it in the history of United Italy. The bearing and results of this action can be properly appreciated only when the conditions prevailing in agriculture prior to the advent of Fascism are taken into due account.

First of all the War, by reducing the labor available for the farm and by curtailing livestock holdings and forest resources, followed by the post-war social crisis with its serious threat to property rights, had seriously undermined the prosperity of Italian agriculture. Evident symptoms of this decline can be found in the statistics for the leading branches of agricultural production and in those for imports and exports of farm products. They show that reduced home production was accompanied by heavier imports of foodstuffs and by a marked shrinkage of the exports of typical Italian farm products, a shrinkage which, if partly due, as Minister Acerbo points out, to the reduced purchasing capacity of certain foreign markets, was nevertheless directly connected with the reduced efficiency of the farm.

The return of order and social discipline which accompanied the rise to power of Signor Mussolini was of capital importance for agricultural recovery. With the removal of

the danger threatening private property wiser councils prevailed among the rural workers, no longer misled by demagogic agitation, and the countryside again rejoiced in productive activities. The beneficent effects of the new political situation were thus rapidly felt in the agricultural world.

Nor was this all; rural activities were stimulated by the direct action of the Fascist Government, true to its policy of encouraging production. The opinion Mussolini had formed on first taking office in respect to policies for favoring the growth of Italian agriculture no less than that of industry was justified by a whole series of considerations, first of all, by the age-old agricultural traditions of the country, suited to its climate and geographical conditions, which make it possible to raise a very great variety of crops of choice quality. These traditions had been overcast only in periods of decadence and of foreign oppression, but a régime of national revival, such as the present one, could not fail to recognize the important part played by agriculture in Italian life, sparing no efforts to assure it a new period of prosperity. Moreover, the Fascist Government desires the country to have the full benefit of the inherited qualities of the Italian agriculturist, qualities of which as an emigrant he has given proof in California and elsewhere by assisting so effectively in promoting the agricultural development of virgin lands. That such action is justified is evident when we consider that the great changes in the migration policies of so many countries have brought Italy sharply up against the problem of employing on her own soil her steadily increasing population. Moreover, the social and population policies of the Fascist Government make it advisable to devote the closest attention to increasing the efficiency and the yield of the farm. The measures taken towards this end cover a wide field. They go from extension work for popularizing scientific methods of cultivation and the large-scale use of chemical fertilizers to the regulation of the fruit and vegetable trade, more especially the export branch, through grading and standardizing qualities and types of produce and protecting them by export marks; from the reorganization of agricultural and land credit to legislation for integral land reclamation and for the utilization of the agricultural re-

sources of Italian colonies; from measures to check the rural exodus to the reorganization of the Department of Agriculture and Forests.

The guild organization of the forces of production and the basic principles written into the Labor Charter have also contributed to arouse in the producers a clearer perception of the part they are called on to play; while landed property has been consolidated, the social duty of the land-owner to make the best possible use of his property has been stressed.

The effort to ensure agricultural expansion and progress pivots around the so-called "wheat campaign." The goal set by Mussolini when he opened the campaign was that of increasing the yield per acre of areas usually planted in wheat without interfering with the normal distribution of the land as between the several crops.

The aim in view is well within reach. In other countries less favored than Italy by soil and climate, the yield per acre is much higher than that now proposed by Mussolini, and Italian pioneers in the wheat campaign have already succeeded in obtaining very high yields.

The unequal average yields now obtained in the different regions of the country leave no doubt that, by extending the use of the scientific methods already in use in some parts of the country, the wheat output as a whole can be very considerably increased. The rational use of chemical fertilizers, produced on a large scale by home industries, the more general use of agricultural machinery and of selected seed, and the better training and education of the rural masses are the chief ends aimed at by the many active travelling lecturers on agriculture and the recently founded agricultural schools.

Although all agricultural improvements require much time and patience, the results already obtained by the wheat campaign, as reflected in the data of production, show that the effort so far made has not been fruitless. The annual average of 5 million metric tons of wheat secured in the five-year period 1909-13, after falling to 4.5 to 4.6 million tons in the first post-war years, rose to an annual average of over 6.2 million tons in the first five years of the wheat campaign, with a maximum of 7.1 million tons in 1929, when an average

yield of 1.4 tons per hectare was secured—1.97 in North Italy, 1.2 in Central Italy, 1.35 in South Italy, and 1.29 in the Islands. Unfavorable weather conditions were responsible for a smaller crop of only 5.7 million tons in 1930, which nevertheless exceeded by 700,000 tons the pre-war average. The larger output has been assured by higher yields per hectare, rising from an average of 1.04 tons in the period 1909-14 and 0.98 in the period 1915-20, to an average of 1.2 tons in the period 1926-30. During the same period the average wheat yield per hectare for the world as a whole rose from 0.94 ton in 1909-14 to 0.95 in 1926-30. Thus Italian production in this field has increased much more rapidly than world production, which has remained almost stationary.

There has been, on the whole, a decided increase in the output of all other farm crops. This is shown by the value of the 20 leading crops, which, estimated on the basis of 1913 prices, rose from 6.4 billion lire in 1922 to a little under 9 billion gold lire in 1929.

The figures for the consumption of chemical fertilizers given below confirm agricultural progress:

Fertilizer	In Metric Tons		
	1913	1923	1929
Hyperphosphates.....	1,075,000	1,100,000	1,505,000
Basic slag.....	125,000	58,000	66,000
Potassic fertilizers.....	25,000	34,000	58,600
Nitrate of soda.....	50,000	42,000	74,000
Ammonia sulphate.....	35,000	30,000	122,660
Cyanamide.....	15,000	42,000	97,300
Nitrate of lime.....	700	900	31,300
Ammonia nitrate.....	..	4,000	21,650

Integral land reclamation is another very interesting phase of Italian agricultural policies and one typical of the Fascist régime. The underlying idea has evolved gradually with the growth of legislation on public works. Experience gained in the field of land reclamation showed the need for state intervention in planning and meeting the cost of works for controlling malaria in the interests of public health, and this led to the realization of the need of planning land reclamation on lines consonant with economic requirements. Accordingly, land reclamation programs are now extended

to include the works needed for regulating water courses and also those required to enable the drained areas to be profitably farmed. The Mussolini Act of December 24, 1928, on integral land reclamation pledges the government to a vast effort to ensure the progressive growth of Italian agriculture and the ruralization of the country by providing large grants for works, more especially in South Italy and the Islands, to promote the productive use of potential farm lands hitherto inadequately utilized. The act lays down the following financial program:

Nature of the Work	Cost in Millions of Lire	Time Required, Years	Percentage of Grant	Cost to Government in Millions of Lire
Drainage and accessory works . . .	4,500	14	68 (av.)	3,060
Irrigation works in Italy and Islands, irrespective of drainage works	300	14	42.5	204
Irrigation works in North and Central Italy, irrespective of drainage works	500	8	40	200
Villages and farm buildings in South and Islands	500	8	27	340
Rural aqueducts	200	7	75	150
Farm roads and water supply	1,000	14	40	400
	<u>7,000</u>			<u>4,354</u>

The co-ordination of the works for farm improvements on reclaimed lands has been assured by fixing the boundaries of areas in the several zones in which land reclamation can be most successfully carried out on a uniform plan.

Thirty-seven such areas have already been defined, covering a total area of 3,823,000 hectares, distributed as follows:

North Italy	No. 4	758,000 hectares
Central Italy	12	1,279,000
South Italy	14	856,000
Islands	7	930,000
	<u>37</u>	<u>3,823,000</u>

The energy with which the Fascist Government is pursuing this work for increasing the resources of Italian agriculture is shown by comparing the expenditure on land reclamation works carried out during the period 1870-1922 with that for the period 1922-30.

Regions	In Gold Lire at Pro-War Parity	
	Expenditure 1870-1922	Expenditure 1922-1930
North Italy.....	113,016,900	321,320,400
Central Italy.....	77,777,416	77,667,200
South Italy and Islands.....	221,952,650	150,587,520
	412,746,966	549,575,520

These figures show that more has been done in the last eight years than in all the previous fifty. The expenditure in present day lire amounts to 2,248 million, inclusive of the grants set forth above.

Such is the importance the régime gives to its land reclamation program that a special under-secretary of state has been appointed to centralize all services connected therewith.

Similar recognition has been given to the need of reforestation, closely connected in some of its aspects with the problem of land reclamation. From 1922 to the close of June, 1929, no less than 5,844 hectares have been rewooded, and besides the normal care of national forest areas, another 15,283 hectares of mountain water-basins have been cared for. These figures compare with those for the period 1867-1922, during the whole of which only 26,200 hectares were rewooded and only 16,500 hectares of mountain water-basins properly cared for. Comment is superfluous.

No less important are the steps taken by the Fascist Government for the reorganization of agricultural credit so as to make it a powerful instrument in the development of Italian agriculture. Among the most important measures is that of July 29, 1927, classifying agricultural credit operations under the two heads of working credit, and land and farm improvement credit. Towards the latter the government contributes by the payment of interest costs up to a maximum of 2.50%. Credit for the working expenses of the farm is supplied by several institutions which collect and invest savings—savings banks, pledge banks, insurance societies, etc.—regionally grouped. Moreover, the National Consortium for Agricultural Improvement Credit has been organized with an initial capital of 270 million lire, empowered to issue interest-bearing certificates and bonds

with a view to financing the larger land-reclamation and farm-improvement works.

The Fascist régime has also greatly encouraged agricultural enterprise in the Italian colonies. Apart from Erythrea, with its trade traditions, potential development in these areas is mainly agricultural. With government approval and support Italian pioneers have settled in the colonies and are opening up their agricultural resources. It is a task requiring time and money, the fruits of which will only be harvested after a long interval of years. Nevertheless, noteworthy results have already been obtained, among which the agricultural settlement in Somaliland promoted by H.R.H. the Duke of the Abruzzi, the great government land-reclamation works in the Tessinei valley, in Erythrea, and the many farming enterprises started in Tripolitania and Cyrenaica by Italian settlers.

The agricultural development of these colonies, carried on side by side with agricultural expansion in the Motherland, will open new outlets for the abundant supply of Italian labor and new sources of supply for the country.

The leading features of Fascist agrarian policies thus briefly reviewed are supplemented by a whole series of measures which complete the picture of intense activity now displayed by Italian agriculture. Among these mention should be made of the legislation for intensifying and regulating the control of plant diseases; the establishment of the National Silk Corporation to ensure the best use of the silk crop; the Act of June, 1929, to increase the numbers and improve the breeds of Italian livestock; the establishment of the National Export Institute, which devotes much of its energy to favoring the expansion of Italian fruit and vegetable exports.

The results of these policies are shown not only by the increase in the output of farm crops and produce but also by the notable decline of such social diseases as malaria and pellagra, formerly scourges of the rural population. The diet of the peasants has improved, and, in spite of the difficulties caused by the fall in prices of farm products and by world-wide depression, the conditions existing in the country

districts in bad crop years when extensive agriculture still prevailed have now been left far behind.

Assisted by the guild organization and with the active participation of all categories of agriculturists, the Fascist Government is engaged in providing conditions favorable to agricultural recovery. With this end in view it has encouraged the revision of wages, a revision gradually extending to all other cost factors.

In a recent speech Mussolini warned the public that, if the increase of national output is to be advantageous, it must be accompanied by an adequate reduction of costs, without which it would be impossible to consolidate the results already obtained in the field of agricultural technique.

The vast task of revision and readjustment of all the factors of production to the new purchasing value of the lira is under way; it cannot fail to secure that reduction of costs which the situation calls for.

Rome
February, 1931

A FEW COMMENTS ON THE ECONOMIC DEVELOPMENT OF THE BELGIAN CONGO¹

Report of Hon. Emil Francqui, Honorary Deputy Governor, Société Générale de Belgique, Brussels

WITH the year 1890 began the real colonization of the Belgian Congo. One cannot acquire a better understanding of the results accomplished since then by Belgium in the economic development of her colonial domain than by referring to the figures of foreign trade.

These, however, such as they are, will only give a false idea of those results because of the fluctuations in the value of the Belgian franc which have occurred since the war. In order to make them comparable, it is expedient to express them in a monetary unit such as the United States dollar, whose stability was constant throughout the period 1890-1929, which we are going to consider.

This much said, let us observe the fact that the sum total of products exported from the Belgian Congo amounts to about \$600 million for the period 1890-1929, of which \$26 million is for the decade 1890-1899, or an average of \$2,600,000 a year; \$105 million for the decade 1900-1909, or an average of \$10,500,000 a year; \$180 million for the decade 1910-1919, or an average of \$15,000,000 a year; \$285 million for the decade 1920-1929, or an average of \$28,500,000 a year.

From one decade to another, the exports of the Congo have therefore increased annually by \$8 million to \$10 million.

An examination of the character of the principal products which come from the Colony leads us to an important conclusion.

Statistics of commerce of the Congo for the year 1929—the most recent figures available—show that the total value of exports, 1,400 million Belgian francs, or \$39,500,000, was distributed as follows among the important commodity groups:

¹ Translated by the National Industrial Conference Board.

(A) Mineral products, 876 million francs, \$25 million, or 62.5% of the total, comprising the following:

Copper.....	600 million francs		
Precious stones.....	131	"	"
Gold.....	85	"	"
Tin, cobalt and uranium.....	60	"	"

(B) Vegetable products, 473 million francs, about \$14 million, or 33.7% of the total, comprising the following:

Palm tree nuts.....	154 million francs		
Cotton.....	134	"	"
Palm tree oil.....	100	"	"
Copal.....	47	"	"
Ivory.....	38	"	"

The remaining 3.8% of the total represents exportation of divers products, such as wood, skins, coffee, etc.

It appears from these figures that it is the industrial activity, or better the exploitation of the wealth of the sub-soil of the Colony, which has in the past given it and which still furnishes its most important resources, that is 62.5%, while the agricultural activities furnished in 1929 slightly less than 38% of the value of exported products. In reality, the proportion of the value of mineral products exported exceeds 75%, if one considers that cotton, palm-oil and palm-nuts, in the state that they leave the colony, are to be included amongst those products which have already undergone a primary industrial process.

This industrial activity is in the hands of important and prosperous companies. The government of the Colony—and it is a rather unique characteristic of the great colonial enterprises of Belgium—is associated with them through the great interest which it possesses in the capital of these companies. This association, which one might fear is prejudicial to the free initiative of its leaders, has up to the present, at least, given excellent results. During a period of thirty years, these companies have contributed to make the Belgian Congo one of the best developed colonial possessions in Central Africa, and that speaks for itself.

Indeed, these enterprises, established with the support of important financial groups, having thus great means at their disposal, have been able so to equip themselves as to speedily

realize a program of production, which was largely conceived at the beginning. Their primary activities gave rise immediately to secondary activities, since new industries destined to satisfy the needs born of the major activity were formed around these enterprises. Moreover, the necessities and needs of these industrial units in connection with exploitation and transport lead quite naturally to the construction of railroads, highways, harbors, etc. These industries have, therefore, in a way, made possible the economic development of the whole Belgian Congo. They were the foundation upon which capital investment in the Congo was built.

Furthermore, it is important to point out that the birth and development of these industrial centers have permitted and made possible the colonization of the territory, namely the establishment and development of a colonial government and the amelioration of the standard of living of the natives.

A word of explanation is here necessary, that is the value of the production per worker is considerably greater in the mining industry than in agriculture. The per capita production of a native is estimated at about \$1,000 in the copper mining industry, whereas that of worker on a coffee plantation scarcely amounts to \$78.

This shows that the mining companies of the Congo could be heavily taxed without suffering from it unjustly. They have thus until now supported the greater part of the burden of administrative expenses and of the economic development of the Colony.

This likewise shows that those companies which gave employment to the native population, which was the primary cause of moral and material improvement, were able immediately to raise the standard of life of their black workers through the accomplishment of extensive programs aiming to increase the level of their physical, moral, and intellectual standards.

To summarize, a colonial policy based primarily on the exploitation of the resources of the sub-soil by powerful companies has accomplished the following results: it has permitted the immediate production of wealth, thus providing the Colony, through taxation, with the means of organizing and developing the colonial government, giving the start

to its economic development, stimulating other activities and contributing to the elevation of the native population.

As a result of this policy the Congo has become the most advanced colony of Central Africa. The industry of the Congo, through the results it has accomplished, enjoys authority and a genuine prestige in the neighboring colonies, and its financial and technical co-operation is frequently sought by them.

It was in this way that the International Forestry and Mining Society of the Congo, which exploits the diamond fields of the Kasai, became interested in the discovery and research of the diamonds of the Lunda in the Portuguese colony of Angola. Moreover, the Belgian mineral industry in the copper basin of the Katanga has stimulated the development of copper beds of Northern Rhodesia.

Finally, the success accomplished by the Belgians in the equipment of the falls of the Lufira for the requirements of the industrial valley of the Katanga has led the Rhodesian copper companies to ask their assistance.

Indeed it is known that Northern Rhodesia, unlike the Katanga, is poor in waterfalls. Yet there is at this moment being developed in this country a powerful copper industry along the edge of the Katanga. Some representatives of this industry have suggested to the group of interested Belgians the improvement of certain falls of the Katanga with the idea of transferring the current thus produced toward the new copper basin.

Would similar results have been possible if, instead of favoring the production of mineral wealth, the Colonial Belgian Government had in the first place supported the initiative striving towards the agricultural development of the Congo? It does not appear so.

The soil of the Congo is on the whole naturally poor. The establishment of great agricultural production for export purposes by companies is economically possible only in rare localities. Experience has shown that in most cases the results of this activity were quite disappointing.

What is more, as we have already seen, a considerable difference exists between the value of the per capita production of the native engaged in agriculture and mining, the

ratio being about 1 to 13. It is readily comprehensible that it has been radically impossible for the agricultural companies to bear the heavy weight of taxation needed for the expenditures of the administration and the equipment of the Colony, the burden of which was assumed by the mining companies. These same agricultural companies would not have been able in the same degree as the industrial enterprises to concern themselves with the education of the natives whom they employed. In paying high wages in the application of their expensive programs, the industrial companies had in view the well-being of the workers.

In short, it is obvious that the remarkable results accomplished till now in the colonization of the Belgian Congo are almost exclusively due to capital investment in mineral wealth. It, therefore, appears that the primary interest in the development of the Belgian Congo demands that in the future a policy should be pursued which will be based, at least in its fundamental direction, on the exploitation of the sub-soil, which still conceals untold wealth.

Is it to be understood from this that the mining industry alone, to the exclusion of agriculture, must be the sole object of the solicitude of the colonial government? Evidently not. But it is expedient that the intensive exploitation of the sub-soil of the Congo be the pivot of the Belgian colonial policy, agricultural activity being guided side by side with it, following definite directives, and in a fashion coming shoulder to shoulder with it, in order to make possible its maximum yield.

For this reason it is not expedient to encourage the establishment of great agricultural production for export except with prudence. Development of this production must not be started except in the case of products which have been the subject of minute and prolonged study and observation in experimental gardens, so that capital would not be directed into lines of production, which would produce only mediocre results. It would be useful in this respect to be advised by the methods which have been practised in the Dutch East Indies.

As a start, encouragement should be given above all to the development of all agricultural activities in which the native can

engage independently, after having received advice and appropriate instruction, so as to avoid old habits and give these activities a scientific basis. We have here especially in mind the cultivation of food products, the raising of cattle and also certain industrial products, such as cotton.

As a general rule, in agricultural matters, we would like to see encouraged, above all, the activities likely to be practised by the natives and having as their goal the satisfaction of local needs. Besides, the improvement in the physical condition of the population engaged in these pursuits would assure the furnishing of foodstuffs for the natives employed in industry. Colonial agriculture would thus become the auxiliary to this industry; it would sustain the activity of the latter, and both, one depending upon the other, would combine in the development of the wealth indispensable to the cultural activities of the colony.

A colonial policy, along the lines which have just been outlined, is only possible with a legislation and administrative control which facilitates the development of the industry in the Congo.

This means that mining legislation ought to be welcomed. Research permits of short duration ought to be granted freely, over great stretches of land, to all those who would like to prospect and explore and who would present sufficient guarantees.

In fiscal matters, legislation ought to guard against taking away from the industrial companies too great a portion of the profit of their exploitation so as to stimulate the spirit of enterprise.

But above all it is for the sake of the native worker that the government ought to lend all its support to the mining companies and assist them effectively. More particularly, the colonial administration ought to take care not to hinder and even to facilitate the exodus of the native population from regions where it is especially dense to the large industrial centers where it would obtain high wages. Such a policy, which has indeed been practised with success in many of the African colonies, notably in the recess of the Lado, would have a twofold importance: on the one hand, the mining enterprises would be able to count on a constantly increas-

ing supply of labor, which the extension of their activities would require; on the other hand, the work of these companies and of the administration in the interest of the well-being and of the education of the natives would be greatly facilitated. The struggle against the diseases and the plagues which are greatly reducing their number, which is so difficult among populations dispersed over immense areas, should become relatively easy on the day on which they become concentrated close to the centers of industrial activity.

Thus, a policy, aiming at a great industrial development of the Congo, and pursued with the enlightened support of the colonial administration, would definitely constitute the most rapid and effective means of achieving the humanitarian goal of colonization.

Brussels
February, 1931

ECONOMIC FEDERATION OF EUROPE

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

THE formation of an Economic Federation of European States is an economic necessity. The need for it has never been greater, although the obstacles to its realization appear unsurmountable. Excluding Russia, there are 27 states on the continent of Europe, forming together a homogeneous geographical group. They are deprived of the benefits which would accrue to them through wholesome co-operation on the basis of natural exchange of goods, because their governments, or rather the powerful interests which exercise a dominant influence on governmental policy, believe that the first duty of the government is to make the country economically self-supporting, no matter how inadequate the human and material basis and how high the cost to society of the goods produced by the artificially stimulated branches of industry. Each country is protecting itself against the goods more economically produced by other countries through erection of higher and higher tariff walls. In their effort to develop domestic industries, agricultural states are imposing high duties against imports of manufactures from industrialized countries, and at the same time they complain when the latter practice the same policy in regard to imports of agricultural commodities.

This policy is contrary to all principles of rationalization. Under these circumstances, mass production is impossible; costs of production are very high and are further increased by burdens imposed upon industry under the European system of social legislation. On the other hand, the purchasing power of wages is kept at a low level, because the sheltered industries can operate profitably only by charging high prices on the domestic market under the protection granted them by prohibitive import duties. This situation gives rise to a series of economic and social evils. It creates dumping when

production exceeds the consumption capacity of the domestic market and the profit made from domestic sales is used to cut export prices. Dumping leads to higher tariffs in other countries; the capacity of production is greatly increased; the supply of goods exceeds the effective demand; and, in spite of all protection, prices fall, unemployment of labor and capital equipment increases, profits begin to dwindle and disappear. In a free-trade territory embracing Western, Central, and Southern Europe, with a population of more than 200 millions, these aberrations of the capitalist system would be appreciably reduced if not entirely eliminated.

In any discussion of European Economic Federation, consideration must be given to financial relations between the United States of America and Europe. As a result of the World War, the United States became Europe's creditor, but at the same time continued to maintain a favorable balance of trade on account of merchandise and services. Europe is required each year to make large payments to the United States in discharging its official and private obligations, and the United States, although insisting that these payments shall be made, renders them extremely difficult by its defensive policy of prohibiting the importation of European goods and labor. The unbending attitude of the Allied Powers toward the payment of indemnities by Germany is explained by the obligations of the Allied Powers to America. The Young Plan of 1929 was intended to improve the situation, but it failed to accomplish this because of the fall in prices. While under the Young Plan payments, expressed in gold, are lighter than under the Dawes Plan, expressed in goods, by means of which Germany must finally settle its debts, these payments were considerably increased and have become well-nigh impossible. The burden imposed by American attitude rests chiefly on Germany, which in addition finds its exports limited by tariff barriers in the United States and most other countries. That Germany's own tariff policy is a cause of provocation in this respect is only too true.

Indirectly this situation exerts a most unfortunate political influence. France desires peace, but is primarily concerned with safety, still remembering the invasion of 1914. The

methods which France has followed to achieve security have often been far from happy and without doubt have tended to revive the militaristic spirit which was almost dead in Germany in 1918. The question of disarmament is a source of unceasing recrimination. The German people feel that reparation payments are of primary benefit to France, which, from the German point of view, wishes to oppress Germany and surround it with enemies. An already impoverished Germany was disastrously affected by the extraordinary fall in prices in 1930, producing an atmosphere of despair which fosters the growth of political parties advocating violent measures to free Germany from unbearable burdens. This development has produced, in turn, greater suspicion in France and has weakened the forces favoring peace and international amity. In addition, a feeling of uneasiness is created by repeated sabre rattling in the South, advances between the right wings in Germany and Italy, rapprochement between Soviets and Fascism, and the gradual emergence of two antagonistic groups in Europe.

The United States could render no greater service to the world and to itself than by cancelling the war debts of its former Allies on the basis that this cancellation be applied to the payment of reparations by Germany. The result would be economic and political relief which would enable Europe, and particularly Germany, to apply its energies to the restoration of its own home. The pressure under which Europe is now working would be eliminated, and the antagonism between Germany and France would be perceptibly reduced. Although the urgency of revising the Young Plan seems to be recognized in America, it is not to be expected that the American voter will accept in a measurable space of time the need for cancelling the intergovernmental debts. He knows little about the Old World and thinks that the funds thus released would be used further to increase armaments. Furthermore, he fears increased taxation, and the fact that a prosperous Europe would bring prosperity to his own country as yet makes no deep impression on him.

The economic and political situation in Europe will remain precarious and normal economic development throughout the world will be impeded as long as the relations between

the state finances on both sides of the Ocean remain substantially what they are now. The citizens of my country are not directly interested in the question of war debts and reparations, but they feel the unfavorable effects of the situation with almost as great force as do the countries directly concerned.

The feeling that in order to save itself from ultimate breakdown Europe must unite is widespread, but the chances of bringing about an Economic Federation of Europe are nil as long as no genuine agreement is made between Germany and France settling definitely all differences which now keep them apart. Some authorities feel that the problem of disarmament must be solved first, but in my opinion no satisfactory progress can be made in that field so long as the burden of reparations, which is perhaps more psychological than economic, presses on Germany and gives strength and popularity to the extremist parties.

Under these circumstances, it is not necessary to worry concerning the manner in which Pan-Europe would have to be organized. Consideration of problems of sovereignty and customs policy toward other continents and toward Great Britain, which in all probability will not join an European Economic Federation, may be postponed to a later date. Many advocates of Pan-Europe recommend inter-European free trade and tariffs against agricultural and industrial imports from other regions. In this manner three antagonistic groups would be formed—Europe without Great Britain and Russia; America, whether or not divided into North and South, and the British Empire—with the result that the Asiatic countries might be forced to combine and form a fourth group. Russia would play an important rôle in that constellation.

Some proponents of the Pan-Europe idea think of it not in terms of inter-European free trade but in terms of cartellization. That idea has few supporters in this country. The purpose of cartellization is to eliminate ruinous competition and to stabilize prices and production nationally and internationally. If cartel control does not unfavorably affect producers and consumers, it is a welcome industrial policy. Some cartel advocates claim that cartel agreements often

render import duties superfluous. This view, however, can hardly be justified on the basis of practical experience. Cartels are in many cases children of protection, which had brought about a state of overproduction, forcing the competing enterprises to adopt methods of regulating production and distribution. The success of such regulation frequently depends on a certain amount of tariff protection. Furthermore, the consumer is not always benefited. Whatever may be said in favor of cartel control, its chief purpose is to make possible the greatest profit to industry and not the lowest possible price to consumers. It must also be remembered that cartel control can be applied to only a limited number of important commodities and that production and distribution of hundreds and thousands of articles, including most agricultural products, cannot be controlled by means of cartelization. Finally, an all-inclusive application of the cartel system cannot be conceived except under the control of parliaments. It would inevitably involve increased state interference and international supervision of industry and trade, centralized in Geneva or elsewhere, which would mean the transition to a system of production and distribution worse in its operation than private capitalism.

In spite of all these difficulties, the Pan-Europe idea has a logical and natural foundation. Europe must unite in order not to suffer far more than it does, and European unity on liberal principles would be of greatest benefit to world conditions. The pivot of the structure has to be untroubled relations between France and Germany, without which nothing lasting can be achieved.

Amsterdam
January, 1931

THE ECONOMIC SITUATION IN SWITZERLAND IN 1930¹

Report of Mr. Louis Dapples, President, Board of Directors, Nestle and
Anglo-Swiss Condensed Milk Company, Vevey

THE foreigner who enters Switzerland is impressed first of all by the natural beauties of the country. Ranges of mountains with high peaks covered with eternal snows, streams of fresh, clear water, rivers which, springing from their sources at the foot of the Alps, empty some in the Mediterranean basin, others in the North Sea; numerous lakes with shores covered by delightful cities, fields intensively cultivated, prepossessing and prosperous towns, villages surrounded by orchards, forests covering with their mantle the tops of small valleys or the slopes of precipitous mountains, tiered vineyards on the edges of the lakes or at the sides of the valleys—all this creates a rustic scene most impressive in effect.

As the tourist goes further and further into the country he discovers an increasing number of particular features. He ascertains that the roads are well taken care of, facilitating more and more rapid travel by automobile; that the railroads are run by electricity, on account of which they have gained in speed, cleanliness, and comfort; that the public services, mail, telegraph, telephone, and buses, operate in irreproachable fashion. In the country, splendid herds graze in the fields; the land is worked with fine care; the villages, where cleanliness and flower gardens are highly valued, display well-constructed houses, screening stables where are housed the cattle used for breeding or destined for the production of milk. In the most important of these villages a structure attracts notice by its half-rural, half-industrial appearance: it is the local dairy to which the peasants daily bring the milk which will be converted into cheese and butter or be condensed. And here one puts a finger on one of the chief

¹ Translated by the National Industrial Conference Board.

factors in the Swiss economic life—the production of cheese, which plays an important rôle in exports of manufactures.

As for the Swiss cities, they gain distinction by their progressive manner which is apparent at every step—avenues and streets bituminated or smoothly paved; great buildings devoted to banks, public administration, religion, business, or hostelry; fronts of stores, shining and splendid; electric lighting, bright and abundant. Numerous modern garages offer shelter for motor vehicles; places of amusement abound and compete in elegance. One has the impression that in these centers trade, finance, and hotel industry are prospering.

In the course of his wanderings the visitor encounters in Switzerland large manufacturing plants where metals are worked, machinery built, silk, wool, and cotton, embroidery and lace made, watches put together, food products manufactured, chemical substances formed, dyes prepared, shoes cobbled, straw braided, and a multitude of articles made for the use of the domestic market and especially for export. It is there that one sees the production of the industrial nation which is by degrees placing itself beside, but not eliminating, the originally rustic population of Switzerland.

Lastly, the high mountains and glaciers of the Alps are no longer only objects of admiration; the abundant waters that come from them are caught, diverted into canals, and conducted to great works for the production of electric power. One can even say that it is there that this country, poor in subsoil resources, finds its most secure and lasting wealth, electricity with so many uses freeing transportation companies from dependence on foreign fuel and even lending itself to exportation to neighboring countries insufficiently endowed with the means of production of electricity.

Thus undertaken, a trip into Switzerland gives the picture of a well-balanced country dedicating its powers to the development of a comfortable agriculture, a flourishing trade, an intelligent industry, and a prudent finance, all about to lead to a state of general prosperity which is expressed in the high standard of life of a well-informed and hard-working people. In normal times this fancy is a reality. Unfortunately, Switzerland is sheltered no more than other countries from the shocks that disturb the world economy, and

the picture during the second half of the year 1930 that is about to be sketched proves to be decidedly gloomy. The general crisis gradually affected this country and inflicted upon it some heavy ordeals. Agriculture, in its difficulties, begs the assistance of the State; trade and manufacturing droop; the hotel business is in danger; and the banking business, assisted at the beginning of the year by a great inflow of capital from abroad, shows signs of weakening. The scourge of unemployment, forgotten since the years 1921-23, has reappeared. The public finances, however, and those great industries under the control of the state continue in a satisfactory position.

Such are the conclusions to which one comes if one reviews the chief spheres of activity of the Swiss people: agriculture, trade and manufacturing, and finances.

AGRICULTURE

The difficult position of agriculture can be understood clearly from the following figures: In 1929 the gross returns of agriculture, the value of products sold to others or consumed by the farmers themselves, reached 1,489 million francs. In 1930 this value amounted to only 1,385 million francs, showing a decrease of 104 million francs as compared with 1929.

This decline is attributed first of all to the decrease in the price of milk and to the bad weather which spoiled the growth of vegetables and fruits. For the milk industry alone a decrease from 544 million to 492 million francs is estimated. As for the production of fruits, its yield reached last year only 35% of the yield in an average year. On the other hand, the production of beef for slaughter, and in a certain measure of pork, showed a slight increase. The net yield of agriculture, or the interest on the total of capital invested in agriculture, which amounted to about 3½% on the average for the pre-war period 1906-13, and which reached 3.6% for 1929, declined to only 2½% for the year 1930. It is estimated that the mass of Swiss agricultural enterprises is burdened with an average debt that is equivalent to half of their actual capital. In proportion to the size

of their land holdings, it is the small farmers who are most heavily burdened. Among them is found the largest number of enterprises burdened to more than 60% of their actual capital. In reality 14% of the enterprises are not in debt; 26% have only a small indebtedness; 30% have an average indebtedness; the rest, 30%, show a very heavy indebtedness.

The difficulties of agriculture are due to excessive production of milk in relation to a general decline in the exportation of milk products. Exports of these products are shown in the accompanying table.

EXPORTS OF MILK PRODUCTS

In quintals

Product	1929	1930
Hard paste cheese.....	248,205	235,891
Cheese in boxes.....	54,097	51,860
Condensed milk.....	355,957	329,574
Total dairy products.....	658,259	617,335
Decrease in 1930.....	..	40,924

This decrease in exports was accompanied by a decline in the sales price of the merchandise from 238 francs to 214 francs a quintal for cheese, and from 22 francs to 20 francs a quintal for fresh milk.

The climatic conditions of the country make it necessary for its agriculture to devote itself to a very large extent to the production of milk. But it seems that this has been carried too far. In 1906, at the time when the central organization of milk producers was founded, there were in Switzerland 785,950 cows. It was already a record figure in comparison with the past. Today there are nearly 870,000 cows, or about 100,000 more. The average yield per cow then was 2,730 kilograms per year. It is today 3,000 kilograms, thanks to improvement in breeding. The total production of milk increased from 21 million quintals in 1906 to 26 million quintals in 1930. This overproduction is explained by the attraction that the price guaranteed by the organization of milk producers and its buying and selling agency has for the farmer. The peasant needs fixed revenues to pay his interest and his constant expenditures. The great disad-

vantage is that the same situation is found abroad and contributes to the weakening of the power of exportation. On the other hand, the price guaranteed by the producers' organization, having gone above the sales price of cheese, has brought about an exhaustion of the reserves of the organization, and the latter then appealed to the Confederation to obtain new subsidies permitting it to continue its activities. In order to come to its aid, the Confederation granted in the spring of 1930, first a credit of 3.5 million francs, then in the fall of 1930 another payment of 5 million francs. At the same time the import duty on foreign butter was raised to 1.20 francs per kilogram in order to aid the domestic butter producers in competition with butter imported from abroad, but this does not prevent the entrance into Switzerland of 800 wagons of butter coming from abroad, chiefly from Denmark. And yet the Confederation still spends 600,000 francs per month to encourage the transformation of milk into butter. One sees by these figures that the State makes considerable sacrifices to assure the maintenance of a strong peasant class.

It makes them, furthermore, by paying the domestic producer of wheat 41.50 francs a quintal, although the world price of this grain declined to 24 francs at the end of 1930.

These diverse financial measures ease the situation, but do not solve the agricultural problem. It is believed that the farmer must himself make a serious effort to improve his products, especially cheese and butter, to regain at home as well as abroad the superiority that has been lost. There is too much cheese which from the point of view of quality leaves much to be desired. Merchandise of second or third grade not only cannot be sent across the frontier, but must be sold at a loss in this country. That is why a movement has appeared among the legislators to secure by legal means a better control over the production and sale of milk and its derivatives. It will not be sufficient merely to imitate Denmark, which has organized an official control over exported butter and which is one of the causes of its success. It must, however, be noticed that certain manufacturers in the dairying branch have themselves taken steps to improve the quality of the fresh milk consigned to condenseries or of the

cheese manufactured. On the other hand the associations for the production of cheese have already introduced in their own right a system of control which applies to the feeding and keeping of cattle as well as to the handling of milk and to the manufacturing of dairy products. The good results became quickly apparent. But this method of procedure includes only a small number of producers, and one would like to see it spread further. In the meantime and seeing that the problem will not be solved by legislative methods, only one method remains, that is to persuade the producers that their whole interest lies in the furnishing of products irreproachable in quality.

TRADE AND INDUSTRY

The crisis of business, which made itself felt already at the end of June, 1930, in a decline of 23 million francs in the value of imports and 90 million francs in that of exports, was greatly aggravated during the rest of the year. It caused a decrease of more than 100 million francs in imports of merchandise into Switzerland and of over 300 million francs in exports, as is shown in the accompanying table.

VALUE OF FOREIGN TRADE

In francs

Imports in 1929.....	2,782,851,968
Imports in 1930.....	<u>2,664,201,621</u>
Decrease in 1930.....	119,650,347
Exports in 1929.....	2,104,454,622
Exports in 1930.....	<u>1,767,501,594</u>
Decrease in 1930.....	336,983,028

The excess of imports over exports in 1930 was 895,700,027 francs, the highest figure recorded for a great number of years. This deficit must be made up by tourist proceeds, by insurance transactions, by banks and by international finance.

The accompanying table shows the decline in the value of imports and exports of principal commodities.

VALUE OF PRINCIPAL IMPORTS

Commodity	In Million Francs	
	1929	1930
Grains	259	224
Colonial commodities	121	100
Beverages	71	68
Seeds, plants, etc.	80	66
Wood	85	81
Cotton	162	123
Silk	168	132
Wool	138	127
Mineral substances	185	173
Iron	169	168
Copper	63	57
Pewter	13	10
Machinery	106	98
Vehicles—automobiles, etc.	83	77
Pharmaceuticals and drugs	23	18
Chemical products	119	115
Dyes	20	19

Switzerland imported a smaller quantity even of those foodstuffs which it must buy abroad on account of insufficient domestic production. In addition imports of raw materials utilized by the textile, machinery, and chemical industries declined considerably, indicating lower activity in these industries, which will see their ability to export decreased in corresponding manner. Automobile imports also show the effect of lower trade. It is estimated that there is in Switzerland one automobile to 59 inhabitants, as compared with 1 to 5 in the United States, 1 to 8 in Canada, 1 to 32 in France, and 1 to 97 in Germany.

Imports of food products of animal origin remained unchanged at 124 million francs; of fertilizers, at 14 million francs; of books and magazines, at 19 million francs; of flax, hemp, and jute, at 33 million francs; of instruments and apparatus, at 60 million francs.

The only imports that increased were those of fruits and vegetables, 104 million francs against 90 million francs, as a result of poor harvests; of animals, 44 million francs against 13 million francs, principally of cattle for slaughter; of India-rubber, 37 million francs against 36 million francs; of glass, 24 million francs against 23 million francs; of aluminum, 6 million francs against 3 million francs; of precious metals, not money, 152 million francs against 129 million francs; of

hides and skins, 88 million francs against 82 million francs. Imports of tallow and oil and tobacco also increased.

VALUE OF PRINCIPAL EXPORTS

Commodity	In Million Francs	
	1929	1930
Fruits and vegetables.....	10	2
Colonial commodities, cocoa, chocolate, etc.....	28	24
Foods of animal origin, condensed milk, cheese, etc.....	149	131
Hides and leather, shoes.....	70	60
Cotton and cotton cloth.....	234	136
Manufactured silk.....	297	242
Manufactured wool.....	51	43
Confections.....	59	45
Wrought iron.....	55	44
Wrought copper.....	40	29
Aluminum.....	55	43
Precious metals, not money.....	44	30
Machinery.....	241	223
Clocks.....	307	233
Instruments and apparatus.....	68	67
Pharmaceuticals and drugs.....	53	49
Chemical products.....	36	33
Dyes.....	85	73

The value of exports of books and magazines, of braided straw, of mineral substances, of vehicles, automobiles and airplanes was higher in 1930 than a year ago.

The most seriously affected by the decline of business are the textile industries, especially those of silk and embroidery, which met an obstacle in the increased import duties in the United States and Canada. The same situation exists in the shoe industry, which struggles at the same time against protective tariffs abroad and an invasion of the Swiss market by foreign competition. The foundries and machinery construction worked normally until the month of August, when they suffered from the decrease of orders caused by the postponement of projected work and the decline of prices favoring competition.

But it is especially in the clock making industry that the crisis was felt with severity; its figure of foreign business declined 74 million francs, or 31%, as compared with a year ago. This industry felt, on the one hand, the effect of the world economic crisis and, on the other, the effect of new protective tariffs in the United States and Canada. One

can get an idea of the terrible blow dealt the clock industry by the customs policy of the United States from ascertaining that this great market, which in 1929 imported the large number of 5,026,220 clocks, imported only 2,276,607 clocks in 1930. This situation produced increasing unemployment, the factories being unable as a general rule either to keep all their personnel or to continue to work on the normal time schedule.

The total foreign trade of Switzerland with the United States of America has decreased during the last ten years, as shown in the accompanying table.

SWISS-AMERICAN TRADE

In million francs

Year	Imports from the United States into Switzerland	Exports of Switzerland to the United States
1920.....	864	283
1921.....	385	585
1922.....	190	215
1923.....	117	209
1924.....	206	205
1925.....	227	191
1926.....	187	201
1927.....	220	209
1928.....	243	195
1929.....	291	207
1930.....	204	144

During the last ten years the figure of Swiss exports to the United States has never been so low as in 1930. That year Switzerland bought from the United States 60 million francs more than she sold to it. Doubtless the results of the years 1920 and 1930 were warped by the abnormal prices then and by the unusual movement of gold, but stabilization seems to be taking place around a figure of 200 million francs a year, and the difference of about 60 million francs, while it means nothing to the American market, represents for Switzerland a loss which affects its population painfully. It is greatly to be hoped that an amendment of the tariff of the great American republic will re-establish a better current of business between her and the Swiss republic.

In order of importance the principal countries buying from

and selling to Switzerland in 1930 are shown in the following table.

GEOGRAPHIC DISTRIBUTION OF FOREIGN TRADE

Selling Countries	In Mil- lion Francs	Buying Countries	In Mil- lion Francs
1. Germany.....	709	1. Germany.....	282
2. France.....	451	2. Great Britain.....	262
3. Great Britain.....	231	3. France.....	183
4. United States.....	204	4. United States.....	144
5. Italy.....	185	5. Italy.....	120
6. Belgium.....	84	6. Low Countries.....	62
7. Czechoslovakia.....	79	7. Belgium.....	54
8. Argentina.....	73	8. Austria.....	54
9. Canada.....	70	9. Czechoslovakia.....	49
10. Low Countries.....	59	10. Spain.....	47
11. Austria.....	50	11. Japan.....	33
12. Hungary.....	41	12. Sweden.....	32
13. Spain.....	37	13. Argentina.....	32
14. Egypt.....	35	14. China.....	29
15. British India.....	33	15. Canada.....	28
16. Poland.....	31	16. Poland.....	28
17. Australia.....	22	17. British India.....	24
18. Denmark.....	20	18. Australia.....	22
19. Rumania.....	20	19. Denmark.....	22
20. Brazil.....	18	20. Rumania.....	16

With reference to 1929 this table shows the following changes of position: among the selling countries, Great Britain rose from fifth to third place, the United States changed from third to fourth place, and Italy from fourth to fifth. Among the buying countries, the third place is again occupied by France, and the United States passes from third to fourth place. All the buyer countries decreased their imports from Switzerland with the exception of Sweden, whose purchases increased from 31 million francs in 1929 to 32 million francs in 1930; China, from 28 million francs to 29 million francs; and Denmark, from 19 million francs to 22 million francs.

As for the hotel business, the figure for which does not appear in the official statistics, it is estimated that the decrease of arrivals was from 5% to 10% and that its yield was about 20% lower during the summer of 1930 than in the summer of 1929.

All these circumstances have influenced the labor market unfavorably. Although in 1929 one could boast of the

smallest number of unemployed, only 8,000, since the year 1922, when the number was 70,000 persons without work, this number has again increased to 20,000 in 1930. This creates a painful situation for the Swiss economy which fills the public with real concern.

In March, in the second fortnight of the month, an economic conference called together by the Department of Public Economy will be held in the federal palace. It will unite representatives of the great employers' associations of industry, trade, agriculture, crafts, as well as the delegates of the labor organizations.

The conference will probably last two days. Its program is fixed within wide limits. First, there will be a discussion of foreign and domestic tariff policies. Then the problem of encouraging of exports will be discussed and the proper means of increasing the quantity of manufactured goods or products sent abroad. Finally, the important problems of agriculture that are really the order of the day will be considered, and the question will be raised of inserting an article in the Constitution relating to the economic policy of the Confederation, a subject which has already been discussed on many occasions in the Chambers.

On the success and the results of this meeting depends the decision of calling together other conferences at more or less regular intervals.

FINANCES

The financial situation of Switzerland, compared with that of the majority of European countries and of the rest of the world, is on the whole satisfactory. Its money is sound. The Swiss franc is one of the most stable monetary units and one of the best guaranteed. The credit of Switzerland is irreproachable at home as well as abroad. The foreign debt is insignificant; financial scandals and crashes are unknown. Moreover, foreign investments and credits held by capitalists and Swiss houses are very important. They constitute, with the contribution of the tourist trade, one of the weightiest assets of the commercial balance.

The revenues of the Confederation come from the following sources:

	In Million Francs
Yield of investments and real estate.....	28
Customs duties.....	255
Taxes on tobacco.....	22
Stamp duties.....	81
Fines.....	5
Mail, telegraph, telephone.....	12
Other receipts.....	10

One sees immediately that the principal sources of revenue consist in import duties, which play in some cases a protective rôle but have the serious disadvantage of maintaining a high cost of living in Switzerland. Next come such levies as stamp duties, duties on security transactions; in this regard there is a complaint against the high level of these taxes because they hinder the role of international banker and cause many transactions in bonds to pass through other channels than those of Switzerland. The taxes on gasoline, 30 million francs, and tobacco, 22 million francs, were levied in view of special charges, the maintenance of roads and financing of social insurance. These social charges, which will impose upon the state a new annual outlay of 80 million francs, were received with mixed feelings; in many circles it was believed that it would draw the state and the leaders of business into serious financial difficulties capable of affecting unfavorably the national economy and the social policy of the country. Finally, the yield of postal and other taxes amounting to about 12 million francs, incites the trader, the banker and the merchant to demand a revision of these taxes, the burden of which is considered too heavy.

These receipts, surpassing 400 million francs, cover the expenditures caused by debt service, about 120 million francs; the salaries of federal employees, 60 million francs; the subsidies to agriculture, to the schools, to cantons, and to public utility services, about 90 million francs; national defense, about 90 million francs; and various other expenditures of 40 million francs.

On these bases the accounts of the Confederation produced a surplus of 23 million francs in 1928, 23 million francs also in 1929, and some hundred thousand francs in 1930, following the post-war years of deficits.

The deficit of the Confederation, which amounted at the end of 1925 to 1.5 billion francs, must be amortized in forty

years, that is to say by 1966, through the establishment of an initial reserve levied on the returns from the war tax and the writing in the budget of an annual sum for amortization equal to 5% of the amortized capital. Up to the present this plan of amortization has functioned and still functions normally.

The public finances of Switzerland are then well balanced. But the industrial crisis, the results of unemployment, which in 1922-23 cost the Confederation 150 million francs, and the impossibility of creating new sources of revenue impose upon the state the absolute necessity of decreasing its future expenditures in order to keep its good financial reputation.

The Swiss franc remains as in 1929 below par. Toward the end of the year 100 Swiss francs were worth:

	In Paris	In Berlin	In Amsterdam	In New York
Par.	492.50 francs	81.15 Marks	48.12 florins	\$19.36
Actual.	492.48 francs	81.00 Marks	48.03 florins	19.29

The pound sterling was quoted at 25.07 francs against a par value of 25.22 francs. The gold coverage of Swiss banknotes reached 69.42%, as against 61.9% at the end of 1929. The official rate of discount is 2.5%, or the lowest in the world, and the same as in Paris, Brussels, and New York.

The activity recorded on the market capital has been very considerable, bond issues particularly being much higher than in former years. Very liquid throughout the year, the market has been able to absorb the following amount of security issues:

Security	In Million Francs	
	1930	1929
Stocks.	23	431
Bonds.	1,551	573
Stocks and bonds.	1,574	1,004

On the stock exchange the year 1930 was marked by a new decline in the prices of stocks. The index number of the Bourse for 109 stocks fell to 170 at the end of 1930, as against 182 at the end of 1929. The situation was entirely

different for securities with fixed returns; the transactions were lively; the bonds of Swiss states and cities changed hands at a rate which had not been achieved for a long time. Also the 3.5% bonds of federal railroads rose to 95.50, the highest point, as against 88.75 at the beginning of the year. The abundance of funds and the favor of the public, which was turned from stocks to invest in bonds, caused this abrupt upward movement.

As for the federal railroads, the position of which influences the general economy of the country, they increased their accounts in 1930 with a bonus of some hundreds of thousands of francs.

The Bank of International Settlements published its accounts on November 30, 1930, the date on which it closed its first half year of existence. Its total balance amounted to 1,876 million Swiss francs. Fifty-six per cent of its assets, or 1,051 million francs, represents investments at a term not over three months, with a corresponding debit of 1,146 million francs in deposits on short-term from central banks. On this amount 640 millions were levied in December, 1930, for payment of the debts of the Allied governments to the United States. The president of the Bank of International Settlements, M. G. W. McGarrah, of New York, has held in Switzerland and America some very interesting conferences on this institution.

In summary, Switzerland, the financial situation of which is stable, entered in 1930 into an era of business depression which threatens to be prolonged and to become still worse. One can hope, however, that, as in the period 1921-23, its population will know how to resist adversity and surmount its present and future difficulties by its labor, its spirit of thrift, and a perfectly honest administration of its affairs, public and private. It must not, however, conceal from itself that the problem to solve is this: to produce, at low prices, articles of the first quality. But that is not at all reconcilable with the wish to have the highest pay, the most comfortable lodging, the shortest workday, and the most complete social legislation. Perhaps it will be necessary to make a sacrifice on one point or another in order to be successful in the field of international competition.

As conclusion to the present study one could cite here these words of a great French writer:

“By its structure, by its history, Switzerland is the meeting place of nations. These different nations have created and realized a social state like that which the League of Nations wishes to establish in the world and the European Federation in Europe. During the centuries, peace is the mistress of Switzerland. Its genuine democratic government has given excellent results, social as well as political. It can be given as an example to the world. Thus its prolonged peace becomes a point of hope for a more extended peace, a world peace.”

Vevey
January, 1931

INTERNATIONAL INDUSTRIAL AGREEMENTS

Report by Hon. Hipolit Gliwic, Chairman, Consolidated Katowice and Königs-Laura Corporation, Warsaw

INTERNATIONAL industrial agreements are one of the newest phenomena of the economic development of the world. One can trace some organizations of this type in the early 19th century, but the first universally known international cartels are the rail pool of 1884 and the spelter convention of 1885.

Of course, corporations or companies on international lines have existed from time immemorial, but by no means could they be considered international cartels. There are many families, as for instance the Rothschild family, scattered all over Europe and sometimes all over the world in order to conduct business in different parts of it. One can easily observe the surprising expansion of many factories outside the country where they were founded. Such is for example the history of many electrical and chemical works started in Germany and of many huge mechanical factories founded in the United States or in the United Kingdom. Here the expansion is based on an internationally acknowledged patent. The same happens with some very valuable or scarce minerals, like boron, platinum, etc.

All such organizations and firms animate and develop international relations, bring closer the commercial and industrial circles of different countries, and promote a better and deeper mutual understanding. They lack, however, one characteristic mark: their coming into existence is rather casual; their creation is not subject to any common law.

In order to establish the meaning and the strict definition of an international industrial agreement—it may be a syndicate, a cartel, a trust, a combine, the external form does not interest me at this moment—we have to state that under this caption comes an agreement of at least two—some

economists insist even on three—industrial undertakings previously independently operated in different countries. We have to draw a line of distinction, and every temporary agreement for speculative purposes like the Secretan's Copper Pool must be excluded from our researches.

It is not so easy to fix definitely the number of international industrial agreements. Before the War there existed approximately 120 of them. The War naturally put an end to the expansion of international cartelization and even destroyed many cartels then in existence. However, one of the first results of the Armistice was a strong movement towards a definite renewal of the development of this phenomenon. During the past years practically no month passed without the creation of an organization of this type.

Taking for instance the years 1926–29, month by month, we obtain the following very interesting list:

June, 1926	European International Rail Makers' Association
July, 1926	The Glue Cartel
August, 1926	The Aluminium Agreement
September, 1926	International Steel Agreement
October, 1926	The Copper Convention
November, 1926	The Agreement of Rubber Tire Producers
December, 1926	The Union of Producers of Artificial Fertilizers
December, 1926	The Franco-German Potassium Syndicate
February, 1927	Agreement of Carbide Producers
June, 1927	The Ferrosilicium Syndicate
June, 1927	The Agreement of Thread Producers
October, 1927	Agreement of Nitrate Producers
October, 1927	Agreement of Silk Producers
November, 1927	The Bismuth Syndicate
November, 1927	The Wire Syndicate
November, 1927	The Pig Iron Convention
December, 1927	The Agreement of White Lead Producers
December, 1927	The Agreement of Dye Stuffs Producers
January, 1928	The Cement Producers' Agreement
May, 1928	The Zinc Producers' Agreement
July, 1928	The Agreement of Paper Producers
July, 1928	The Agreement of Metal Button Producers
December, 1928	The Agreement of Quicksilver Producers
December, 1928	The Raw Cork International Corporation
April, 1929	The World Tube Agreement

It occurs to me also that there has been reached quite recently an Agreement of European Car Producers.

Professor Notz mentions forty-six existing international cartels; the League of Nations draws a list of sixty-four organizations of that type. Both these lists are far from

being complete. The League of Nations' listing comprises the following branches of industry:

Minerals, coal, metals.....	26
Chemicals.....	19
Transportation.....	18
Textile.....	15
Chinaaware and similar industries.....	8
Paper.....	7
Stone and building materials.....	6
Electricity.....	5

We do not see here such agreements as the Ocean Conferences, the Radio Agreements, the Egg Exporters' Cartel, and so on. All universally known international trusts, such as petroleum, tobacco, soap and fats, matches, etc., are also omitted.

Some of those cartels cover large territories, and thus:

The Tanners' Association	includes factories in 20 countries
The Glue Cartel	" " " 17 "
The Vegetable Oils Cartel and } The Electric Lamps Syndicate }	" " " 15 " each
The Mantles for Incandescent Lamps	" " " 12 "
Superphosphates and } Silk }	" " " 11 " each

Without mentioning other special articles we can state that:

There is	1 international cartel	having 10 partner-countries
" are	3 " cartels	" 9 " "
" " 3	" " "	" 8 " "
" " 7	" " "	" 7 " "
" " 4	" " "	" 6 " "
" " 5	" " "	" 5 " "
" " 8	" " "	" 4 " "
" " 11	" " "	" 3 " "
" " 13	" " "	" 2 " "

Geographically speaking, the international cartels cover practically all civilized manufacturing countries, and it is not difficult to guess that the ranking country here is Germany, which, besides possessing 2,500 national syndicates, participates in 43 international cartels. Next come France and Great Britain, each taking part in 30 cartels; then Switzerland, in 20; Belgium, in 16; Austria, in 14; Sweden, in 12; Poland, in 11; Czechoslovakia and Norway, in 8 each; and so on.

It is of much more vital interest to establish a list of

articles in daily use that are covered by international cartels. Practically none of the products that go to the making of the things we see around us have escaped the fate of being internationally cartelized. It is well nigh impossible to draw up a full list of those products. The principal ones are: cement, petroleum, matches, cotton, tobacco, margarine, soap, dyestuffs, magnesite, white lead, tyre, carbide, potassium, glue, vegetable oils, dynamite, bismuth, quinine, iodine, paper, buttons, cords, silk, velvet, linen, embroideries, eggs, artificial fertilizers, nitrate, steel wire, ferrosilicium, ferromanganese, tubes, rails, copper, zinc, cork, polished glass, and others. Despite its length the above list embraces mass products and raw materials only. There still remain large numbers of articles which because of their very nature simply cannot be cartelized either nationally or internationally.

The problem is very broad, I should even say vast, and it is not surprising that the question whether international cartelization is favorable to the normal development of the world's economic life is only too often put forward. This question however is rather an obsolete one. Economic matters are entirely strange to any teleological explanations as much as physics are. One may study with more or less pleasure, with lesser or greater success, such phenomena as rain, snow, storm and so on, but it would be entirely useless and needless to discuss their desirability or preach their annulment, as they are unavoidable and inevitable.

Cartels in general and international cartels in particular may be convenient to some parties and injurious to others. They are, however, the logical, necessary, and natural result of the development of economic life and must be examined exclusively from this ontological point of view.

The only country where cartels are prohibited by legislation, outside of certain British Dominions, where industry is still in nucleus, is the United States of America, the actual cradle of trusts. This restricting and handicapping legislation cannot yield good results. The industrial agreement, vanishing from the surface of economic life, is kept underground and disguised. And so the United States saw itself obliged to infringe upon this legislation by allowing the

establishment of certain export trade associations under the Webb-Pomerene Act and the Export Trade Act and by voting in 1922 the Capper-Volstead Act, which allows the consolidation of trade activities in agricultural products.

In the purely economic sphere, which interests us mostly, the influence of international cartels and other similar organizations has let itself be felt rather distinctly. I have in mind three specific points:

1. The relation between international cartels and the tendencies to rationalize industry, so much talked of at present;
2. Their reaction with respect to the working classes; and
3. Their influence on national customs tariff policy and international economic policy at large.

Rationalization aims chiefly at obtaining a maximum result with a minimum of effort. Looking from this point of view one cannot deny that the phenomena which accompany any agreement add very much to rationalization. Every more normal repartition of markets cuts out unnecessary transportation, excessive financial charges, and the upkeep of useless stores. The above applies to national as well as to international agreements.

It is only too natural that the closer associations, such as trusts, combines, concerns, and "Interessengemeinschaften," should consider rationalization one of their cardinal problems.

This applies chiefly to national industrial consolidations. It would be a mistake, however, to draw the conclusion that international cartels cannot influence in the same way industry in different countries. The mutual exchange of patents, the common benefits of experience, the application of better methods will lead in any internationally organized cartel to the rationalization of the participating factories, mills, shops, plants, no matter in what country they are situated.

The reverse side of every rationalization, painfully felt by the multitude of employees, consists of the bitter necessity of discharging many clerks and workmen. This necessity, sad though it is, in the case of cartels, being temporary, is greatly outweighed by the advantages of the huge economies obtained and, in the long run, must be favorably accepted by the workers. Even if the cartel reduces in the

beginning the number of its employees, it guarantees at the same time to the rest more lasting work, steadier wages, and indeed a more promising future.

In the case of international cartels and syndicates any dismissal or discharge administered by a foreign central office will be bitterly resented in any country as a provocative and irritating encroachment instead of being considered an appeasing measure.

For these reasons in purely international cartels a lockout happens extremely rarely, and the second of our three points does not apply practically to this case.

In some quarters the belief was created that the chief meaning and most valuable importance of international industrial agreements consists in the possibility of their gradually taking the place of commercial treaties and thus eliminating the difficult controversial and delicate problems of customs tariff barriers, which at present upset so greatly international economic opinion and just now absorb the attention of so many governments.

After having given a ripe consideration to this interesting subject I have to acknowledge that international cartels can in no possible way take the place of commercial treaties. The latter are applied to the widest sphere of public international interests. The cartels, on the contrary, affect exclusively a rather narrow sphere of private international intercourse, being limited only to a certain number of articles.

International cartels are of course an important step—perhaps the most important—from national toward world economy. But even so, one cannot be so bold as to forget that every international cartel has its roots in national economy. As paradoxical as such a statement may seem, it can be easily proved. It could for instance occur to a superficial observer that the very existence of an international cartel eliminates the necessity of protective duties in its line of industry. Reality disproves this, however. It must be held in mind that it is only by means of an adequate and proper national customs tariff policy that some industries in numerous underdeveloped countries are able to join the international cartels formed by other strong industries.

Such is, for instance, the case of the World Tube Agreement, which has just been renewed for ten years. The protective policy can and even must be a necessary premise for the creation of an international cartel. More than that, let us admit for a moment—and it is not contrary to reality—that the very existence of some well balanced international cartel renders a customs duty entirely unnecessary. I cannot think, however, of a government bold enough to remove the duty. The risk of harming then the national industry is too obvious.

Whereas an international cartel cannot replace the commercial treaty, the statement neither implies nor intimates that in certain cases at least more successful results can be reached by negotiating treaties with a simultaneous collaboration of private interests aiming at an international cartel or syndicate. Thus the creation of the International Steel Cartel helped substantially in the negotiation of the Franco-German Commercial Treaty. The same thing occurred when in the course of Polish-German commercial negotiations the representatives of the Polish and the German iron, steel, and coal industries came to some understanding. It is obvious that in the sphere of international economic policy the mutual action of private businesses belonging to two contracting powers, although unable to replace the action of public authorities can, if properly applied, strengthen and corroborate the efforts of the latter.

International cartels can never change the protective policy of a given country to a free trade policy, but in the countries of free trade they may successfully fill the place of customs protection, as proved by the remarkable example of some British industrial companies working independently in the home market but cartelized on international lines.

One side of international syndicates calls for special attention. Their partners cannot turn to any court of law for protection of their violated interests, neither can they lay their claims before any governing body in view of the entire lack of appropriate instances. The solution of misunderstandings arising from the application of the by-laws of an international syndicate is a difficult task, since it can be accomplished only by means of arbitration. Thus international

cartels become the most important protagonists of the system of conciliation and arbitration, this most modern and progressive form of international jurisdiction.

For example, the World Tube Agreement prudently turns to the President of the International Chamber of Commerce and only failing him to the President of Bundesgericht in Bern as to an arbitrator and rejects emphatically the help of lawyers and notaries, thus expressing the conviction that internal misunderstandings of international cartels ought to be decided only by means of applying the common good commercial habits. The same idea is unambiguously emphasized in the Potassium Agreement, which propagates spontaneous free arbitration and turns for the selection of arbitrators, if not agreed to internally, to the President of the Hague World Court.

In the World Rail Pool and in the Velvet Makers' Agreement there is no mention at all of arbitration, which fact makes these cartels true gentlemen's agreements. In the Dyestuffs Cartel and in the Polish Glass Syndicate any disagreement is left to the exclusive arbitration of all the members of these organizations.

I shall not dwell any more on the problem of the control of international cartels and trusts. There appeared just now a League of Nations publication exhaustively dealing with this matter. I think that it is well nigh impossible to establish any effective control over an international industrial agreement. This does not mean at all, however, that the widest publicity is not to be given to the subject. The international cartels have to be exhaustively studied. The existing ones have to be registered, and the only place in my opinion where such an extensively difficult and delicate task can be performed is the League of Nations.

For me personally, beyond any doubt the most important rôle of international industrial agreements lies somewhere else. The international cartel promotes effective collaboration between the representatives of different nations, creating a common aim; it imbues them with common ideas; slowly but surely in the everyday work it tends to found a modern, internationally universal and really solid basis for the permanent peace among nations.

SOURCES OF CAPITAL SUPPLY IN CZECHOSLOVAKIA

Report of Dr. Jaroslav Preiss, President, Zivnostenske Banky, Prague

TO ascertain the sources of capital in a country means to follow the process of forming savings in all its diversities. The question dealt with is the effect of all those phases of economic activity in which monetary surplus, which has not been absorbed in the operation of enterprises or consumed in the private economic sphere, is accumulated.

The question dealt with is the ascertaining of sources of capital that issues from the economic structure of the country as well as ascertaining their capacity. It will be possible to survey some of them without great difficulty, which would rest in the nature of the thing, as, for example, deposits in financial institutions, which can be determined by figures. In ascertaining other capital sources, we refer only to mere estimates. Consequently, efforts to determine the figure representing the annual capital increase in the country are not dependable. It is necessary, therefore, to confine ourselves to estimates of the relative significance of individual sources, which will be specified, the more so since pertinent data for last year are not available.

On the basis of material supplied by the State Statistical Office, an effort was made to compute the savings accumulated in 1927, namely, a sum of approximately 8,500 million crowns, the total national income being approximately 90,000 million crowns.

In this compilation, the increase of savings accumulated in financial institutions, which we wish principally to discuss, forms more than one half. Capital thus originating may be considered as savings in the exact sense of the word, because they are entirely spontaneous and are not a means of attaining more remote financial gain, as in the case of private insurance, nor is their purpose to furnish profit on capital or a share in the profits of enterprises, as in the case of buying and

issuing of securities. Such cases at least are in the form of savings and may, therefore, be termed savings in the broader sense of the word, whereas payments for social public insurance are in the nature of compulsory payments, which are not savings on the part of the payer of social insurance. As regards public insurance, it is considered as compulsory savings.

Savings, accumulating in financial institutions and being chiefly in the form of book deposits, are not only the greatest source of capital formation but also its typical form in Czechoslovakia. Deposits on current accounts are not considered as savings deposits, but are accepted by most of the financial institutions, since the movement of such money is connected with industrial and commercial operations, and also since from current accounts are made various payments, economically irrelevant, especially for transactions in securities.

The attached table indicates the development of savings deposits at the individual groups of financial institutions. Shortly after the War, thanks to favorable exchange development, there was every opportunity for a healthy economic development in Czechoslovakia, which was then reflected, on the whole, in an equable formation of savings.

As is known from Czechoslovakia's exchange development, through the merit of the first Minister of Finance, Dr. Rašín, an independent exchange was inaugurated in the new territory during the first few months of the existence of the new state, thus preventing a similar fate befalling the Czechoslovak crown as befell the currencies of almost all neighboring and other countries, which were well on the way to complete depreciation. On the contrary, it was possible to effect a de facto stabilization of the Czechoslovak currency unit beginning in 1923 and declare it legal in 1925. While the neighboring countries were obliged to effect a nominal devaluation of the currency unit, the monetary unit in Czechoslovakia remained unchanged, thus maintaining continuity with pre-war development also as regards savings in financial institutions. The fact that savings deposits in Czechoslovakia nominally remained untouched and were entirely dissolved elsewhere by the existing exchange disso-

DEPOSITS IN CREDIT INSTITUTIONS, 1919-1929

Year	Joint Stock Banks in Bohemia, Moravia, and Silesia	Provincial Credit Institutions	Joint Stock Banks in Slovakia and Ruscinia	Savings Banks	District Agricultural Savings and Credit Associations	Credit and Savings Associations	Credit Co-operative Associations	Total	Increase Over Preceding Year	Percentage Increase Over Preceding Year
1919.....	1,224.1	43.6	1,137.1	5,326.3	829.2	2,387.7	1,346.5	12,294.5	..	..
1920.....	2,222.0	64.5	1,401.5	5,886.6	1,019.2	2,898.6	1,600.7	15,093.1	2,798.8	22.76
1921.....	4,000.8	157.3	1,923.3	7,406.6	1,491.7	4,317.7	2,292.7	21,589.8	6,496.7	43.04
1922.....	5,802.1	259.5	2,082.1	8,636.4	1,712.5	5,202.1	2,649.8	26,344.5	4,754.7	22.02
1923.....	5,751.7	580.7	2,088.7	10,260.0	1,908.7	5,871.9	2,924.5	29,386.2	3,041.7	11.54
1924.....	6,587.2	708.2	2,215.0	11,058.6	2,175.3	6,665.0	3,327.8	32,737.1	3,350.9	11.40
1925.....	7,338.0	820.4	2,317.9	11,871.9	2,405.2	7,344.7	3,616.2	35,704.3	2,967.2	9.06
1926.....	8,022.4	955.8	2,358.2	12,944.3	2,675.9	8,194.6	3,876.3	39,027.5	3,323.2	9.31
1927.....	8,154.3	1,037.8	2,660.6	14,239.2	3,010.8	9,182.9	4,151.7	42,437.3	3,409.8	8.74
1928.....	8,322.0	1,058.8	2,855.3	15,393.2	3,313.9	10,246.8	4,538.4	45,728.4	3,291.1	7.76
1929.....	10,129.8	..	3,027.7	17,974.9	3,446.8	10,834.3	4,708.2	50,121.7	4,393.3	9.61

lution was the foundation for a rapid renewal of confidence in the exchange unit and thereby the beginning of a new expansion in effecting savings, which may be traced throughout the ten years elapsing since the critical post-war period.

In order to characterize the individual groups of financial institutions indicated in the table, it appears feasible, from the point of view of savings accumulation, to mention their legal structure as well. In the financial organization of the Czechoslovak Republic it is necessary to distinguish primarily the groups of institutions forming joint stock companies. The table mentioned shows such joint stock banks in Bohemia, Moravia, and Silesia, and further joint stock financial institutions in Slovakia and Rassinia; these, however, being comparatively small scale and having a purely local significance, are rather in the nature of credit and savings associations. A special position is occupied by four financial institutions of a semi-public nature, which devote themselves to the granting of long-term credits. One of these institutions particularly holds a place of prominence due to its proportions, and has developed, so far as purely savings deposits, especially of larger sums, are concerned, into an exceptionally important center.

Savings banks form the next group. These, with the exception of two large institutions that are in the nature of societies formed in accordance with the civil law, are municipal institutions, their deposits enjoying municipal guarantee. Their organization is based on a special law. Savings banks are organizations corresponding to similar institutions in foreign countries, which originated from the idea of education to save and as such were of a popular-educational nature; however, to all other groups of financial institutions the collection of savings is, primarily, a means to an end, that being the granting of credits. District agricultural savings and credit associations comprise the next group of institutions which, by their structure, are organically connected with some public legislative corporation and for their deposits enjoy partial or entire guarantee of self-administrative territorial corporations. There remain various categories of people's credit institutions on the co-operative basis, both in

the form of credit associations according to the Schulze-Delitsch system and in the form of co-operative credit associations based on the Raiffeisen system. Particularly these co-operative associations penetrate to the smallest country towns, while other people's financial institutions, such as savings banks and credit and savings associations, seek their contact with the country by the aid of branch houses and deposit-collecting offices. Even to small towns they are followed by branch banks, the headquarters of which—especially in the historical provinces—are otherwise located in the largest cities. The headquarters of the great majority of these commercial banks are in Prague.

Savings deposits in joint stock banks, which by law are obliged to request a higher amount as minimum deposit, there being no limit in this respect for people's institutions, are of a considerably different nature from deposits in other institutions. In large part, the deposits concerned are those that in other countries, especially where banks are not in a position to accept book deposits, will be retained on a current account and placed in fixed interest-bearing securities. It is a characteristic of our banks to accept savings deposits, and in this respect, on the side of passive business, they differ from foreign banks. In this connection commercial banks by their functions and type of customers are not divided exactly from people's financial institutions, but, to a certain extent, compete with the latter in acquiring deposits.

As is revealed in accompanying table, which is based on material compiled by the State Statistical Office, the increase in deposits, which, in the last five years, averaged approximately 8.9% annually, continued in an uninterrupted manner and with certain regularity. The higher increase in 1929, a year of slackened economic activity, was especially noteworthy, while the years 1927 and 1928 displayed the smallest increases.

Capital formed by the accumulation of these savings is employed in various ways, depending upon the nature of the group of financial institutions concerned.

In studying the attached table it should be borne in mind that it is not quite complete in that it does not include individual smaller groups of people's financial institutions on

the co-operative basis, namely those that were organized in the last ten years in Slovakia and Russionia, which are not important and cannot be traced for a number of years.

In connection with savings deposits in financial institutions, paid-in private life insurance premiums may be specified as a further source of savings. This insurance in post-war years has been constantly increasing. Data for the first six years, 1919-1924, are incomplete and cannot be used for comparison with statistical data for later years.

Paid-in insurance premiums reached the following sums:

Year	Amount in Thousand Crowns	Increase in Thousand Crowns
1925.....	381,815	
1926.....	418,343	36,528
1927.....	471,228	52,885
1928.....	564,450	93,222
1929.....	685,233	120,783

Included in these figures are domestic insurance companies, both joint stock and mutual, and foreign insurance companies operating on the territory of Czechoslovakia.

During the same years paid-in premiums in connection with insurance against damages, which may be considered in various ways from the point of view of capital formation, increased as follows:

Year	Amount in Thousand Crowns	Increase in Thousand Crowns
1925.....	746,763	..
1926.....	774,649	27,886
1927.....	865,205	90,556
1928.....	950,268	85,063
1929.....	1,023,707	73,439

Counting the increase of premiums in connection with insurance against damages as a source of capital, it cannot be considered as savings, as in the case of life insurance premiums, but as a sort of forming of reserve funds in the operation of enterprises.

As a further source of capital should be considered capital issue activity in the broadest sense of the word. This includes the issue of stocks, and similar forms of share participation in enterprises, and the issue of various obligations and mortgages at fixed interest rates.

The following statistics show the capital movements of joint stock companies and the capital of companies with limited liability engaged in industrial production, commerce, and transportation:

In million crowns

Year	Capital Stock	Increase	Capital of Limited Liability Companies	Increase + Decrease -
1919.....	2,532.7	..	447.0	..
1920.....	3,157.1	624.4	658.3	+ 211.3
1921.....	4,336.6	1,179.5	848.1	+ 189.8
1922.....	5,064.3	727.7	916.9	+ 68.8
1923.....	5,824.2	759.9	928.2	+ 11.3
1924.....	6,742.9	918.7	940.9	+ 12.7
1925.....	7,005.3	262.3	887.3	- 53.6
1926.....	7,107.0	101.8	880.2	- 7.1
1927.....	7,215.5	108.5	895.7	+ 15.5
1928.....	7,183.5 ¹	..	902.3	+ 6.6
	7,681.6	498.1	965.9	+ 63.6

¹ On the basis of revised record. Before revision the sum indicated was 7,718 million crowns, an increase of 502.8 million crowns, therefore, as compared with 1927.

In 1929 the effects of the law regarding the stabilization of balance sheets made themselves felt, so that apparently, in so far as the rapidity of the increase of capital issues is concerned, the growth in that year can with greater certainty be expected to equal that of the preceding years.

Contributions to reserve funds of joint stock and other companies, which form an undivided profit and enlarge capital resources, are included in the category. There are no published data available for ascertaining the increase of reserves, and it is difficult to make an estimate. Moreover, reserves specified in balance sheets usually do not represent the actual condition, it being impossible to detect the extent of concealed reserves. In the statistics of the State Statistical Office regarding the balance of payments, a sum of 146 million crowns was indicated as a contribution to the reserves for 1927.

In this connection, there should be included that share of the yield of government enterprises which is devoted to investment outlays in such enterprises, that is, not investment outlays for administrative purposes.

It is not possible to give the amount of these investments since the War, inasmuch as it was not until 1921 that investments were separately specified in the budget and in the government's final accounts; further, it was not until 1926 that investments of government enterprises were specified separately.

Year	Total Investment Expenditures in Million Crowns	Investment Expenditures of Government Enterprises
1921.....	1,775	..
1922.....	1,539	..
1923.....	1,149	..
1924.....	1,292	..
1925.....	1,169	..
1926.....	..	790
1927.....	..	565
1928.....	..	720
1929.....	..	640 ¹
1930.....	..	329 ¹

¹ According to the budget, while other data are derived from final accounts.

Municipal, railway, and improvement debentures and mortgage bonds, which are placed on the market on the basis of loans granted by provincial financial institutions, are shown in the following table:

In thousand crowns

Date	Amount	Increase
As of Dec. 31, 1927.....	2,838,149	..
" " " 1928.....	3,510,024	671,875
" " " 1929.....	4,002,172	492,148

In this connection mention was not made of similar issues of two large savings banks—the Prague Municipal Savings Bank and the Bohemian Savings Bank—and of the Czech Joint Stock Mortgage Institute, and issues of industrial obligations of some of the joint stock banks, which, on the whole, are unimportant.

A further question is how to classify government internal loans from the point of view of capital formation in the country. After excluding conversion and consolidation operations and loans, the profits of which serve to meet administrative expenses, the following approximate totals

have been arrived at—it being assumed that, on the one hand, they are considered as fresh money which may be classed along with savings deposits, life insurance premiums, etc., and that, on the other hand, this money is viewed as being employed for productive investments:

Year	In Million Crowns
1921.....	492.31
1922.....	98.81
1923.....	256.25
1924.....	35.02
1925.....	17.58
1926.....	..
1927.....	..
1928.....	55.22

In connection with foreign loans these are considered only at the time of their payment, when installments obtained in the country proceed to foreign countries:

Year	In Million Crowns
1924.....	9.83
1925.....	19.50
1926.....	21.01
1927.....	22.74
1928.....	793.52

The $7\frac{1}{2}\%$ foreign loan of 1925 to the amount of \$25 million was paid in 1928 partly from the yield of an internal consolidation loan. These data have been obtained from the government's final accounts for the respective years.

The item of amortized foreign loans is included in the group of capital items which can only be obtained from the balance of payments. These include the total of securities purchased in foreign countries, after deducting the securities exported to foreign countries and the settling of foreign obligations and debts generally.

The balance of payments compiled by the State Statistical Office embraces the group of capital items the balance of which, in so far as it is active, represents the enlargement of capital in the country resulting from foreign connections. An important factor in the development of Czechoslovakia is the repatriation of these values from foreign countries, which apply to enterprises located on the territory of the state. This item is indicated in the balance of payments as the balance of foreign trade in securities!

Year	In Million Crowns
1925.....	150
1926.....	420
1927.....	1,460
1928.....	860

The balance of payments also includes the balance of credit operations with foreign countries, both public and private, in so far as they concern banks, commerce, and industry. This appears to exhaust the items which, according to our classification, arise spontaneously from economic activities, and there remain only items being of a compulsory character.

In this classification is included the movement of funds of public-legislative insurance associations, the increase of which represents compulsory savings. Among the most important, the Central Social Insurance Association, the General Pension Institute, and workers' accident insurance associations make available their reports regarding the changes in their resources. Workers' accident insurance associations in Brno and Bratislava are not included in the following table:

In million crowns

End of Year	Central Social Insurance Association	Increase	General Pension Institute	Increase	Workers' Accident Insurance in Bohemia	Increase
1920.....	..	..	..	..	221.25	..
1921.....	..	..	..	..	309.10	87.85
1922.....	..	..	364.19	..	380.65	71.55
1923.....	..	..	625.88	261.69	451.78	71.13
1924.....	..	..	928.42	302.54	509.47	57.69
1925.....	..	..	1,074.61	146.19	582.34	72.87
1926.....	..	..	1,138.25	63.64	690.26	107.92
1927.....	759.96	759.96	1,394.97	256.72	798.66	108.40
1928.....	1,476.45	716.49	1,940.97	546.00	883.14	84.48
1929.....	2,212.04	735.59	2,415.76	474.79	..	..

A significant feature of capital development in this branch is the rapidly increasing accumulation of funds of the Central Social Insurance Association, which commenced activities in 1926.

It is not possible to add the data given for the individual sources, inasmuch as in many cases only estimates have been reported, and in others the results are only partial.

A great obstacle to even approximate correctness is the danger of double computation, which in many cases cannot be eliminated.

. From the general development of sources of capital that is revealed by the data obtained, it is obvious that, as has been previously mentioned in connection with deposits at financial institutions, Czechoslovakia during the ten post-war years was self-sufficient in so far as capital requirements were concerned. The loans that were concluded, whether foreign, state, municipal, or loans of industrial enterprises, especially in the first half of the period considered, were negligible in proportion to the general need, these operations never having taken the proportions obtaining in certain neighboring countries, the independence of which, both economically and politically, was restricted.

Czechoslovakia is indebted for this development, which in the course of years secured for it a different and more favorable position in the world, compared with that of a number of other countries, primarily to the timely and effective separation and reform of the currency and to the good understanding of its citizens for work and economy in the spirit of the motto introduced by Minister Dr. Rašín.

Prague
February, 1931

DENMARK AND WORLD BUSINESS DEPRESSION

Report of Mr. B. Dessau, President, Tuborg Breweries, Copenhagen

THE international crisis made itself felt in Denmark through a slump in the prices of the raw materials imported into the country, and beyond this no effects were felt for a long time. While other countries' agriculture was impoverished on account of the low grain prices, the Danish farmers were able to sell their export products at fair prices on account of the fact that the prices for first class butter and bacon remained steady. Under these conditions the Danish home market kept its purchasing power for a long time, and both as regards production and trade occupation was plentiful right up to the month of September, 1930.

Only from this period the depression began to make itself felt through limitation of the possibilities for employment; but even at that time the depression had already been reflected in the reduction of profits. During the spring of 1930 the main export products of the farmers commenced to go down in price, and by and by, as the income was reduced for Danish farmers and Danish industry, trade fell off in the Danish home market. From September, 1930, on, unemployment grew, and during the month of December the unemployment percentage was 24.6%, as compared with 22.4% during the preceding year.

As an explanation of these figures, it should be added that during the months of December, January, and February there is always a heavy unemployment in Denmark, because all building and many other similar kinds of work in the open very often must cease on account of the frost. The number of unemployed in December, 1930, was about 71,000 against 65,000 in the same month of 1929. To illustrate these figures better, I add that Denmark's total population numbers 3.5 million.

Inasmuch as Denmark's business—both as regards agri-

culture and as regards industry—is generally based on converting commodities or raw materials into more advanced products, the great world depression was felt late in Denmark compared with the rest of the world and has not yet reached the same violence as in most other countries.

At this moment, however, conditions are difficult because important branches of industries must work with a loss or at all events with very little profit, and everybody expects that unemployment will be very much heavier in 1931 than in 1930. Still, in view of everything, conditions in this country are probably better than in most other countries. In my opinion the reason for this is partly to be found in the circumstance already stated above: that our activities are mostly converting or refining of commodities and are not based directly on the production of the world market commodities and raw materials, which have fallen so heavily in price; and partly the reason is to be found in the circumstance that Denmark did not participate in the Great War and was thus saved from the loss of human life and other great losses which the War caused.

Whether or not the difficulties that are now prevailing in Denmark will grow to a crisis, in the manner in which it has happened abroad, it is too early to predict. In this respect very much depends on the development in prices for the products of farmers and the export industries.

Another important point is the question of wages for Danish labor. Before the War in Copenhagen, where the greater part of the various branches of Danish industries is to be found, the wage for a skilled male laborer was on an average 67 Ore, 18 cents, per hour and for unskilled male laborers 48 Ore, 13 cents. Now these wages in the meantime have been increased for skilled male laborers to 176 Ore, 47 cents, and for unskilled male laborers to 141 Ore, 38 cents, and those domestic industries that sell their output in competition with industries of foreign countries are unfavorably placed, because our wages are higher than those of most other countries which are to be considered in this connection. At the present moment a number of the most important agreements between the industries and the labor unions of the different trades are about to expire, and

negotiations are being carried on, which means that the old agreements will be revised. Whether or not such a revision of wages can be satisfactorily and peacefully arrived at, that is, without strikes or lock-outs, will have the greatest effect on the future of these industries and on their ability to keep their natural places in world competition.

Copenhagen
February, 1931

TARIFF BARRIERS AND DANISH FOREIGN TRADE

Report of Mr. Ernst Meyer, Chairman, Grosser Societets Komite,
Copenhagen

OF EUROPEAN countries, Iceland apart, only the Netherlands can boast of a foreign trade per capita comparable with that of Denmark, and this also accounts for the fact that Denmark, despite the comparatively small population, 3.5 million, holds over 1.25% of the world's commodity trade in her hands. The predominant industry in Danish foreign trade is agriculture, which is based on large-scale production yielding a small percentage net profit. Denmark, though a big exporter of animal agricultural products, must at the same time import grain and feedstuffs in very considerable quantities.

Denmark's imports in 1930 amounted to 1,730 million kroner and exports to over 1,600 million kroner; of the last named figure, over 1,500 million kroner represent exports of Danish goods, and about 90 million kroner, re-exports of foreign goods. Great Britain and Germany are the principal buyers of Danish agricultural products, but also several central European countries, for instance Switzerland, France, the Netherlands, Belgium, Austria, and Czechoslovakia, in some measure furnish markets for these products. In 1930 England alone bought Danish products to a value of 946 million kroner, representing about 59% of the whole of the Danish exports, while in the same year Germany bought Danish goods to a value of 262 million kroner, accounting for over 16% of the total Danish exports. On the other hand, the United States in 1930 bought Danish goods only to a value of 9.5 million kroner, or 0.6% of the total exports, notwithstanding that the value of the said country's sales to Denmark in the same year amounted to 194 million kroner, which item in Denmark's import trade is only exceeded by England, with 251 million kroner, and Germany, with 591 million kroner.

When considering the fact that the world's wholesale price level in the course of 1930 has in a very large degree approached the corresponding level of pre-war years, together with the statement that Denmark's total imports in 1913 amounted to 855 million kroner, and exports to 620 million kroner, a comparison with the corresponding figures for 1930 will show that Denmark's foreign trade during the period in question has grown very considerably. This fact might lead to the inference being drawn that Danish exports have only been affected to a proportionally slight extent by the innumerable increases in tariff duties that have taken place both in European and overseas countries in post-war years. This is correct in so far as regards Danish sales to our principal market, England, as this country, like Denmark and the Netherlands, has steered clear of protectionism as far as food proper is concerned.

On the other hand, the case is different with regard to a number of other European countries, for instance, Germany, Switzerland, Austria, France, Hungary, Czechoslovakia, Spain, and Poland, and of overseas countries, the United States, in all of which the import duties on agricultural products and also on industrial articles have been raised time after time, whereby the development of the sales of Danish agricultural products to the extent which their high standard warrants has been seriously hampered.

As an illustration, it may be cited that in 1913 the duty of the United States on butter—Denmark's next largest article of export—was only $2\frac{1}{2}$ cents per pound; in 1921 this duty was raised to 6 cents; in 1922 to 8 cents; in 1926 to 12 cents; and in 1930 even to 14 cents. As the export price of butter today is on about the same level as in the years 1909-14, this means in other terms that from 1913 to 1930 the American butter duty has been raised by no less than some 500% or 600%. In Germany the most-favored-nation import duty on butter was $27\frac{1}{2}$ Reichsmarks per 100 kilos until November 27, 1930, but from this date the butter duty was raised to 50 Reichsmarks, as a consequence of the Finnish-German supplementary agreement coming into operation. In Switzerland, for instance, the import duty on butter, in part as a consequence of the United States having

repeatedly raised the cheese duties in the course of about 18 months, has been raised successively from 20 francs per 100 kilos to 120 francs per 100 kilos. Considering the fall in the price of butter which took place in the same period, this amounts to exorbitant protection, exceeded only by Spain, where the import duty on butter is $1\frac{1}{2}$ gold pesetas per kilo, or 1.08 kroner. Likewise tariff duties on cheese have in recent years successively undergone heavy increases not only, as stated, in the United States, but also in a number of European countries.

In the case of fat live stock, the German tariff duties were raised on February 11, 1930, from 16 Reichsmarks to $24\frac{1}{2}$ Reichsmarks per 100 kilos, and in Czechoslovakia somewhat later a similar increase took place. As an illustration of a completely prohibitive tariff duty may be mentioned the German import duty on light horses, which is no less than 500 Reichsmark, or 446 kroner per horse, the market price of such horses being between 650 and 700 kroner. The German import duty on draught horses is, however, slightly less, 140 Reichsmarks, or 125 kroner, but even this rate represents 20% of the value of the horse. The Danish export of horses, which before the War was rather considerable, has fallen off and become quite an insignificant factor in Danish agricultural exports. Germany has placed an almost prohibitive duty on Danish malting barley, and the increases in the import duties on castings to Poland, of which Denmark has exported a good deal, have also been very great.

In addition to raising tariff rates, several countries have by the adoption of other methods impeded international trade, having also arbitrarily influenced the individual markets. One such method, for instance, is the introduction of a system of carriage refunds allowed on certain goods railed over a fixed number of kilometres. Obviously, it is possible to stimulate exports artificially by having goods conveyed cheaply to the border, this being to the detriment of competing countries that do not avail themselves of such measures.

Also with regard to formalities in connection with the issue of consular invoices and certificates of origin and the charges for these, it would seem desirable that less complicated

regulations be introduced than is the case at present; and that with regard to the issue of certificates of origin, in particular, more stringent regulations be not applied in the case of a transit country than those with which the country of origin is called upon to comply. So far as veterinary measures are concerned, it must be recognized in Danish quarters that other countries are justified in making such arrangements, and likewise in taking measures for the protection of live stock and also of crops. It would, however, be highly desirable that the application of these measures be given a form not calculated to interfere with free trade intercourse, nor should they be capable of being used for protectionist or discriminatory purposes. It will also be natural to point out the desirability of arresting the continued movement toward an excessive specialization in the customs tariffs of the various countries, a state of things which, besides rendering international trade difficult, involves the risk of undermining the most-favored-nation principle.

Copenhagen
February, 1931

THE FISCAL SITUATION IN NORWAY

Report of Mr. J. Throne Holst, President Freia Chocolate Fabrik, Oslo

IN order to find a basis for judging the fiscal situation in Norway, I shall begin by offering a few general comments.

As is known, Norway is the state in the world which is situated farthest to the north, between 58 and 68 degrees latitude. The area of the country is very large, 324,000 square kilometers, and it is therefore in many ways an expensive country to administer. At the same time the population is relatively small, 2.6 million, and great sections of the country are sparsely peopled. Of the population of Norway about 33% is living by farming and forestry; 29%, by industry; 8%, by trading; 6%, by fishing, whaling, and hunting; 3% by shipping, and so on.

Of the area of Norway 7.8 million dekar have been cultivated. An active new cultivation is taking place, and, during the years 1917-1930, 0.8 million dekar were brought under cultivation. Seventy-five million dekar are covered by forests. The country has also considerable resources in its water power, the exploitable part of which has been estimated to be more than 9 million kilowatts, of which only 1.2 million kilowatts have been dammed. As is probably known, Norway has also considerable resources outside its territory. I am thinking particularly here of the large mercantile marine, the fifth largest in the world. It now amounts to 4 million gross tons, and the greater part of it consists of absolutely modern ships.

In judging the financial position of the Norwegian exchequer, it must be taken into consideration that the country up until 1905 was united with Sweden. After the pacific dissolution of this union, a great many organizations in this country had to be reconstructed. Not so very many years later came the Great War, which in many ways bore

rather hard upon Norway. As the country cannot support itself, provisions to a great extent had to be imported from abroad at constantly increasing prices, and, when one of the most important markets of the country, that is, the Central-European, was cut off by the blockade of Germany and its allied powers, which were great consumers of Norwegian fish, the Norwegian export trade suffered considerably. The War also bore very hard upon the Norwegian fleet, the size of which during the War was reduced one half, but which has today more than reached its pre-war size. As a result of the various difficulties in which the country was involved by the War situation, the finance of the country was exposed to a serious upheaval. In fact the Norwegian krone in parity with American dollars went down to 52% of its original value. The money value is now, however, once more raised to its full parity. Anybody will understand that this has cost the country considerable sacrifices.

Proceeding to the financial position of the Norwegian State, we find that the state budget, which before the War was balanced at about 123 million kroner, in 1920-1921 had reached about 746 million kroner, which, as things go with us, must be considered an enormous height. Later on the budget has been gradually reduced. For 1931-1932 the amount of about 358 million kroner has been proposed. These figures are partly net. The gross figure—the public trading is omitted—is about 377 million kroner.

The public expenditures for 1931-1932 are pro-rated on the following items:

	Kroner
The political organizations of the state.....	4,894,000
Foreign service.....	3,411,000
Army and navy, of which amount about 6 million kroner are extraordinary expenses.....	39,182,000
Justice, police, and prison administration.....	13,607,000
Churches.....	3,865,000
Schools, science, art, etc.....	49,445,000
Social aims.....	14,148,000
Health service.....	14,185,000
Administration of roads and harbors as well as rivers, etc.....	21,257,000
Agriculture.....	13,118,000
Trade, shipping, industry, and fishing.....	13,366,000
Assessment of taxes and collection of same.....	12,587,000
Debt interest and pensions.....	85,961,000
Other expenses.....	14,390,000
Total working expenses.....	303,416,000

Added to this there are also some expenses of capital, for instance of:	
Building railways, telegraph, telephone, and power plants	Kroner 16,258,000
Setting apart of funds	4,975,000
Part payment of the national debt	31,595,000
Various loans	1,500,000
Grand total	357,744,000

These public expenditures are paid for with the following revenues:

		Kroner
Income and property tax		79,136,000
Customs receipts		105,000,000
Other consumption taxes, especially on the turnover of beer, wine, spirits, tobacco, etc.		93,295,000
Other taxes and royalties		22,555,000
Added to this the profits of the various national assets		39,732,000
Total working income		339,718,000
Added to this various revenues of capital, whereof loan funds 14,475,000 kroner		18,026,000
Total revenues		357,744,000

In 1925 the national debt of Norway amounted to 1,731.6 million kroner. It now amounts to 1,565 million kroner. From what has been mentioned above it appears that annually the national debt is being effectively reduced. About half of the national debt has been raised abroad, whereof about \$121 million in the United States. The balance has been raised in this country.

As counter-value the state owns among other things the following assets:

		Kroner
State railways		908,600,000
Postal establishments		17,500,000
Telegraph establishments		110,100,000
Public power and regulation plants		135,400,000
Königsberg silver works		8,800,000
Crown forests		28,500,000
Army and navy works		22,300,000

Added to these there are a great many other assets, especially various claims and stocks.

The balance account of the state has been made up with a grand total of about 1.7 billion kroner, apart from other real estate owned by the state in addition to that mentioned above,—that is, administration buildings, official residences, and many other estates up and down the country, harbor works, roads, etc.

If an attempt were made to give a general characteristic of the fiscal situation in Norway on the basis of the figures stated above, it must be admitted that, on account of the various conditions I have mentioned above, the state is working with a budget that may possibly be said to be relatively high in comparison with some other countries, and that there must consequently be imposed on the population a burden of taxation that is not light. In spite of its northern situation, however, Norway is a country with considerable resources according to the figures stated above, and many of these resources are not yet nearly exploited. Besides the water power, which has already been mentioned, it may be pointed out that the yields of fisheries and farming and so forth are constantly increasing. The most important asset with which the Norwegian state may calculate is, however, a well-enlightened, healthy, and strong population, which from childhood has been accustomed to work very hard for its livelihood.

On June 8, 1925, President Coolidge, in a great speech delivered at the centennial celebration of the Norwegian immigration to the United States, said:

"These Norsemen whose beginning in the United States we here celebrate have exercised a great influence upon our modern history and western civilization which it is difficult to match among any other like number of people. In many ways their influence upon northern and western Europe may be compared to that of the Greek states upon the civilization of the Mediterranean."

When in our exposed and unsheltered country we not only have been able to support, and to support well, a constantly increasing population, but have also been capable of creating a cultural milieu within this population of 2.5 million—a milieu which in our opinion is not behind what nations far better off than we are can show—, we have reason to be sanguine of the future of the Norwegian nation; and I feel assured that the people, with whom we in our international commerce are co-operating, in the future as well as in the past will be satisfied with the results of this co-operation.

The above mentioned speech was concluded by President Coolidge with the following words:

“The pledge of the Norwegian people has never yet gone unredeemed.”

I am convinced that this speech, very commendatory for our country, by the highest citizen of the United States at that time will not in the future be proved wrong.

Oslo
February, 1931

ECONOMIC CONDITIONS IN JUGOSLAVIA IN 1930

Report of Hon. Ignjat Bajloni, Governor of the National Bank of the Kingdom of Yugoslavia, Belgrade

AS A predominantly agrarian country, Yugoslavia has already felt for years the pressure of the unfavorable conditions which universally prevail in agricultural production. But nevertheless, thanks to certain favorable circumstances, the difficulties with which Yugoslav agriculture has had to contend did not for a long time lead to a general deterioration of economic conditions in the country. Hence Yugoslavia, at a time when most European countries showed signs of a general economic crisis, was in a relatively favorable situation.

The fall of prices of agricultural products, which may be considered as the chief cause of the present universal economic depression, was for some time compensated in Yugoslavia by the excellent harvest returns, so that the standard of living and the total purchasing capacity of the agriculturalists remained on the whole unchanged. The great fall in prices, therefore, could not at first lead to a crisis. But as a result of this fall in prices Yugoslav economy nevertheless suffered a loss, which consisted in the elimination of the profit assured by the former level of prices; this profit doubtless would not have been confined only to agriculture, but would have favorably influenced the entire economic situation of the country.

Meanwhile, instead of the expected revival in the world economic situation, there appeared in the course of 1930 still greater depression, which, during the latter half of that year, began to be increasingly felt in this country and to cause a certain deterioration in economic conditions. The process of this deterioration was effected through the mechanism of foreign trade, where the figures speak most clearly of the diminished economic activity in the country. The low prices of agricultural produce, especially cereals,

and the great surpluses in the world have led to the diminution of their export by 32.64% as compared with 1929.

At the same time the prices of those industrial products which this country normally exports in great quantities—wood, copper, cement, and so forth—fell considerably on the world markets, and as a result the state of industry in the country at once began to suffer. If to this we add foreign competition, which has become acute owing to the great fall in foreign prices as a result of which the Yugoslav protective tariff has become an illusion, and bear in mind also the reduced purchasing power of the agrarian section of the Yugoslav population, we obtain a picture of the difficulties with which industry has had to contend in 1930 and of the conditions that prevail.

At the present time the crisis is developing, and its further evolution depends on the development of general conditions in the world, wherein lie the first causes of the deterioration of the economic situation in the Kingdom of Yugoslavia. So far, fortunately, in spite of all difficulties, the economic organization of the country has remained intact, and if a favorable turn in the world economic situation were to take place, the present crisis could be liquidated without great loss. That the main nerves of our national economy are not injured is best shown by the very favorable revenue returns, which all along the line exceed the budgetary anticipations. At the same time the energetic measures adopted by the royal government for the relief of the economic situation are inspiring much optimism.

Together with these measures, a new policy has been initiated in the realm of foreign trade, of which the principal feature is the establishment of more intimate co-operation between the agrarian countries of South-Eastern Europe, by the formation of a so-called agrarian block. The useful consequences of such co-ordinated work among these countries are already beginning to be felt, and in the near future noteworthy results may be expected. In the individual departments of economic life, economic conditions during 1930 present the following picture.

AGRICULTURE

Although last year's harvest may be reckoned among the best harvests since the War, it nevertheless falls short of the results attained from the harvest returns of 1929. The total area sown with cereals in 1930 amounted to 5,865,094 hectares, which, as compared with 1929, shows an increase of 2.4%. The actual yield, however, was less than in 1929; wheat by 6.3%, maize by 15.5%, and oats by 31%, whereas there was an increased yield in rye of 15.6% and in barley of 1.6%. The fall in the prices of cereals, which in the course of 1930 amounted to from 20% to 30%, made the situation of the Yugoslav agriculturalist more difficult and, by lessening the buying power of the agricultural population, touched also other branches of industry. Hence there is felt throughout the country a strong tendency toward a reorientation of agricultural production in the direction of a more intensive development of stock-raising, dairy-farming, fruit-farming, and other more profitable forms of agrarian production. The government is helping this movement with all the means in its power, and it is already beginning to show results. In this year's balance of trade, we remark an increase in the export of such produce as fruit, poultry, and eggs, while the export of cereals shows a decline.

INDUSTRY

Last year was unfavorable to industry, especially in those branches of industry that work principally for export. Their condition may best be realized from the fact that the export of industrial products has been considerably reduced. The greatest fall in exports appears in the timber trade, which is our most important export industry, and where the value of products exported has fallen, as compared with last year, by 26%. For all that, thanks to reserves from previous good years, there has been no stoppage of work on any large scale, as is best shown by the relatively small number of unemployed. For the most part, manufacturers have been producing stock, in the expectation that the possibilities of placing exports will improve.

FOREIGN TRADE

The sum total of Yugoslav foreign trade in 1930 was 13,740 million dinars, which as against 1929 represents a decrease of 11.4%. The decrease in exports is greater than the decrease in imports, as a result of which the balance of trade shows a deficit of 180 million dinars, while for 1929 the balance was 327 million dinars to the good. The exports for 1930 amounted to 4,733,223 tons, with a value of 6,780 million dinars, which means 569,643 tons and 1,142 million dinars less than for 1929, or 11.1% less in quantity and 14.4% less in value. During the year 1930 the volume of imports was 1,513,583 tons, while their value amounted to 6,960,113,191 dinars. As compared with 1929, the imports have fallen by 157,938 tons and 624,637,138 dinars, or 9.4% in quantity and 8.3% in value.

The most important articles imported were cotton and cotton goods, of which 1,362 million dinars' worth were imported, 76 million less than in 1929. In the second place come iron goods and railway materials, the import of which together amounted to 163,733 tons, with a value of 777 million dinars, 104 million dinars and 46,793 tons less than in 1929. The import of machines and instruments amounted to 466 million dinars, 109 million dinars less than in 1929. Woollen goods imported amounted to 337 million dinars, 22 million dinars less than in 1929; leather 303 million dinars, 43 million more than in 1929. The import of electrical goods rose to 201 million dinars, and this is 15 million dinars more than in 1929.

The principal articles exported were wood and wood products, of which 1,454 million dinars' worth were exported, this being 377 million less than in 1929. The value of cereals exported was 1,029 million dinars, that is 499 million less than in 1929. The export of eggs increased as compared with 1929 by 57 million, and amounts to 512 million dinars.

The export of raw copper increased from 449 million in 1929 to 498 million dinars in 1930, and the same is true of other minerals, of which 234 million dinars' worth was exported in 1929, and 305 million in 1930. Livestock and products thereof were exported to the value of 1,184 million

dinars, or 28 million less than in 1929. The value of vegetables exported was 98 million dinars, or 28 million less than in 1929. Fresh fruit amounted to 292 million dinars, as compared with 127 million in 1929.

The respective shares taken by other countries in our foreign trade were as follows:

As regards imports, Czechoslovakia comes first with 17.60%; then Germany with 17.55%; Austria with 16.82%; Italy with 11.25%; England with 5.92%; Hungary with 5.83%; the United States with 4.10%; France with 3.87%; and Roumania with 3.20%.

As regards exports, Italy comes first with 28.31%; then Austria with 17.68%; Germany with 11.66%; Czechoslovakia with 8.20%; Hungary with 7.18%; Greece with 6.05%; France with 4.18%; Roumania with 2.95%; Switzerland with 2.63%; England with 1.54%; and the United States with 0.85%.

MOVEMENT OF PRICES IN 1930

The fall in prices which was noticeable in 1929 has continued and to an even greater extent in 1930. By comparing the average annual index numbers of the National Bank for 1929 and 1930, we find that the fall in prices is 19.4 points. At the beginning of the year the total index was 93.6 points, and from that level it gradually fell to 87.7 points in August, and after a sudden drop in September to 82.8 finished the year at 78 points. This at the same time represents the lowest level reached by prices in this country since the stabilization of the currency was carried out. The average annual indices of the separate groups show that, in comparison with 1929, the greatest fall has been in the prices of vegetable products, from 118.6 to 89.3 points, while in animal products it has been considerably less, from 107.2 to 96.3. The prices of industrial products fell from 92.6 to 80.6 points, while the prices of mineral products rose from 84.4 to 88.2 points.

The separate groups of typical exports and imports show, on the basis of the average annual indexes for 1929 and 1930, a decline in the first case from 114.3 to 93.5 and in the second case from 91.4 to 79.8, which shows that the prices of the

articles we export have fallen to a greater extent than has been the case with the articles we import.

THE MONEY MARKET

The national monetary unit, the dinar, has been quite stable throughout 1930 and up to the present, both on the home and foreign markets. The average rate of the dinar at Zurich has been somewhat higher than that for 1929. Together with the manifestation of unfavorable influences in the economic situation and the decline of economic activity is noticed an increasing abundance on the money market, which has caused a certain weakness of the private rate of interest. The average rate at the end of the year was 8-11, while at the beginning it was 9-12. Although these rates represent a considerable improvement as compared with former years, they are nevertheless rather high with regard to the conditions of credit enjoyed by most other European countries. The causes are to be sought in the insufficiency of national capital and in the derangement of the monetary circulation felt in Europe since the War. But this high rate clearly indicates that it is possible to carry out many transactions and that, although the economic situation is depressed, its activity is not, as in many countries, paralyzed. Even the national capital, although insufficient for requirements, shows a very satisfactory improvement. In the course of last year savings deposits rose 27.5%.

The official interest rate was 6% until May, 1930, when it fell to 5.5%.

STATE REVENUES

The receipts from state revenues during 1930 were very good and in some cases exceeded not merely the figures for 1928 and 1929 but even the budgetary anticipations. Direct taxation brought in 2,323,282,000 dinars, or 312,623,000 dinars more than in 1929. Indirect taxation gave 1,330,996,000 dinars, exceeding 1929 by 164 million dinars. The receipts from toll dues amounted to 914,632,000 dinars as against 862,632,000 in 1929. Receipts from customs duties brought in 1,444,979,000 dinars, as compared with 1,480,319,000 in

1929. The figures for the monopoly receipts are not yet available for the whole year. For eleven months of 1930 they amounted to 2,595,147,000 dinars as compared with 2,959,884,000 dinars for the same period of 1929. State undertakings show for eleven months of 1930 a revenue of 3,457,548,000 dinars, while for the same period of 1929 they gave 3,474,226,000 dinars.

It is difficult to foresee the development of economic conditions in Yugoslavia in the near future. This, as has already been asserted, depends in the first place on changes in the world economic situation. But it may already be affirmed that the economic situation in Yugoslavia will be much less affected by the economic crisis than will be the case in most other European countries. Yugoslavia is a country with a very fortunate economic constitution. Although primarily of an agrarian character, she possesses fairly well developed industries and excellent conditions for further development in that direction. The present economic crisis has not found Yugoslavia in an already completed phase of her economic development, so that she may in time adapt herself to the changed conditions and choose a direction for her economic development with regard to the situation and requirements of the present time.

A bright future—taking into account the endless economic possibilities which she has at her disposal—is certainly in store for her. What she lacks is capital. Her development is disproportionately quicker than the development of capital in the country, and therefore she is for some time dependent on foreign sources. In spite of extensive investments made since the War, mostly from her own resources, it may be said that the exploitation of the economic wealth of the country is only in its initial stage. Hence Yugoslavia is greatly suffering at the present time from the disorganization of the world markets as regards capital, and she cannot move forward freely until there is re-established in the world that harmonious distribution of capital which prevailed before the world economic situation fell into the present crisis.

ECONOMIC DEVELOPMENT AND POSITION OF THE REPUBLIC OF AUSTRIA, 1918-1930

Report of Hon. Richard Reisch, President, Oesterreichische National
Bank, Vienna

AFTER the breakdown of the Austro-Hungarian Monarchy it was no easy matter to develop the remaining torso, the "Republic of Austria," into a self-supporting economic unit, capable of ranking with other independent states, but now, enormous difficulties having been overcome, this object may, thanks to the collaboration of the League of Nations and to the exceptional spirit of sacrifice and self-control evinced by the population, be looked upon as undeniably attained. The Austrian Republic must today figure as a fully consolidated state, which in spite of the impoverishment of its inhabitants has given sufficient proof of its vitality and, what is more, of its firm determination to safeguard and increase the ancient culture of the country. Obviously, also, Austria at present suffers very seriously under the effects of the general economic crisis. The present difficulties are, however, far less the result of specially Austrian conditions than the outcome of that international economic position which has arisen from the destruction caused by the War and from the alterations it entailed in the territorial and productive conditions of the world.

The first four years of the young Austrian Republic—that is, from November 12, 1918, until October, 1922,—were, it must be admitted, times of the greatest stress. The central authority of the state was weakened, since, in contradiction to the former centralized system, federalist aims made themselves felt, and the question of competence had to be regulated by a new constitution; the "Volkwehr" which had taken the place of the army was unreliable, so that—apart from the Vienna police—the government had no executive force at its disposal; at the same time civil law and order were greatly menaced by the Bolshevist régime

that had come into power in Budapest and Munich, the more so seeing that the country lacked the most essential commodities and no purchase abroad was possible because of the shortage of foreign means of payment. It was only thanks to the relief action initiated by Herbert Hoover, the present President of the United States of America, that the outbreak of a starvation crisis was averted, but, nevertheless, the state budget fell into the greatest disorder, since the total impoverishment of the population forced the government to sell the foodstuffs it had acquired at far below their purchase price. The consequent budgetary deficit could only be covered by a constant increase of the bank-note circulation, by which means, however, the value of the money was continually diminished, the currency undermined, and every business calculation rendered impossible. True, the industrialists imagined they were reaping profits, but in reality they were eating into capital through too small an amortization of the values they had invested. In view of all these facts, it appeared in the summer of 1922 that the economic and thus also the political breakdown of Austria was imminent. Such an event, however, would at the same time most seriously have jeopardized the peace of all Europe, since Austria's neighbors would certainly not have succeeded in dividing up her territory among themselves without recourse to arms.

At this juncture, thanks to the skillful mediation of Federal Chancellor Dr. Ignaz Seipel, the League of Nations intervened and set up a program of reconstruction for Austria on liberal lines. The plan in question was based on three main principles: On the restoration, within a short transitional period, of equilibrium in the state budget by means of economy and increased taxation, on the emission of an Austria loan under the guarantee of several European states for the purpose of covering the deficit of the transitional period just mentioned, and on the foundation of a new note-bank, to be charged with the task of stabilizing the Austrian currency. This plan of reconstruction, which was subsequently also adopted on similar lines in the case of other states, proved successful in every respect, so that Austria's consolidation may be said to date from the year 1923.

The most important event may be considered to have been the stabilization of the currency, without which it would never have been possible to put the state budget in order again; such a stabilization, however, would not have been feasible if the deficit of the interim 1923-1924 had not been covered out of the League of Nations loan, which afforded a possibility of putting an end to inflation. At the same time, the League of Nations loan also provided the Austrian National Bank with such gold values as it required for the purpose of defending the value of the Austrian currency abroad. Suffice it to say that from January 2, 1923, the day on which the Austrian National Bank commenced its activity, right down to the present day the Austrian currency has maintained a stable rate of exchange in relation to foreign gold currencies and has not once sunk below the gold-export point.

The two following tables will serve to demonstrate the decline of the currency and of the state budget, respectively, between 1919 and 1922.

TABLE I: VIENNA RATES OF EXCHANGE FOR DRAFTS ON ZÜRICH PER AUSTRIAN CROWN, MONTHLY AVERAGE, FOR THE YEARS 1919-1922

Month	1919	1920	1921	1922
January.....	3.25	39.30	106.82	1,489.00
February.....	3.42	45.66	114.99	1,346.39
March.....	4.11	38.68	121.57	1,427.37
April.....	5.17	37.31	113.07	1,494.83
May.....	4.70	34.95	103.38	1,824.57
June.....	5.50	27.95	113.38	3,110.33
July.....	6.19	27.38	135.60	5,964.41
August.....	7.86	34.92	176.87	12,495.38
September.....	10.23	41.22	287.17	14,115.38
October.....	16.61	55.72	605.85	13,621.15
November.....	21.29	75.40	1,171.36	13,486.54
December.....	28.28	95.34	1,212.54	13,422.92

Without lingering over historical events, I shall now describe in brief the development of industry, agriculture, and credit, currency, and budget conditions of the Austrian Republic from the time of consolidation in the year 1923 down to the present day. In all these realms serious struggles have been waged, but they have—though fraught with many

TABLE 2: PRELIMINARY BUDGETARY ESTIMATES OF THE
FEDERAL REPUBLIC OF AUSTRIA FOR THE
YEARS 1919-1922

In Millions of Austrian Crowns

Preliminary Estimates	Receipts	Expenditure	Budgetary Deficit	Budgetary Deficit in Percentage of Expenditure
January 1 to June 30, 1919.	1,339	4,043	2,704	67
July 1, 1919, to June 30, 1920.	6,295	16,873	10,579	63
July 1, 1920, to June 30, 1921.	29,483	70,601	41,117	58
July 1 to December 31, 1921.	24,075	49,496	25,421	51
January 1 to December 31, 1922.	209,763	347,533	137,770	40
Situation in October, 1922.	3,319,200	9,905,760	6,586,560	66

material sacrifices—all been carried to an honorable and successful end.

Industry was obliged to effect far-reaching restrictions and readaptations. The old Austro-Hungarian Monarchy was on the whole an autarchic area, whose industry could dispose of its products mainly within the country, while its agriculture supplied the population with the necessary food-stuffs, so that export and import trade could remain within moderate limits. By the dismemberment of the monarchy this autarchy was altogether destroyed, since industry remained to by far the greatest part in the Austrian Republic and in Czechoslovakia, while the agrarian regions fell to the share of the other succession states. Therefore, industry had to adapt itself to purposes of exportation, foodstuffs, meanwhile, having to be imported from abroad. Obviously this process of readaptation was connected with serious sacrifices, especially since the other Succession States surrounded themselves with high protective-tariff walls and sought to found industries of their own. Undoubtedly, the present international crisis is partly to be attributed to the efforts of all the new states to attain as great as possible a degree of autarchy. The old established and well-organized industry of Austria lost its former markets and was obliged either to restrict its output or to take up the production of such articles as had not before been manufactured in the country. At a time of high prices and in view of the great shortage of capital felt in Austria, both these changes

occasioned heavy losses, so that the number of concerns and the capital at their disposal experienced material reductions.

It is naturally extremely difficult to express a definite opinion in the midst of the world crisis and the general market slump. At the present moment, the industrial position of Austria is, similar to that of other states, highly unfavorable, as appears from the enormous total of unemployment, which has for years past shown a tendency to rise. I believe, however, that there is no undue optimism in assuming that Austrian industry's process of adapting itself to altered circumstances may now be considered as completed and that, upon the return of normal conditions, the difficulties originally arising from the undue dimensions of the industry remaining to the small Republic of Austria will prove to have been overcome. The prevailing trouble arises less from essentially Austrian conditions than from the causes operative in general throughout the international economic crisis.

The following table illustrates the development of unemployment in Austria.

TABLE 3: NUMBER OF UNEMPLOYED RECEIVING RELIEF IN AUSTRIA DURING THE YEARS 1923-1930

Year	Number		
	At the End of the Year	Highest	Lowest
1923.....	98,050	167,417	75,810
1924.....	154,492	154,492	63,556
1925.....	207,834	207,834	116,365
1926.....	205,350	231,361	148,111
1927.....	207,100	244,257	120,717
1928.....	202,659	230,755	112,595
1929.....	226,567	264,148	101,845
1930.....	294,845	294,845	150,075

Austrian agriculture has been faced with the task of obtaining an increase of output by an intensification of work in the interest of improving the commercial balance and facilitating the alimentation of the Austrian people. In this direction, really great progress may be said to have been made, the results recorded being highly satisfactory. This will be clearly seen by the following tabulary surveys show-

ing, respectively, the enlargement of the area under cultivation, the increase of yield per hectare, and the development of cattle-breeding and dairy-farming.

TABLE 4: CULTIVATED AREA AND YIELD OF CROP

Crop	Cultivated Area in Thousand Hectares		Yield per Hectare in Hundreds of Kilograms	
	1919	1929	1919	1929
Wheat.....	181.9	208.5	9.3	15.1
Rye.....	320.4	374.3	7.9	13.6
Barley.....	114.9	158.2	8.8	17.0
Oats.....	264.2	296.6	8.0	15.2
Potatoes.....	115.0	189.8	56.3	147.6
Sugar-beets.....	7.6	30.4	139.9	227.6

TABLE 5: NUMBER OF MILK-COWS AND DEVELOPMENT OF DAIRY-FARMING

	1919	1928
Number of milk-cows.....	400,000	1,100,000
Milk production in millions of litres.....	600	2,090
Butter production in hundreds of kilograms.....	13,000	120,250

Unfortunately, the gratification caused by these noteworthy results is not unmixed with regret, seeing that in Austria too the universal agrarian crisis is making itself felt in a regularly catastrophic fall of the market price of grain, which in many instances does not even cover the initial costs of the producers and most seriously menaces the farmers' economic position. A protection of Austrian agriculture by means of higher agrarian duties is not always possible or adequate in view of the exporting interests of Austrian industry. Thus, in the fall of 1930, recourse had to be taken to what was admittedly a highly undesirable general measure of relief, that is, the distribution of a so-called "Notopfer" among the farmers, necessitating an expenditure of 96 million Austrian shillings. This meant a grave encumbrance of the budget and rendered necessary an increase in the taxes on beer and sugar. The measure in question is all the more irksome, seeing that even prior to its introduction the height of taxation formed a constant subject of complaint. Thus a reduction of the tax onus appears inevitable.

The figures of the trade balance show a steady, though

slightly decreasing, deficit, the covering of which puzzles many economists. For thus far Austria has received but few long-term credits from abroad, while even the short-term debts have been diminished rather than augmented and the Austrian National Bank's holdings of foreign values, far from suffering a depletion, register an annual growth. True, to some extent there is probably still a sale of shares, buildings, and real estate to foreigners; however, an alienation of Austrian assets can hardly be spoken of. I believe, therefore, that the solution of the riddle is only to be found in the invisible exports—transit trade, tourist traffic, and so on—and especially in those forms of revenue which accrued to Austrians from capital invested abroad, and in the other succession states in particular, before the War. The deficit of the commercial balance is likely to be faced by a surplus in the balance of payments.

The development of the trade balance and of the Austrian National Bank's holdings of foreign values may be seen in the following tables, as may also the long-term foreign loans.

TABLE 6: RESULTS OF AUSTRIAN FOREIGN TRADE,
1923-1930

In millions of Austrian shillings

Year	Imports	Exports	Deficit
1923.....	2,665.3	1,494.3	-1,171.0
1924.....	3,473.8	1,988.1	-1,485.7
1925.....	2,905.1	1,985.9	-919.2
1926.....	2,844.6	1,744.9	-1,099.7
1927.....	3,190.7	2,099.1	-1,091.6
1928.....	3,316.9	2,249.5	-1,067.4
1929.....	3,317.7	2,219.6	-1,098.1
1930 ¹	2,734.5	1,882.8	-851.7

¹ Provisional figure.

Special attention must be devoted to banking and credit matters, which can look back upon a somewhat turbulent development, though they too have now arrived at a certain state of consolidation. The decline of the Austrian currency between 1918 and 1922 favored the spread of a general tendency toward speculation and led in particular to an enormous growth of transactions in foreign bills and currency,

TABLE 7: FOREIGN CURRENCY HOLDINGS OF THE AUSTRIAN NATIONAL BANK FROM THE BEGINNING OF 1923 TO THE END OF 1930
In millions of Austrian shillings

	Gold	Foreign Currency Values	* Total
January 7, 1923	5.0	114.5	119.5
December 31, 1923	8.3	383.2	391.5
“ “ 1924	11.1	477.0	488.1
“ “ 1925	14.8	558.4	573.2
“ “ 1926	52.5	627.5	680.0
“ “ 1927	84.5	653.4	737.9
“ “ 1928	168.8	628.6	797.4
“ “ 1929	168.6	571.9	740.5
“ “ 1930	214.4	715.4	929.8

TABLE 8: LONG-TERM FOREIGN LOANS RAISED BY AUSTRIA, 1923-1930

Nominal amount in millions of Austrian shillings	
1923	1,063.0 ^a
1924	34.7
1925	193.6
1926	49.9
1927	281.6
1928	35.2
1929	117.9
1930	388.5 ^b
Total	2,164.4

^a Including Austrian League of Nations Loan.

^b Including Austrian Government International Loan, 1930.

since everyone attempted to escape the effects of currency depreciation by the acquisition of foreign money or other material values—a movement which came to be known as the “flight from the Austrian crown.” The existing banks had considerably to increase their apparatus, in addition to which numerous new banks and banking enterprises were founded. The public had grown so accustomed to reaping such speculative profits—attainable at any rate in relation to the dwindling value of the Austrian currency—that it believed in their continuation even when the Austrian currency had been stabilized; nay, the success of the reconstruction program engendered renewed optimism, which led to exaggerated speculation in industrial shares and foreign currency—French francs in particular—and eventually, in the spring of 1924, to a great stock exchange collapse.

Many bankers and credit institutions, including some of greater size, went bankrupt or else were obliged to close down or materially restrict their operations. The public too sustained heavy losses and withdrew not only from the stock exchange but also from the capital market. The subsequent complete stagnation of the stock exchange rendered it impossible to issue any new shares or debentures, and this again impeded the reorganization of industry and necessitated recourse to unduly great and expensive bank credits. The result was a far-reaching immobilization of the banks, leading to several more or less voluntary amalgamations; even the merger of the *Österreichische Boden-Credit-Anstalt*, one of the oldest and most highly respected credit institutions of the country, in the *Österreichische Credit-Anstalt für Handel und Gewerbe*, now by far the greatest credit institution of Austria—a development that proved necessary as recently as the fall of 1929—is ultimately to be attributed to the events of the year 1924.

Now, however, the process of restriction that has ensued among the credit enterprises may be considered definitely terminated. True, in view of great staff expenses and of the decrease, compared with pre-war times, in the gold-value of their turnover, the Austrian banks are up against hard times and must content themselves with very modest profits. Nevertheless, the position of such banks as have remained may be looked upon as thoroughly sound, their organization, their knowledge of the business conditions of all the succession states and Balkan countries, and their old-established international connections constituting a mainstay of Austrian economy that is bound to be further strengthened with the returning prosperity and confidence of the population. During the last few weeks there have been welcome signs of this rebirth of confidence, for not only has the volume of deposits with banks and savings-banks been steadily growing, but the tendency of the public to hold aloof from the capital market appears to be on the wane. Since the commencement of the current year there have been substantial increases in stock-exchange rates, and, what is more, they have been mainly in favor of government stocks bearing a fixed rate of interest.

The changes that have come about in the Austrian credit organizations between 1918 and 1930, the growth of savings deposits, and the advance on the stock exchange since January 1, 1931, may be seen in the following tables.

TABLE 9: DEVELOPMENT OF THE PRINCIPAL GROUPS OF CREDIT ORGANIZATIONS

Year	Joint-Stock Banks	Savings Banks	Agricultural Co-operative Credit Societies ¹
1923.....	76	201	1,698 ²
1926.....	43	199	1,709
1929.....	30	202	1,775

¹ Not including several hundreds of industrial co-operative credit societies.

² December 31, 1924.

TABLE 10: DEVELOPMENT OF DEPOSITS WITH THE AUSTRIAN SAVINGS BANKS AND LEADING VIENNA BANKS
In millions of Austrian shillings

On December 31	Savings Banks Deposits	Bank Deposits and Bonds
1922.....	14	..
1923.....	88	..
1924.....	271	..
1925.....	527	185
1926.....	750	294
1927.....	989	352
1928.....	1,251	449
1929.....	1,418	509
1930.....	1,635	582

TABLE 11: DEVELOPMENT OF CERTAIN VIENNA STOCK EXCHANGE QUOTATIONS SINCE THE BEGINNING OF 1931

	Jan. 10	Jan. 20	Jan. 31	Feb. 11
League of Nations Loan.....	108.50	109.00	107.00	108.00
Austrian Government International Loan, 1930.....	96.75	97.85	99.50	99.75
25-year Sterling clearing-obligations Cat. E....	69.20	70.50	72.50	74.25
Credit-Anstalt.....	46.90	46.60	46.70	47.35
Alpine Montan.....	14.05	16.30	17.65	20.80
Siemens Schuckert.....	149.75	142.75	165.75	171.00
Perlmoos Chalk.....	230.00	227.00	236.00	258.00
Neusiedel Paper Manufactory.....	46.50	50.00	54.50	71.20
Donau-Dampfschiffahrt.....	18.75	18.00	18.90	25.10
Eisenbahnverkehr.....	39.75	39.00	40.25	44.40

Finally, a few words on the important matter of public finances and public credit. As already pointed out, the Austrian budget has been balanced since 1924; indeed, about 40% of the League of Nations Loan, intended for the covering of the budgetary deficits of the years 1923 and 1924, could be applied to purposes of investment. The same applies to the budgetary surpluses of the years from 1924 to 1929, aggregating 767 millions of Austrian shillings. This result could naturally only be attained by means of inordinately high taxes, which cripple all enterprise, seeing that they frequently swallow up practically all the profit and sometimes even impair the capital. A reduction of these taxes is therefore essential and has repeatedly been promised by the government. Since, however, state expenditure for salaries and social purposes increases from year to year, a reform of taxation in the above sense will only be possible if fulfilment is given to the demand for enhanced economy in the public budget.

The encumberment of the budget with interest due on debts is, so far, not particularly great. The most important item in this regard is the payment of interest and amortization on the above-mentioned League of Nations Loan to the nominal extent of 769 million gold crowns or 1.107 million Austrian shillings, of which interest and amortization obligation are borne in part by the federal railways and the postal administration. The interest due on pre-war debts, meanwhile, has so far played only a secondary rôle in view of the monetary depreciation that occurred in the interim. The prospective partial valorization of the pre-war debts, it is true, will entail an increased encumbrance in this connection. It is all the more gratifying that by the Hague Conference of January, 1930, Austria's final liberation from reparations obligations has become a definitely established fact and that, thanks to the complaisance of the creditor states in general and of the United States in particular, the question of relief debts has also been regulated in a satisfactory way.

The most important items of the Austrian budget and the figures of taxation per head of the population appear in the following tables.

TABLE 12: STATEMENT OF CLOSED ACCOUNTS OF BUDGET
1923-1929 AS PER LEAGUE OF NATIONS REFORM
SCHEME

In millions of Austrian shillings

Year	Ordinary Accounts			Investments	Surplus+ Debit-
	Expenditure	Revenue	Balance		
1923.....	779.6	697.4	-82.2	76.1	-158.3
1924.....	809.9	900.6	+90.7	103.7	-13.0
1925.....	741.4	908.5	+167.1	90.6	+76.5
1926.....	862.3	965.5	+103.2	135.6	-32.4
1927.....	991.2	1,101.9	+110.7	195.7	-85.0
1928.....	1,045.9	1,174.3	+128.4	212.5	-84.1
1929.....	1,032.8	1,199.7	+166.9	147.2	+19.7

TABLE 13: THE PROMINENT POSITIONS OF THE CLOSED
ACCOUNTS OF BUDGET 1927-1929, AS PER LEAGUE OF
NATIONS REFORM SCHEME

In millions of Austrian shillings

	1927	1928	1929
FEDERAL EXPENDITURE:			
Service of the debt.....	124.25	145.01	52.28
Administrative service.....	668.87	726.37	789.18
Public welfare.....	121.29	111.73	132.18
Railways.....	19.68	21.39	21.34
Undertakings.....	57.15	14.32	10.60
Transfer to expenditure of provinces.....	..	27.12	27.24
Total expenditure.....	991.24	1,045.94	1,032.82
FEDERAL RECEIPTS:			
Customs.....	237.57	260.04	283.84
Taxes on commodities.....	86.37	90.68	101.63
Direct taxes.....	327.16	352.59	385.09
Other duties.....	507.25	509.46	477.40
Total.....	1,158.35	1,212.77	1,247.96
Less taxes refunded to federal provinces....	266.88	261.56	276.67
Net.....	891.47	951.21	971.29
Monopolies and undertakings.....	210.46	223.12	228.46
Total receipts.....	1,101.93	1,174.33	1,199.75
Budgetary surplus.....	110.69	128.39	166.93
Investments.....	195.66	212.47	147.20
Budgetary deficit.....	84.97	84.08	..
Budgetary surplus.....	..	..	19.73

The service of the federal debt in 1928 included (1) an extraordinary repayment on the Federal Loan Debt towards

the Austrian National Bank amounting to 50 millions of Austrian shillings and (2) an advance payment of 36.2 millions for the service of the League of Nations Loan in 1929, booked as receipt in 1929 and thus reducing the service of the debt in that year.

TABLE 14: PER CAPITA QUOTA OF AUSTRIAN FEDERAL TAXATION¹

Year	Austrian Shillings
1923.....	110
1924.....	153
1925.....	170
1926.....	182
1927.....	190
1928.....	201
1929.....	214
1930.....	209

¹ Calculated on basis of actual receipts from federal taxes plus receipts from monopolies.

The greatest difficulty Austria has to face is the prevailing shortage of capital, which, as may be seen by Table 8 has only been mitigated by a few long-term credits. It may therefore be looked upon as a great relief that in July, 1930, it was at length found possible to negotiate the first section of the Investment Loan with a consortium under the lead of Morgan, Grenfell and Co., by which means a sum of about 394 million Austrian shillings was realized. It is to be hoped that circumstances on the international capital markets will soon permit of a negotiation of the remainder of the Investment Loan, as well, the net proceeds of which will be about 320 million Austrian shillings. Any modern work of reconstruction can only be made possible with the help of capital, and only years of productive work can make up for the damages wrought by the World War. That work allied with capital can really effect such a reconstruction is sufficiently proved by the success registered in Austria during the last eight years, whereby Austrian economy has been brought back from a state of utmost decline to practically normal conditions.

GENERAL BUSINESS AND FINANCIAL CONDI- TIONS IN HUNGARY

Report of Hon. Alexander Popovics, Governor of the National Bank of
Hungary, Budapest

THE symptoms of a decline in the business situation, already perceptible in Hungary in 1929, assumed a more general character in the year 1930. Apart from a few items, the statistical data for the past year, compared with the corresponding data of preceding years, reflect a downward movement. The circumstance that the unfavorable economic situation of this country is not an isolated phenomenon peculiar to Hungarian economy, but is a link in the chain of world economic events, may perhaps mitigate the effects from the political and mass-psychological standpoints; but from the economic standpoint this circumstance rather aggravates the situation, for, especially in the case of an economic unit so small as Hungary, it dissipates the nation's hope of solving the difficulties of the situation by its own forces. But, on the other hand, it is precisely this circumstance that has impelled the states involved in the same misfortunes to an increasing recognition of the community of their interests, so that the past year saw the initiation of such international understanding as would have been scarcely imaginable a few years ago.

This refers, in the first place, to the attempts at co-operation made by the Middle and East European agrarian states, in which our Southern and Eastern neighbors are perhaps interested even to a greater extent than are we Hungarians, for their national economy is still more of an agrarian character than ours; but naturally Hungary has also to share in these attempts, inasmuch as 55% of the population of Hungary is engaged in agriculture, and, according to Professor Fellner's latest calculation, 47% of the national income is derived from agrarian production.

It is obvious that the pronounced agrarian character of

the country's production had an unfavorable influence on our economic development during the last one or two years. I do not intend to repeat the general opinions concerning the origin of the agricultural crisis prevailing throughout the world. I wish only to consider one or two special questions relating to Hungary. Wheat is the country's main crop and, together with the flour derived from it, constitutes the most important factor in our export trade. Of the land under cultivation—not including the areas covered with forests and reeds—about 20% was seeded with wheat. There is no need for me to dwell on the disastrous fall in the price of wheat. According to the Hungarian index of wholesale prices, taking the figure for 1913 at 100, the wheat index now stands at 54. Moreover, last year we had but a medium crop.

Commercial-political events of a regrettable character likewise tended to aggravate the situation. Austria and Czechoslovakia, the two natural markets for our wheat exports, vigorously continued their tariff and economic policy of protecting their own agrarian products, and since the middle of December there is no commercial treaty in force between Czechoslovakia and our country. The government sought to relieve the critical situation of bread-cereal growers by the introduction of the so-called "Corn ticket system" for the home trade in wheat and rye. The essence of the system lies in the fact that a person who wishes to purchase wheat or rye can only do so if he first buys a corn ticket, for which he must pay 3 Pengő per quintal—100 kilograms. The coupon of the ticket must be delivered by the purchaser to the grower of the corn, who may use the amount represented by the coupon for the payment of his taxes, or, in case he has no arrears of taxes, he may get the coupon cashed at certain places appointed for the purpose. The corn ticket itself accompanies the corn on its way through the hands of the traders until it arrives at the mill, which afterwards, as a matter of course, includes the excess price paid to the grower in its calculation of selling-prices.

Obviously, in case of export, the 3 Pengő per quintal must be refunded to the exporter; otherwise the Hungarian wheat and flour could not compete on foreign markets. Thus the result is that on every quintal of wheat or rye placed on the

market the grower receives a production premium of 3 Pengö—a charge which is borne by the inland consumption. Undoubtedly, this measure can only be of a transitory character, for its effect can be only—for the present and to some extent—to correct the displacement in the national income that occurred as a consequence of the sudden fall in the price of grain to the damage of agrarian production. It is unsuited to serve as a regulation of permanent character, if only for the reason that it tends to impede the natural process of accommodation to the changed marketing conditions of agricultural produce.

This process of adaptation will not be easy by any means. It is probable that there will have to be a gradual diminution in the area seeded with wheat; but, as it is an area of 1.5 million hectares, great difficulties arise in finding suitable branches of cultivation to be substituted for wheat on a relatively important scale. Nevertheless, in spite of these difficulties, I cannot entertain a pessimistic opinion with regard to the prospects of our agricultural production. On the one hand, we see that there exist branches of production that have already in past years yielded a certain measure of compensation. Our cattle-breeding, poultry-raising, fruit-growing, and kitchen-gardening have been attended with conspicuous success, and it is noteworthy that the exports of animals and animal-products increasingly advance in importance. However, for the sake of further development in these branches, it would be desirable that the industrial states of Europe should not pursue a policy of prohibiting the sale of these animal-products in their markets. Another encouraging circumstance is found in the fact that the burden of mortgages on agricultural estates, although heavy in some parts of the country, is on the whole not alarming, for at the end of 1929 only about 36% of the total landed property was burdened with registered mortgage debts, and there was but a small increase of mortgages in 1930. Finally, it must not be forgotten that the small holdings in Europe are to a very great extent engaged in producing for their own home consumption and market only a small proportion of their produce, so that they are relatively less affected by the fall in the market price of agricultural products.

If we leave out of consideration some few branches of industrial production such as the textile industry, which since the War has been the branch of most promising development, we see also, in general, quite a considerable decline in the country's industrial activity. It may be said that our production and consumption of pig-iron in 1930 fell short of the corresponding figures for the previous year to the extent of about 30%. Those branches of industry that mainly depend on the agricultural population for their principal customers have naturally been affected by the decrease of the purchasing capacity of the agrarian classes. The building trade has also suffered a decline, both in the villages and in the towns.

The commercial situation is likewise depressed. Insolvencies reached their culmination point about the end of 1929 and the beginning of 1930. Since that time there has been improvement, which, however, must be in no small measure ascribed to the circumstance that, on the one hand, the insolvencies themselves had greatly diminished the number of the weaker firms, and, on the other hand, an ever-increasing degree of caution was manifested both in granting credits and in incurring debts.

The deterioration in all branches of production has been accompanied by effects on our state finances similar to those experienced in almost all the states of the civilized world. The revenues have considerably diminished and, so far as can be ascertained from the data hitherto published, in the first five months of the 1930-1931 budget-year—July–November, 1930—the total revenues of the state administration fell about 10% short of the corresponding figures for the previous year. Our legislature has already taken corresponding measures, inasmuch as a recently enacted law has instructed the government to reduce by the amount of 45 million Pengö the credits voted for the year 1930-1931 within the scope of the budget for the state administration and the state enterprises. In view of the circumstance that, among the different classes of population, the situation of employees earning fixed salaries has undergone relative improvement in consequence of the fall in the price of commodities, the legislature has deemed it advisable to resort to this class of the com-

munity for the augmentation of state revenues and, pending further measures, has imposed a special tax on incomes derived from service relations.

In the period of declining prices and business depression, the credit market also presented a state of stagnation. The reserve in connection with long-term investments finds expression in the fall of quotations on the stock exchange. The National Bank's stock-exchange index fell to 127.8 at the end of 1930, which, as compared with its maximum level of 273.8 on April 28, 1927, represents a decline of 53.3%. The amount of capital increases of the companies limited by shares during the year 1930 was nearly 50% less than in the previous year. Scarcely any long-term credit transactions were completed in the course of the past year, and the outstanding amount of long-term sinking-fund loans granted by banks shows no considerable change during the year 1930. This naturally was due not only to the decrease in the demand for credit, but also, and indeed principally, to the circumstance that great difficulties were encountered in placing long-term issues on the foreign markets; this is also indicated by the fact that during the whole course of the year not more than 24 million Pengö of fresh long-term obligations could be placed abroad.

On the other hand, there was in general a great easiness on the short-term money-market, and the interest-rates sank during the year by $2\frac{1}{2}\%$. The discount rate of the National Bank of Hungary, which stood at 8% in the autumn of 1929, was reduced to $5\frac{1}{2}\%$ by May, 1930, after 5 successive reductions of $\frac{1}{2}\%$ each, this rate being still in force. Short-term loans were abundantly offered from abroad, and by availing themselves of foreign credits our leading banks were able, temporarily, to obtain money at a rate nearly 1% cheaper than by rediscounting at the National Bank. This circumstance, naturally, was also reflected in the state of the bill-portfolio of the National Bank, which moved at an unusually low level, the average for the year being 218.9 million Pengö as against an average of 320.6 million Pengö in 1929.

The picture which we can construct from the statistical data would not be complete if we neglected to point out

the very material change which has come about in our foreign trade.

It is a matter of common knowledge that, in the years following on the financial reconstruction, our foreign trade showed a constantly increasing adverse balance, so that in each of the years 1927 and 1928 it exceeded 350 million Pengö. This considerable deficit was closely connected with the great import of capital in evidence in the years following the financial reconstruction. The increase of our indebtedness to foreign creditors since the beginning of the reconstruction may be taken at about 1,800 million Pengö, the bulk of which falls to the account of the years 1927 and 1928.

In 1929 the process slackened, and the adverse balance of our foreign trade diminished to 22.6 million Pengö, parallel with which there also naturally appeared a certain decline in the borrowing of foreign capital. The difficulties opposed to the import of foreign capital in 1930 brought about a radical change in our balance of trade. As against imports of 1,062.8 million Pengö in the previous year, our imports in 1930 fell to the value of 834.3 million Pengö. This indeed is an illustration of the regrettable fact that the purchasing-power of our population has suffered a very great decrease. But, on the other hand, the phenomenon appears to be not unfavorable, if viewed from a different standpoint, for it shows that our population is striving to counter-balance the adverse conditions by limiting its pretensions, which indeed were never very excessive. We see also a decline in our exports from 1,040.2 million in 1929 to 914.5 million Pengo in 1930. Thus, the percentage decline in the exports appears to be much less than the percentage decline in the imports. According to certain calculations that seek to exclude the effect of the fall in prices, it would appear that the decline in our export amounts only to about 3%. The effect of all these circumstances was that 1930 was the first year when post-war Hungary had an active foreign trade balance, with an excess of exports of 80.2 million Pengö.

Although complete data for the year 1930 are not yet available, it may be stated that our balance of payments in 1930 shows some peculiar features, distinguishing it from the balances of the previous years. If we divide the balance

of payment into two groups, that is, into current items and capital movements, we see that in the current items the item of interest and dividends to be paid abroad on our outstanding foreign debts—an item which may be taken at 180 million Pengö—is balanced to the extent of nearly one half by the favorable balance of our foreign trade. As the items of smaller importance do not, on the whole, greatly affect the result, we may see, in broad outlines, that this part of our balance of payments closed in 1930 with an adverse balance of about 90 million Pengö. The logical consequences of this situation would be that in the capital movements we should see on balance a capital import of 90 million Pengö. Instead of this, there may be shown, in fact, new long-term loans amounting to 87 million Pengö, including the third instalment of the loan taken up from the Swedish Match Trust and concluded at an earlier date, and a capital import of 175 million Pengö in the form of medium-term loans and credits, so that if we deduct the sinking-fund payments from the amount of these two items, the net amount of visible capital imports figures at roughly 200 million Pengö.

The difference of 110 million Pengö appearing between the balance of current items and that of capital movements would, therefore, have to be counterbalanced by some invisible capital exports. As a matter of fact, it may be stated that, under the effect of the depression in the great international stock and bond markets, a very considerable quantity of securities placed abroad previously have come back to Hungary, and we must also suppose that, in the autumn, when a feeling of disquietude pervaded the whole of Central Europe, mainly as a consequence of the German elections, and very considerable amounts of capital gravitated from Germany to other countries, this movement extended also to Hungary and led to a certain amount of capital export, although this export attained no very considerable dimensions.

This supposition is strengthened by the circumstance that the statistical data show quite a considerable decrease in the amount of deposits with our banks during the month of September and October. Under all these circumstances, we may say that the country's indebtedness to foreign cred-

itors increased only to a very small extent in the course of 1930, and this may be regarded as a rather favorable symptom if we bear in mind the adverse economic conditions.

In this connection I wish to point to one more circumstance which encourages us to entertain a favorable view of our financial prospects. That is the circumstance that no serious disturbances occurred in our banking organization in the hard times of the year 1930. The process of rapid development experienced in the years succeeding the financial reconstruction has indeed suffered a setback, and the balance-sheets of our banks, in general, disclosed but a very small measure of growth and, in several cases, a small decline in earnings; but there have been practically no bank insolvencies and not the slightest disturbance of the public credit. And this not only justifies the confidence of foreign creditors in the operations of our credit organization after having placed, through its intermediary, considerable amounts of capital in Hungary, but also seems to be the soundest basis for Hungary's future participation in the international capital movements.

Budapest
February, 1931

IMPORTANCE OF EXPORTS OF FINISHED MANUFACTURES IN CANADIAN FOREIGN TRADE

Mr. Albert E. Dymont, Chairman of the Board, Canadian General
Electric Company, Toronto

CANADIANS believe very strongly that the largest possible percentage of their exports to other countries should be in the form of fully manufactured goods or partially manufactured goods, instead of in the form of raw products.

The advantages of this policy are obvious,—because it seeks a constant increase of investment of capital in Canada for manufacturing purposes, an increase of the number of Canadians employed in industry, an increase in the volume of business related to, or partially dependent on, industry, such as retail and wholesale trade, transportation, banking, and in fact most forms of business. It also provides for agriculturists, particularly those in the vicinity of industrial centers, a constant and profitable market for butter, eggs, meat, vegetables, fruit, hides, and other farm products.

It is interesting to record the progress that has been made in the export trade of Canada since the beginning of this century, illustrated by the following statistics:

Year	Total Exports of Canadian Produce
1900.....	\$168,972,301
1910.....	279,247,551
1920.....	1,239,492,098
1929.....	1,363,709,672

The great increase indicated in the figures for 1920 is accounted for largely by the stimulation of exports as a result of the Great War. It should also be remembered that the amount for 1920 was attained at the height of the inflation of prices following the War. This must be taken into account in making comparisons, but it is all the more significant to note that the figure for 1929, which was attained after the deflation of prices in the interval between 1920 and 1929, is actually considerably greater than the total for 1920, and, when deflation is taken into account, the volume

of exports from Canada in 1929 greatly surpassed the volume in 1920.

Canada's position in international trade is indicated by the following official statement issued by the Department of Trade and Commerce in the Canadian Trade Index, published by the Canadian Manufacturers' Association, in January, 1931:

"In 1929, as in 1928, the Dominion stood in fifth position in imports, exports and aggregate trade. In export trade Canada leads the world in the export of printing paper, nickel and asbestos; occupies second place in exports of automobiles, wheat and wheat flour; and fourth place in exports of wood pulp, as well as a very high place in the world's exports of many staple products, such as lumber and timber, fish, copper, barley, cheese, raw furs, whiskey, meats, rubber tires, farm implements, pulpwood, cattle, raw gold, silver, lead, rye, oats, rubber footwear, leather and hides."

In trade per capita, Canada occupied the second position in the world in 1928 and the third in 1929, rising from the seventh place which she occupied in 1913.

In the seventeen years between 1914 and 1930, Canadian exports exceeded imports. In only three years of this period imports exceeded exports. This trend of Canadian trade with all other countries is illustrated by the following table:

Year	Value in Million Dollars		
	Total Exports	Excess of Imports (i) Exports (e)	Percentage Relation of Exports to Imports
1914.....	\$455.4	(i) \$163.8	73.5
1915.....	461.4	(e) 5.5	101.2
1916.....	779.3	(e) 271.1	153.3
1917.....	1,179.2	(e) 332.8	139.3
1918.....	1,586.1	(e) 622.6	164.6
1919.....	1,268.7	(e) 349.0	137.9
1920.....	1,286.6	(e) 222.1	120.9
1921.....	1,210.4	(i) 29.7	97.6
1922.....	753.9	(e) 6.1	100.8
1923.....	945.3	(e) 142.7	117.7
1924.....	1,058.8	(e) 165.4	118.5
1925.....	1,081.4	(e) 284.5	135.7
1926.....	1,328.7	(e) 401.4	143.1
1927.....	1,267.6	(e) 236.7	123.0
1928.....	1,250.4	(e) 142.5	112.8
1929.....	1,388.9	(e) 123.2	109.7
1930.....	1,144.9	(i) 103.3	91.7

Canadian exports are divided into three classes: (1) raw materials, (2) partly manufactured, (3) fully or chiefly manufactured, and it is interesting to study the following statistics under these headings for the period 1900-1929, inclusive. Figures for the intervening year, 1914, are included because this was the year before the Great War. The figures for 1920 are included because these are for the year after the Great War.

Classification	Exports of Canadian Produce		
	Total	To United Kingdom	To United States
1900—Raw materials	\$70,066,372	\$32,035,566	\$34,257,368
Partly manufactured	29,946,564	17,113,308	10,858,235
Fully or chiefly manufactured	68,959,365	47,414,001	12,880,885
Total	168,972,301	96,562,875	57,996,488
1914—Raw materials	272,593,581	152,700,704	106,216,726
Partly manufactured	43,660,533	14,186,429	25,735,963
Fully or chiefly manufactured	115,334,325	48,366,836	31,420,136
Total	431,588,439	215,253,969	163,372,825
1920—Raw materials	440,612,225	168,638,429	196,851,439
Partly manufactured	185,288,060	51,631,602	115,097,298
Fully or chiefly manufactured	613,591,813	268,882,606	152,079,446
Total	1,239,492,098	489,152,637	464,028,183
1929—Raw materials	661,394,875	314,037,333	153,403,064
Partly manufactured	195,144,120	22,097,596	129,273,521
Fully or chiefly manufactured	507,170,677	93,595,556	216,935,560
Total	1,363,709,672	429,730,485	499,612,145

Canada is fortunate in not having to depend on two or three principal commodities for export. Our exports cover a wide field, and the diversity is illustrated by the table which follows.

In conclusion, a summary of the above indicates that Canada's export trade has shown remarkable growth since the beginning of this century; that Canada stands among the leading exporting nations of the world; that excellent progress is being made in exporting products as finished or semi-finished manufactures; that Canadian exports are widely diversified; and that for a country which came into

SEVENTY LEADING CANADIAN COMMODITIES EXPORTED
FROM CANADA DURING THE YEAR ENDING
MARCH 31, 1930

Rank	Commodity	Total Exports Value
1	Wheat	\$215,753,475
2	Printing paper	145,401,482
3	Planks and boards	49,446,887
4	Wheat flour	45,457,195
5	Wood pulp	44,913,995
6	Copper ore and blister	37,735,413
7	Automobiles	35,307,645
8	Fish	34,767,739
9	Raw gold	34,375,003
10	Whiskey	25,856,136
11	Nickel	25,034,975
12	Raw furs	18,706,311
13	Farm implements	18,396,688
14	Cheese	18,278,004
15	Rubber tires	18,039,924
16	Meats	15,030,671
17	Pulpwood	13,860,209
18	Aluminum in bars	13,828,010
19	Cattle	13,119,462
20	Asbestos, raw	12,074,065
21	Silver ore and bullion	11,569,855
22	Lead	10,637,887
23	Barley	10,388,735
24	Rubber footwear	9,986,392
25	Zinc	8,366,712
26	Green apples	8,111,943
27	Potatoes	8,042,226
28	Fertilizers	7,990,313
29	Raw hides	7,730,914
30	Machinery	7,154,706
31	Shingles—wood	6,704,494
32	Leather, unmanufactured	6,496,951
33	Settlers' effects	6,304,199
34	Milk and cream, fresh	5,379,174
35	Acids	5,096,529
36	Films	4,790,619
37	Ferro-manganese and ferro-silicon	4,543,649
38	Square timber	4,235,309
39	Soda and soda compounds	4,208,518
40	Oats	4,055,855
41	Coal	3,998,692
42	Poles—wood	3,928,481
43	Abrasives, artificial, crude	3,775,924
44	Logs—wood	3,677,917
45	Milk, condensed	3,262,101
46	Laths—wood	3,095,417
47	Bran and shorts	2,582,484
48	Electric apparatus	2,521,045
49	Paper board	2,506,496
50	Oatmeal and rolled oats	2,440,968
51	Cereal foods	2,431,137
52	Automobile parts	2,298,742
53	Tubes and pipe—iron	2,202,769

SEVENTY LEADING CANADIAN COMMODITIES EXPORTED
FROM CANADA DURING THE YEAR ENDING
MARCH 31, 1930—(Continued)

Rank	Commodity	Total Exports Value
54	Aluminum, manufactured	\$2,057,673
55	Hay	2,007,944
56	Malt liquors	1,995,990
57	Hardware and cutlery	1,743,096
58	Flaxseed	1,732,087
59	Rolling mill products	1,681,814
60	Wrapping paper	1,655,568
61	Raw wool	1,576,342
62	Raw tobacco	1,504,264
63	Binder twine	1,502,421
64	Rye	1,451,640
65	Sugar, refined	1,423,936
66	Fish oils	1,380,589
67	Clover seed	1,316,752
68	Crude petroleum	1,281,294
69	Musical instruments	646,281
70	Butter	543,851
	Total value	\$1,041,401,984

the exporting field only a relatively short time ago wonderful progress has been made. The factors which will influence the future must also be taken into consideration. Canada has abundant stores of raw materials which form the basis for much of her exports. She has also great areas of fertile land from which to produce the basic agricultural commodities. The fisheries show little sign of depletion. Leading mining engineers and industrialists believe that the mines, which are now producing at the rate of \$300 million annually, are only the beginning of Canadian mineral production. Canada has up-to-date and efficient industrial, agricultural, mining, lumbering, and fishing systems of production. These are capably officered and manned. The universities, research institutions, and technical schools can supply trained personnel and new ideas. The transportation systems are modern and efficient. The banks are experienced and skilful in the financing of export trade. With all these assets, Canada is determined to maintain and to improve, as much as possible, her position in the export field.

PRESENT ECONOMIC POSITION OF CANADA

Report of Sir Charles Gordon, President, Bank of Montreal, Montreal

THE world-wide depression of 1930 affected Canadian trade and industry in marked degree, but notwithstanding this the Dominion finds itself in the opening months of the new year in a much happier position than the majority of other countries. It is true that the marketing of our wheat remains as one of our major problems not yet satisfactorily solved and also that other forms of business are suffering from a severe decline in prices, but the unemployment problem in Canada has not approached the seriousness it has assumed in other countries, and construction work—an important item in a young country—has kept up well, as has business in many important lines. Added to this, the banking structure has stood the general decline in business and commodity prices without apparent strain, and there is an abundance of money available for all sound business enterprises. The banking system which prevails in Canada, consisting of large central banks with branches throughout the Dominion, has again proved to be of inestimable benefit to the country, for in no community in the Dominion has a bank failure added to the local distress occasioned by a recession of trade.

The decline in commodity prices which has been witnessed during the past year has been in nowise due to restriction of credit, but has been a reflection of the general state of world trade. The decline in the price of wheat has particularly affected this country. Examination of the figures of the foreign trade of Canada shows how large a part the item of wheat plays. No other single commodity approaches this cereal in volume and value; as a consequence, when crop failure occurs or prices fall below the line of profitable production, the whole business of the country is adversely affected. That has happened—the wheat crop of 1929 was short in quantity; the crop of 1930 faced low prices and a

glutted market; and the foreign trade returns disclose the results of these unfavorable factors. In the twelve months ending December 31, total exports of Canadian produce had a value of \$1,182,412,000 in 1929 and of \$885,906,000 in 1930, being a decrease of \$296,506,000, of which decrease by far the largest item was of wheat and wheat flour. To short crops and congested markets can be traced much of the reaction in general business, the decline in railway traffic, the diminished earnings of carriers by land and water, unemployment of labor, and, above all, diminished purchasing power of the agricultural class.

Approximately one half the population of Canada derives support directly from the farm, and, while in the past year their labor was rewarded with an aggregate average quantity return, low prices reduced profit close to the vanishing point. Of wheat the crop was 90 million bushels larger than in 1929, but what was gained in quantity was lost in value, an increase of about 30% in production being offset by a 50% decline in price.

It is the history of all new countries that they depend at first upon the utilization of their most available resources, and later turn to manufacturing and similar pursuits. Canada at the present time is in an intermediate stage. We have been making use of resources most readily converted into money, but are now entering the second stage, that of manufacturing. In 1915 the gross value of Canada's agricultural products was \$1,118,694,000, and of her manufactured products, \$1,381,547,000. In 1928 the figures were: gross value of agricultural products, \$1,730,304,000, and of manufactures, \$3,769,850,000. These figures illustrate the trend of our economic development, and have an important bearing upon our future outlook.

One phase of our industrial activities that is being carried forward with undiminished vigor is the development of our water power. At the beginning of the present year the total installed capacity was 5,727,162 horsepower. During the year, hydro-electric construction has exceeded that of any previous period in the history of the Dominion. New installations brought into operation aggregated 397,850 horsepower, bringing the total installation at the end of the year

to 6,125,012 horsepower. Construction is active also on a number of other installations which will add more than 1.5 million horsepower to the Dominion's total during the next two or three years. These impressive figures raise the question as to whether or not the development of power waters is proceeding too rapidly, but as against this it is to be remembered that the uses to which hydro-electric current is being put are constantly expanding in industry, in the home, and on the farm.

Steady progress also is being made in mining, for during the year 1930, although price declines reduced the value of the output, production was greater than ever before. Gold, silver, copper, lead, and zinc made new high records of output, that of gold reaching \$43 million, while the erection of refineries during the year gives larger employment to labor, retains capital in Canada, and manifests confidence in the continuity of mineral production. It is noteworthy that Ontario mines disbursed \$27,567,000 in dividends from the operations in 1930, or \$700,000 more than in 1929.

Summing up conditions in Canada, we can, I think, justly congratulate ourselves upon the inherent vigor and soundness of our general economic structure. The set-back received has been a direct reflection of disturbed conditions all over the world. Whether the pull will be short or long we cannot foretell, but we do know that Canada has been through many periods of depression before and upon each occasion has emerged successfully. We know also that during the year under review hardship and suffering have been less prevalent in Canada than in almost any other country, and we can say of the expenditures that have been undertaken by the various governing authorities for the relief of unemployment that in the main they will be put to productive uses that will tend to speed up our development when trade recovery takes place. Furthermore, the fact that in this period Canada has been thrown so much upon its own resources and has paid more attention than ever before to the possibilities of its domestic market cannot but have effects which will be of lasting benefit to our industries.

INVESTMENTS OF FOREIGN CAPITAL IN ARGENTINA¹

Report of Mr. Santiago E. Soulas, President, Soulas & Company,
Buenos Aires

ACCORDING to the most reliable reports it can be estimated that the volume of foreign capital invested in Argentina, at the end of 1930, amounted to 8,000 million pesos national currency, \$3,400 million, of which about 2,150 million pesos national currency were in public loans and short-term loans of the nation, the provinces, and the communities; about 3,400 million pesos in railroads; and the remaining 2,450 million pesos in mortgages, industries, and other private enterprises.

Although there exists some discrepancy in the estimates regarding the amount of foreign capital invested in Argentina, the foregoing figures seem to us nearest to the truth. They are based on the calculation made by Engineer E. Bunge in October, 1927, and estimates of known investments subsequently made.

Of all the countries of South America the largest investments of foreign capital were made in Argentina. The distinguishing characteristic of foreign investments in Argentina is that they have been made largely in railroads, industries, and other private enterprises, while in the other South American countries foreign capital is placed in loans to governments or other public bodies.

Comparing the two countries of major importance, Argentina and Brazil, we see that in the former, out of a total investment of foreign capital of about 8,000 million pesos national currency, 5,850 million pesos are placed in private enterprises and only 2,150 million pesos in governmental and other loans to public authorities; while in Brazil, of a total investment of foreign capital of 5,900 million pesos national currency, more than one half are national, provincial, or municipal loans.

¹ Translated by the National Industrial Conference Board.

The total investment of foreign capital in private enterprises in Argentina is higher than the total of investments of similar character in all the other South American republics combined.

According to the estimate that we have mentioned, made by Engineer E. Bunge in 1927, the foreign investments in Argentina in that year were distributed in the following manner:

In railroads.....	3,107	million pesos national currency
In governmental loans.....	1,750	" " " "
In mortgages.....	718	" " " "
In banks.....	208	" " " "
In other enterprises.....	1,242	" " " "
Total.....	7,025	million pesos national currency

The share of different countries in this total was as follows:

British capital.....	4,700	million pesos national currency
North American capital.....	1,150	" " " "
Capital from other sources.....	1,175	" " " "
Total.....	7,025	million pesos national currency

The investments of British capital are, as is shown, of greatest importance, their amount representing 67% of the total. It is well to remember that British capital was the first to be placed in Argentina. The first credit transaction, the public loan of 1824, was made in London, and private British capital began to be firmly established in the country since 1857. British capital has always preferred the railroads as a field of investment. This is seen from the following table taken from the quoted estimate, showing the distribution of British capital investments in Argentina in 1927:

In railroads.....	2,800	million pesos national currency
In public loans.....	900	" " " "
In various other enterprises.....	1,000	" " " "
Total.....	4,700	million pesos national currency

On the other hand, investment of North American capital, which is second in importance, is of very recent date. In 1920, according to estimates of the United States Government, the total of North American capital invested in Argentina was only \$40 million. But beginning in 1921 our country placed numerous governmental loans in New York,

and the total amount increased to \$234.5 million in 1924. Subsequently large capital investments in electric industries, oil exploitation, refrigeration, etc., were added to the total of governmental loans. In 1927, according to the estimate of Engineer Bunge, the amount had risen to \$490 million. For 1927, Mr. Max Winkler in his book "Investments of U. S. Capital in Latin America," estimates total United States investments in Argentina at \$611,474,750. Actually, according to our computations, the total investment of North American capital in Argentina can be estimated at \$720 million, or about 1,700 million pesos national currency.

Classifying the investments by groups we have in the foreground the railroads that have always occupied first place in the investment of foreign capital in our country, representing a little over 50% of the total investments. In the recent years, however, this percentage has tended to decrease because construction of new lines has been somewhat impeded. According to the latest statistics, the capital of foreign railroad companies rose to 3,400 million pesos national currency, of which the greater part is British capital, as has been seen above.

With regard to this capital it is worth while to take into account the following estimates made by Engineer Bunge in the above-mentioned work:

"The railroad capital previously commented on, is, naturally, that of 'investment.' It is probable that if a real inventory were actually made, according to the actual values, establishing the respective 'reproduction' capital, the 3,100 million pesos of investment would prove to be nearly 5,000 million. There are, however, no reasons to use this method in a real inventory of foreign capital invested in the country. With our legal system the profits of the railroads are limited according to the capital invested without taking into account the valuation which a genuine and actual inventory would make manifest."

PUBLIC LOANS

After railroads, in order of importance, come the loans of the National Government, the Provinces, and the Municipalities. According to official data, made public in 1923 by the

General National Administration of Statistics, the external funded debt of the nation, provinces, and municipalities was at that time 944,500,000 pesos c/1. But in recent years great increases have occurred in the loans contracted by the nation to consolidate the floating debt, and many external loans were made by the provinces, principally in the period 1923-1928. The following table shows external governmental loans and short-term loans placed in New York in the years 1923-1928:

1923.....	40,000,000	dollars
1924.....	38,000,000	"
1925.....	105,323,000	"
1926.....	75,820,000	"
1927.....	120,171,000	"
1928.....	82,440,000	"

At the end of 1930, one can estimate the external loans of the nation, the provinces, and the municipalities at 2,150 million pesos national currency.

MORTGAGES

The foreign capital directly placed in mortgages in Argentina is estimated at 460 million pesos national currency. To this amount there is to be added about 246 million pesos national currency of Argentine mortgage certificates held by foreigners, according to an official estimate made in 1925 by the Commission for the Study of Mortgage Credit.

In the mentioned estimate of Engineer Bunge, the total of mortgages was estimated at 718 million pesos, a figure which actually ought to be slightly increased.

INDUSTRIES AND OTHER ENTERPRISES

This item is most difficult to estimate in these calculations. In the quoted work the amount is placed at 1,450 million pesos national currency in 1927. The same amount for that year is given in the "Balance of Payments" by C. A. Tornquist. Actually this figure amounts probably to 1,700 million pesos, owing to the increase in large part in the investments of North American capital in electric companies and other industrial enterprises.

COMPULSORY ARBITRATION IN AUSTRALIA

Report of Sir Lennon Raws, Managing Director, Imperial Chemical Industries of Australia and New Zealand, Ltd., Melbourne

AUSTRALIA, with an area of nearly 3 million square miles, is divided into 6 states of unequal size, the largest being West Australia, 975,920 square miles, and the smallest the Island of Tasmania, 26,215 square miles. Of a population of nearly 6½ millions, 66% live in New South Wales and Victoria, which comprise 13.36% of the area; and of this 66% about 53%, or over 35% of the total population, live in the cities of Sydney and Melbourne. This distribution of population has to be borne in mind when considering any problem, such as arbitration, which involves constitutional issues.

COMMONWEALTH AND STATES

When the Australian colonies federated in 1901, certain of their powers were transferred to the Commonwealth, including "Conciliation and arbitration for the prevention and settlement of industrial disputes extending beyond the limits of any one state."

At that time all the states except Tasmania had arbitration systems or wages boards. Victoria had been the first to adventure in the field of wage regulation with the establishment in 1896 of wages boards to prevent sweating in certain industries.

The first Commonwealth Arbitration Act was passed in 1904. It constituted a Court of Conciliation and Arbitration consisting of a president, who was to be appointed from among the High Court judges. Until 1926 the court had arbitral but not judicial powers.

It is clear that the framers of the constitution had in mind as the appropriate field of federal intervention those disputes which because of their interstate character were outside the

jurisdiction of any one state court; also that the power to be exercised was that of arbitrator rather than of regulator of wages and conditions of labor.

However, circumstances led to the field and the authority being widened considerably. With a complacent court, access thereto was made easy. An interstate dispute could be manufactured merely by serving an exorbitant demand on employers in more than one state; its rejection constituted a dispute which, after the formality of a compulsory conference, was referred to the Federal Court.

The act provided for the registration of federal trade unions, and, as long as a few members of a federal union were employed in an industry, that industry could be brought into the Federal Court even though the majority of its workers belonged to a state union and were working under a state award.

With a membership scattered over the continent, the power and independence of the officials became considerable, and they have guarded it jealously by persistent objection to secret ballots or any supervision or regulation of the internal economy of their organizations.

OVERLAPPING AWARDS

The state courts had not been disposed to surrender their powers; consequently, as the Federal Court widened the field of its activity, overlapping and duplication of awards became a frequent occurrence. In 1927 Mr. Justice Higgins said that he knew of one large undertaking that was operating under 125 awards.

Interpretation of the constitutional powers of the Commonwealth lies with the High Court. In 1910 a decision was given limiting the jurisdiction of the Federal Court in the event of inconsistency between federal and state awards. The practical effect of the decision was that the higher award prevailed. As long as this decision held, the unions were able to play one court against the other, secure in the knowledge that they could not get less by appealing to one court than had been secured already in the other.

The Federal Parliament tried on four occasions to obtain

complete powers by amendment of the constitution; but on each occasion the requisite majority was not obtained at a referendum of the people. The unequal distribution of population mentioned above makes the numerically smaller states jealous of their rights vis-a-vis the Commonwealth.

The confusion of overlapping awards continued until 1928, when a further High Court decision overruled the original doctrine of inconsistency. This enabled the Commonwealth Parliament to amend the federal act and to provide for the paramountcy of federal awards.

The serious friction and economic loss occasioned by overlapping, duplication, and inconsistency of federal and state awards cannot be charged against compulsory arbitration, but has been caused by the interaction of two independent jurisdictions and accentuated by the Federal Court overstepping the limits contemplated by the framers of the Constitution.

COMMON RULE

Another constitutional limitation prevents the Federal Court from making an award a common rule of an industry. Only those employers who have been cited before the court are bound by an award. In 1926 the Commonwealth Council of Federated Unions stated that "in some cases unions have to serve logs and summonses on 10,000 employers. Several unions have to serve up to 5,000 logs and summonses." This limitation does not prevail in the state courts.

DELAYS AND LENGTHY HEARINGS

Much dissatisfaction with the Federal Court has been caused by long delays in hearing cases owing to the congestion of business. In 1928 the Commonwealth Attorney General stated in the House of Representatives that there were then awaiting hearing 45 disputes that involved 96 claims, including cases partly heard, 103 applications of various kinds, and 12 appeals. Nine cases had been listed for 2 years and upwards, 40 for 1 year, and 30 for 6 months and upwards. The average waiting time of the cases then before the Court was approximately 8 months.

Discontent has also been caused by the time occupied in the hearing of cases. The Clothing case took 9 months and the Commercial Printing case 7 months.

OBSERVANCE OF AWARDS

Although the great majority of awards are kept, militant bodies such as the coal miners, seamen, and waterside workers have caused prolonged stoppages and heavy financial losses by striking against awards of the Court. An employer can be compelled to observe an award, but experience has shown that a large body of men cannot be compelled similarly if their leaders choose to call a strike.

The following statistics for 1925-1929 are taken from the Labor Report issued by the Commonwealth Statistician.

	Number of Disputes	Workpeople Involved	Working Days Lost	Estimated Loss in Wages
New South Wales.....	1,486	545,981	6,731,465	£7,439,251
Victoria.....	108	53,874	1,694,174	1,508,729
Queensland.....	97	59,278	752,286	583,163
South Australia.....	57	16,063	157,458	123,548
West Australia.....	54	11,533	189,409	128,543
Tasmania.....	29	2,835	32,023	24,421
Territories.....	15	2,799	44,353	37,062
Total.....	1,846	692,363	9,601,168	9,844,716

It will be noticed that New South Wales was responsible for nearly 80% of the disputes. This was due principally to the fact that 1,301 out of 1,846 disputes, or 70%, were in the mining group, involving 57% of the total loss of working days. The majority of the disputes causing this high percentage were in the coal-mining districts of New South Wales.

The coal-mining industry does not come under the jurisdiction of the Federal Court. A serious strike in 1916 caused the Prime Minister to intervene and under the War Precautions Act to constitute a board outside the Arbitration Court to fix wages and conditions, including the selling price of coal. In 1920, following further unrest, the Federal Parliament passed an Industrial Peace Act, which provided for tribunals independent of the Arbitration Court in any industry operating in more than one state. The tribunals were clothed with even greater powers than those possessed by

the Arbitration Court, but the Act has been applied only to the coal industry and has met with little or no success.

The relative monopoly enjoyed by the coal-mining industry enabled it to pass on the costs incidental to increased wages and shorter hours. Whereas between 1913 and 1928 the general average of wholesale prices in New South Wales increased 59%, that of coal increased by 127%.

The means whereby an award can be enforced against the will of militant trade union leaders is one of the most difficult problems of compulsory arbitration.

WAGE FIXING

Basic Wage

The Victorian Wages Boards were formed to check sweating. The idea of a basic or living wage came later. The occasion of the fixing of the federal basic wage was in the nature of an accident. The "New Protection" policy, later declared unconstitutional, of the labor government was embodied in an act which provided that excise duties would not apply to goods manufactured in the Commonwealth under conditions as to remuneration of labor which were, on application to the President of the Arbitration Court, declared to be fair and reasonable by him. In this capacity Mr. Justice Higgins in 1907 heard an application in respect of a harvester factory. He declared that such a standard should be "the normal needs of the average employee regarded as a human being living in a civilized community."

He found that in Melbourne the average necessary expenditure on rent, food, and fuel in a laborer's household of "about five persons" was 32s./5d., and he fixed 42/- per week as the fair and reasonable wage in connection with that application. Although this rate was based solely on Melbourne evidence and, as later admitted by the judge himself, on incomplete evidence, it was applied by the Court to other places and has been regarded as the federal standard ever since. The family of five has become the Court's typical family, although it was pointed out by Mr. Justice Piddington in 1921 that this provided for 450,000 nonexistent wives and 2.1 million nonexistent children.

Until 1913 the Court heard direct evidence in respect of variations in costs, but since that date purchasing power of money index numbers prepared by the Commonwealth Statistician have been adopted, and the practice now is to have quarterly adjustment based on the index number of the previous quarter. In 1921 Mr. Justice Powers added 6d. per day to the wage thus ascertained to cover current fluctuations in the cost of living. This has become in effect part of the basic wage.

The index numbers used by the Court at that time were the only measure of the cost of living available. They cover food, groceries, and housing. The Court assumes that clothing and miscellaneous expenditure comprise about 40% of the total expenditure and vary in the same ratio as the index number varies. That this is not so was shown by the Commonwealth Statistician in 1930, when he submitted to the Court, which was enquiring into the basic wage, a comparative statement of the results obtained by the application of the above index number and of an index number comprising food, groceries, rent of 4 and 5 rooms, clothing, and miscellaneous expenditure. The comparison showed that from 1925 to June, 1930, the Court's index number led to a wage of from 4% to 6% higher than the total household expenditure number. This addition to the basic wage together with the 6d. per day awarded by Mr. Justice Powers had the effect of increasing real wages from 1922 to 1930 by from 7% to 10%.

The more serious effect, however, of basing wages on costs of living is that the productivity of industry, which is the final source of wages, is ignored. The British Economic Mission to Australia in 1928 observed that "A system of wage fixation resting upon a basic money wage which rises or falls with a varying index figure of the cost of living is open to the gravest criticism as tending to deprive employees of any interest in the prosperity of the industry with which they are connected."

In his article, "The Economic Situation in Australia 1918-23," published in "The Economic Journal," March, 1924, Professor D. B. Copland remarked: "The general result is that in years of rapidly rising prices wages lagged

behind when the productivity of industry might have justified higher rates, but in the period of depression wages are relatively higher than before and the readjustment is slow. This shows the rigidity of the arbitration system and the difficulties that arise through the regulation of industrial costs on so artificial a standard."

The pertinency of Professor Copland's remarks is demonstrated by the recent enquiry by the Arbitration Court into the basic wage. An application for reduction was made by the Railways Commissioners in August, 1930. Maneuvres by the unions and the labor government delayed the hearing until October 20, and the enquiry lasted until January 15. The Court refused to make any variations in the basic wage or in the method of calculation thereof without further enquiry, but ordered for a period of twelve months and thereafter until further order a reduction of all wage rates by 10%. This applies automatically to those industries which joined in the application, but other industries have to apply to the Court before the reduction can be made in their industries.

MARGINS FOR SKILL

The competency of a judge to appreciate the nice points of distinction in the higher ranks of labor has been questioned by some of the judges themselves when dealing with margins for skill. Existing practices have been accepted as a guide, but it is probable that the skilled workman has suffered compared with unskilled labor. It has been the practice of the Federal Court not to vary the margins for skill in proportion to the cost of living. During the War Mr. Justice Higgins declined to do this, although he recognized that the extra commodities which the skilled man usually purchased with his margin became almost as indispensable in his social habits as the commodities purchased by the unskilled man. It can hardly be disputed that the practice of the Court has had the tendency to lessen the incentive to technical training. Dr. Benham in "Prosperity of Australia" points out that according to the census returns the number of persons working "on their own account" increased by nearly 93% between 1911 and 1921. He surmises that this may have

been due to the reduction in the secondary wage, and if so the effect on the efficiency and organization of production has probably been adverse. Another effect pointed out by the Royal Commission on National Insurance is that young men were attracted into the ranks of unskilled labor, and as a result of their following blind alley occupations they eventually became unemployed and had only a limited opportunity to obtain continuity of employment.

Dr. Benham remarks that "the lesson seems to be that attempts to reduce inequality of earnings through wage-regulation (involving interference with price mechanism) affect adversely both the community as a whole and wage-earners themselves."

MINIMUM WAGE

The minimum wage, to quote Mr. Justice Higgins, is the rate fixed "in respect of a given occupation, for the class of employees engaged in that operation, on the basis of the qualifications required of an average member of that class."

The obligation to pay and to accept the minimum wage has been the cause of much dispute.

The High Court confirmed Mr. Justice Higgins' dictum that, although the employer was bound, it was not a breach of an award, unless expressly provided, for an employee to refuse to accept employment at the minimum wage, but this judge and others have ruled that, without limiting the right of the individual as such, it is a breach of an award for individuals in combination to try to compel employers to pay more than the minimum rate. In some later awards the union and its members have been bound unless employers elect to pay a higher rate.

PAYMENT BY RESULTS

Trade unions have been hostile to all forms of remuneration based on payment by results although it is practiced in many industries, including mining, shearing, and clothing. In 1927 awards in respect of engineers and blacksmiths provoked widespread hostility. The unions refused to work

under the piece-work provisions, and the support of the other trade unions was so strong that this portion of the award has not been applied.

HIRING SYSTEMS

In 1920 the Court introduced the principle of weekly hiring, and, although experience has shown that safeguards are necessary in the interests of employers, this system has been extended to many industries. The employee is engaged week by week; his employment is terminable by a week's notice on either side; he receives payment for specified public holidays and for absence from work through sickness up to six and in some cases ten days in a year. The employer does not pay for time lost through causes for which he cannot reasonably be held to be responsible. Decisions have narrowed the interpretation of employers' responsibility, but it varies with the character of the industry. Generally employers have opposed the system on the grounds of abuse, and in 1927 Judge Beeby warned the unions that if they attached importance to the method of hiring they must co-operate with employers in preventing it from being brought into disrepute.

HOURS OF LABOR

Up to 1920 the standard in normal industries was 48 hours per week. In that year Mr. Justice Higgins declared that the industrial position was favorable to a general reduction and awarded a 44-hour week in the timber and engineering industries.

Following this decision the Commonwealth Parliament amended the act to provide that only the Full Arbitration Court could increase the standard hours of an industry or reduce them to less than 48 hours per week. In 1921 the Full Court decided that on account of the general depression the 48-hour standard should not be reduced. In 1927 in what was regarded as a test case the 44-hour week was sanctioned, and there was a flood of applications and much discontent at the inevitable delay in hearing the cases. Since then the tendency has been to maintain the shorter working

week where it had been granted, but not to extend it to other industries. In New South Wales and Queensland a 44-hour week was established by state legislation. Subsequently it was withdrawn, but in the case of New South Wales has been reintroduced.

In metalliferous mines the hours underground are 44-bank to bank in Queensland and New South Wales. At Broken Hill in New South Wales they are 35.

ECONOMIC CONSEQUENCES

The Federal Arbitration Act has been amended thirteen times in sixteen years. The states have been almost as prolific in amendments to their systems. After all these years of experimental legislation a scheme of compulsory arbitration which will be acceptable to all parties has not been found.

The British Economic Mission reported that "by workmen's representatives, not less emphatically than by representatives of the employers, it has been consistently represented to us that the Arbitration Courts are not achieving their purpose, and that a system designed to arrive by judicial decisions at fair and prompt settlement of industrial disputes such as could be fully accepted by both sides must be upheld to have failed."

They stated the most important of the reasons as being: (1) the spirit of antagonism inseparable from litigation; (2) the delay occasioned by the necessity for the collection and presentation of detailed evidence in a form acceptable to a Court; (3) the expense of time and money by litigants in attendance at the Court; (4) the subject matter of the questions brought before the Court is not of a nature with which judicial tribunals are best fitted to deal.

They considered that a change in method appeared to them to be essential and that there should be a minimum of judicial and governmental interference except in matters affecting health and safety.

Nevertheless, the result of the Federal Election in 1929, mentioned in my article published in Volume IV of this series, showed clearly that a large majority of the people

still favor compulsory arbitration and that its abolition is politically impossible.

Through the agency of the various tribunals there has been a steady and progressive increase in the nominal wage level and an equally uniform improvement in the working conditions of employees. An increasing number of workers have been brought within the ambit of wage-fixing tribunals, including many engaged in state instrumentalities. Consequently the basic wage has been applied to a larger number of workers.

That to a large degree the rise in wages has been illusory is shown by Table A, taken from the Labor Report, 1929, issued by the Commonwealth Statistician. From 1912 to 1920 effective wages with or without allowance for unemployment were lower than in 1911, and from 1921 to 1929 the average was about 9% for full work, and, allowing for unemployment, 4% above the 1911 standard. In 1929 the latter had fallen to under 1%.

Professor Copland in an article on "The Australian Problem" in the Economic Journal, December, 1930, says: "The steady upward trend of unemployment must be regarded as an indication of the development of a wage rate somewhat beyond the capacity of industry."

Dr. Benham in "The Prosperity of Australia" remarks that "taking everything into account, an increase of 1 per cent in the percentage of unemployment due to unwise wage fixing would probably more than offset any gain arising from the prevention or settling of industrial disputes through arbitration."

Table B shows that the increase in nominal wages has not been accompanied by an increase in relative productive activity, and that the burden of increasing costs has been thrown onto the primary industries.

There is no indication that wage fixing has increased the share of the worker at the expense of capital in the manufacturing industries. As shown in the added value column, increased costs have been passed on.

The primary industries are handicapped by the fact that a large proportion of their output is exported.

AUSTRALIAN PRODUCTION AND EXPORTS, 1919 TO 1929

	Percentage of Total Production	Exports as Percentage of Total Exports	Exports as Percentage of Production
Agriculture.....	22.01	25.16	37.78
Pastoral.....	26.34	53.16	66.71
Dairy and farmyard.....	11.31	6.84	19.99
Mining.....	5.35	9.55	58.97
Forestry and fisheries.....	2.84	1.42	16.56
TOTAL PRIMARY PRODUCE . . .	67.85	96.13	46.83
MANUFACTURING.....	32.15	3.87	3.97

In 1928-1929, 89.4% of the wool produced was exported, 62.2% of the wheat, and 61.6% of the metals.

Compensation in the shape of bounties has been given in respect of sugar, butter, wine, dried fruits, canned fruits. The principal staples, wool and wheat, however, have been left to face the full blast of world's prices.

TABLE A: UNEMPLOYMENT, NOMINAL AND EFFECTIVE WAGE INDEX NUMBERS, 1911 TO 1929

Source: Labor Report, 1929

Year	Nominal Wage Index Numbers	Percentage Unemployed	Rate of Wage Index Numbers Allowing for Lost Time		Retail Price Index Numbers	Effective Wage Index Numbers	
			Actual	Recomputed Base, 1911 = 1,000		Full Work	Allowing for Unemployment
1911	1,000	4.7	953	1,000	1,000	1,000	1,000
1912	1,051	5.5	993	1,042	1,101	955	946
1913	1,076	5.3	1,021	1,071	1,104	975	970
1914	1,081	8.3	991	1,040	1,140	948	912
1915	1,092	9.3	990	1,039	1,278	854	813
1916	1,144	5.8	1,078	1,131	1,324	864	854
1917	1,226	7.1	1,139	1,195	1,318	930	907
1918	1,270	5.8	1,196	1,255	1,362	932	921
1919	1,370	6.6	1,280	1,343	1,510	907	889
1920	1,627	6.5	1,521	1,596	1,785	911	894
1921	1,826	11.2	1,621	1,701	1,697	1,076	1,002
1922	1,801	9.3	1,634	1,715	1,600	1,126	1,072
1923	1,805	7.1	1,677	1,760	1,700	1,062	1,035
1924	1,840	8.9	1,676	1,759	1,681	1,095	1,046
1925	1,861	8.8	1,697	1,781	1,722	1,081	1,034
1926	1,914	7.1	1,778	1,866	1,786	1,072	1,045
1927	1,946	7.0	1,810	1,899	1,766	1,102	1,075
1928	1,963	10.8	1,751	1,837	1,760	1,115	1,044
1929	1,972	11.1	1,753	1,839	1,822	1,082	1,009

NOTE: For years prior to 1914 the nominal wage index numbers and the percentage unemployed relate to the end of the year only, but from 1914 onward these figures in addition to those for retail prices are averages for the whole year.

Australia is a debtor country. She has to pay abroad annually approximately £36 million for interest and services. It is essential, therefore, that her internal price level shall be such as will enable her to produce profitably those goods for which there is an overseas market. She was able to carry on precariously until 1929 by borrowing abroad roughly the equivalent of her overseas indebtedness, and good prices and fair seasons enabled her export industries to bear the cost of the tariff, estimated by the Tariff Committee appointed by the Prime Minister at about eight per cent of costs in these industries in 1926-1927.

TABLE B: RELATIVE PRODUCTIVE ACTIVITY AND PRICE PRODUCTION INDEX NUMBERS, 1911 to 1928-1929

Source: Commonwealth Yearbook

Year	Production Prices Index Numbers			Relative Value of Production per Head	Estimated Relative Productivity Index Numbers
	Primary Production	Manufactures Added Value	Total		
1911	1,000	1,000	1,000	1,000	1,000
1912	1,081	1,071	1,078	..	..
1913	1,058	1,108	1,074	..	..
1914	1,292	1,130	1,238	..	..
1915	1,348	1,130	1,288	..	..
1916	1,509	1,164	1,412	1,293	916
1917	1,669	1,246	1,546	..	..
1918	1,777	1,285	1,632	..	..
1919-1920	2,070	1,511	1,887	..	..
1920-1921	1,940	1,780	1,888	..	..
1921-1922	1,464	1,872	1,629	1,518	932
1922-1923	1,711	1,872	1,774	..	..
1923-1924	1,924	1,925	1,925	..	..
1924-1925	1,906	1,973	1,930	1,877	873
1925-1926	1,774	2,030	1,880	1,748	930
1926-1927	1,679	2,054	1,835	1,778	969
1927-1928	1,865	2,074	1,953	1,764	903
1928-1929	1,678	2,039	1,831	1,716	937

The cessation of overseas borrowing in 1929 followed by the catastrophic fall in wholesale prices of wool, wheat, butter, and metals has confronted her with a major crisis, and a reduction of production costs is imperative. Experience leads one to fear that the Arbitration Court method of adjusting wages is too slow and cumbersome to deal effectively with such an emergency. On the other hand, by providing a means whereby the pros and cons of wage reduction can be argued in open court, it may bring about what is necessary

without the distress and turmoil of extensive strikes. It remains to be seen, however, whether the exigencies of the crisis will permit of such a leisurely method of adjustment. Unemployment is increasing, profits are disappearing, and the problems of meeting high costs of government are becoming so acute that dire necessity may pre-empt the position.

In addition to the authorities quoted, extensive use has been made in this article of Mr. Anderson's "Fixation of Wages in Australia," published by Macmillan & Co., a valuable survey of the methods and actions of industrial tribunals in Australia.

Melbourne
January, 1931

ECONOMIC CONDITIONS IN JAPAN AT THE BEGINNING OF 1931

Report of Baron Koyata Iwasaki, President, Mitsubishi Company, Tokyo

GENERAL SURVEY OF DEVELOPMENTS IN 1930

THE past year has been a very eventful period in the economic history of this country. Not only has the phenomenal debacle of prices dislocated the basis on which agriculture and industry have been wont to work for a long time, but the adjustment has been the greater since that basis remained at an artificial level after the conclusion of the Great War. This basis was jerked out of its equilibrium by the return to the gold standard early in the year. The necessary adaptation to the higher exchange value of Japanese currency had not been completed when the world-wide slump of 1929 and 1930 occurred, hence the severity of the price decline in this country, which was greater than in other leading countries equally affected by the depression.

Notwithstanding the additional strain of the return to gold standard, the national economy has shown a high degree of elasticity in weathering the crisis. Although at the price of bitter sacrifices, the price index has now been reduced to international level, while at the opening of 1930 prices were still about 7.8% higher than in the leading countries of the West.

FINANCE, BANKING, AND THE MONEY MARKET

The national budget for 1931-1932 continues the policy of retrenchment initiated a year and a half ago. The reduction in the general account represents 325 million yen from the total of 1,773 million yen for the year 1929-1930. The government policy of restricting the issue of national bonds is still adhered to, but a special loan of 35 million yen has been proposed for the relief of unemployment.

The note issue experienced a gradual contraction due to the reduced demand for funds and the outflow of gold, the

daily average for the second half of 1930 totalling 1,092 million yen compared with 1,267 million yen for the corresponding period of 1929.

The outflow of gold during 1930 amounted to 308 million yen, against which there were receipts of about 61 million yen, resulting in a net loss of specie of 247 million yen, of which, however, 80 million yen were shipped for investment abroad. The excess of the fiduciary note issue, consequently, increased compared with the previous year, and the ratio of the specie reserve to the note issue declined. The development of the ratio of the gold reserve to note circulation is shown in the following table:

Date	Gold Reserve	Notes Issued	Reserve Rate	Total of Note Issue Plus Current Deposits with the Bank of Japan	Reserve Rate
	Million Yen	Million Yen	Per Cent	Million Yen	Per Cent
1930, January 11	1,073	1,253	85.6	1,776	60.4
1931, January 10	826	1,117	74.0	1,456	56.8

DEVELOPMENT OF GOLD RESERVE AND NOTES ISSUED

In thousand yen

Date	Gold Reserve	Notes Issued	Excessive Fiduciary Issue	Notes Issued Average of 2nd Half Year
1927, December 31	1,062,737	1,682,390	499,653	1,240,509
1928, December 31	1,061,636	1,739,096	557,459	1,272,457
1929, December 31	1,072,273	1,641,851	449,578	1,259,888
1930, December 31	825,998	1,436,295	490,297	1,092,667

Considering the depressed conditions of business, the low rates of interest, and the lethargic state of the stock exchange, bank earnings showed a general reduction compared with previous terms. No banking failure of importance occurred, however, as the atmosphere had been effectually cleared by the financial crisis of 1927.

In spite of the low level of interest rates, long-term credit continues to be greatly restricted, and the issue of company debentures has been reduced to a minimum. Capital issues during the year showed a sharp decrease of 329 million yen to a total of 1,226,960,000 yen.

CAPITAL ISSUES IN 1930, INCLUDING CONVERSIONS

Type of Issue	1930	Increase or Decrease Compared with 1929
Government bonds.....	590,220	+165,925
Municipal bonds.....	70,385	-2,123
Bank debentures.....	412,888	-48,630
Company debentures.....	153,470	-444,593
Total.....	1,226,964	-329,421

Deposits with commercial banks showed a substantial decrease since the abolition of the gold embargo. The decrease is very marked as regards deposits with secondary banks, fixed deposits with first-class banks continuing to show an increasing tendency.

DEVELOPMENT OF DEPOSITS

In thousand yen

	Nov., 1928	Nov., 1929	Nov., 1930	Increase or Decrease Compared with	
				1928	1929
Deposits with commercial banks.....	9,161,936	9,090,386	8,524,604	-637,332	-565,782
Money in trust.....	1,003,723	1,168,883	1,178,650	+174,927	+9,767
Deposits with savings banks.....	1,234,150	1,417,042	1,527,935	+293,785	+110,893
Postal savings.....	1,751,035	2,045,006	2,322,765	+571,730	+277,759
Total.....	13,150,844	13,721,317	13,553,954	+403,110	-167,363

In reaction to the long-continued decline, the bond and share market showed a better feeling towards the end of the year, coupled with an increase in transactions. The advance was natural enough in view of the continuous decline for more than two years, but cannot be regarded as a prelude to an early revival on the stock market.

Although money rates show a slightly rising tendency on account of the abolition of the gold embargo and the consequent outflow of gold, the prevailing business depression and the decrease in the demand for funds combine to keep interest rates low. The Bank of Japan reduced its official discount rate on October 7, 1930, from 5.47% to 5.11%, and a further reduction may be realized in the near future.

COMPARISON OF MONEY RATES IN JAPAN AND THE
UNITED STATES

Year	Call Money				Discount Rates					
	Tokyo		New York		Tokyo		Osaka		New York	
	Ordinary Commercial Paper	Spinner's Bills	Prime Bankers' Acceptance, 90 Days	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	
1927—	Maxi- mum	Mini- mum	Maxi- mum	Mini- mum	Maxi- mum	Mini- mum	Maxi- mum	Mini- mum	Maxi- mum	Mini- mum
1st half, average . . .	5.12	4.72	4.75	3.86	7.75	6.45	6.90	5.73	3.82	3.75
2nd half, " . . .	4.24	3.37	4.58	3.54	7.57	5.65	6.13	3.83	3.40	3.32
1928—										
1st half, " . . .	4.03	2.52	5.92	4.37	6.62	4.16	5.18	3.32	3.88	3.67
2nd half, " . . .	4.07	2.86	9.83	5.73	6.53	4.03	4.85	3.43	4.67	4.56
1929—										
1st half, " . . .	4.05	2.99	13.67	6.42	6.48	4.02	4.82	3.21	5.40	5.17
2nd half, " . . .	4.05	3.06	10.20	5.33	6.35	4.10	4.85	3.21	4.90	4.67
1930—										
1st half, " . . .	4.03	3.44	4.33	3.00	6.39	4.20	4.85	3.54	3.27	2.88
2nd half, " . . .	4.06	3.56	2.67	1.92	6.53	4.57	4.85	3.91	1.88	1.88

PRICE CONDITIONS

The adjustment of the Japanese wholesale price index to international conditions has made further progress, the decline during 1930 having reached 22.2%, compared with 18.9% for the United States, and 18.7% until November, 1930 for Great Britain. The respective index figures for the three countries are 119, 103, and 104, but the index for Japan is vitiated by the inclusion of Japanese specialties that cannot be compared internationally. Confining the comparison to international commodities, the Japanese index works out at 105, which is almost identical to the figures for the United States and Great Britain.

Since the middle of October, 1930, the tendency of the general-price index has been fairly stable owing to firmness in the quotations of some important commodities such as raw silk, cotton yarn, rice, sugar, copper, and cement.

Commodity	Middle of January, 1931, in Yen	Minimum during Autumn, 1930, in Yen
Raw silk	710.00	540.00 (Oct. 7)
Cotton yarn	137.78	127.00 (Oct. 6)
Rice	17.80	17.20 (Nov. 6)
Sugar	14.80	13.57 (Nov. 12)
Copper	58.30	55.70 (Oct. 27)
Cement	3.65	3.20 (Oct. 6 to Nov. 25)

Retail prices have not declined to the same extent as wholesale prices. The declining tendency has, however, been intensified in the latter half of 1930, the rate of decline during this period reaching 10.3%, as against 8.8% for the first half of the year and 6.6% for the latter half of 1929. The index of retail prices in December, 1930, reached 140—July, 1914 = 100—a reduction during the whole year of 18.1%.

DEVELOPMENT OF PRICE INDEX COMPARED WITH FOREIGN COUNTRIES

Base, 1913=100

Country and Index	Mar., 1920	June, 1929	Dec., 1929	June, 1930	Dec., 1930	Rate of Decline from	
						June, 1929 Per Cent	Dec., 1929 Per Cent
Japan Wholesale price index							
General price index...	337	167	153	135	119	28.7	22.2
Commodities of domestic consumption	366	222	204	184	170	23.4	16.7
Commodities of international consumption.....	329	152	140	122	105	30.9	25.0
Grain.....	266	147	134	114	88	40.1	34.3
Foods.....	275	191	183	165	149	22.0	18.6
Clothing.....	383	141	123	101	87	38.3	29.3
Metals.....	362	140	121	107	90	35.7	25.6
Building materials...	367	200	176	158	145	27.5	17.6
Fuels.....	348	179	178	158	141	21.2	20.8
Miscellaneous.....	337	171	161	148	135	21.1	16.1
Retail price index.....	...	183	171	156	140	23.5	18.1
United States wholesale price index.....	225	136	127	115	103	24.3	18.9
Great Britain wholesale price index.....	308	133	128	113	104 ¹	21.8	18.8

¹ November.

INDUSTRIAL AND COMMERCIAL SITUATION

Industrial production during the last half of 1930 was considerably reduced, a tendency quite contrary to the previous ten years. The average production index, compiled from eight important commodities during five months ending November, 1930, declined considerably below the normal annual rate of progression.

Year ¹	Real Index	Trend Figure	Difference
1927.....	138.07	136.57	+1.50
1928.....	146.22	145.50	+0.72
1929.....	168.00	154.43	+13.57
1930.....	149.05	163.36	-14.31

¹ Average for five months ending November.

Depressed market conditions during the greater part of 1930 have led to a widening restriction of output, while agreements as to sale in various forms or even new combinations have been established.

The principal restrictions of output now in force are 34.4% for cotton spinning, 35% for spun silk yarn, 15% for artificial silk, 35% for printing paper, 10% for newsprint paper, 55% for superphosphate of lime, 45% for bleaching powder, and 53.2% for cement. The output of steel products is also variously restricted, and the production of copper will be reduced in 1931.

The effect of the restriction of output is seen in the fact that while stocks of commodities at the end of June, 1930, were 13.2% larger than a year ago, this condition was reversed at the end of the year, when a decrease of 24.6% was shown compared with the end of 1929.

The recession in business transactions was further accentuated during 1930, as reflected in the pronounced reduction of railway goods traffic, movement of goods at warehouses, and bank clearings, which showed a reduction of 13.6%, 18.3%, and 18.8% respectively compared with the preceding year.

Owing to the marked reduction of business transactions and the extraordinary decline in prices, company earnings diminished to a serious extent.

PROFIT AND DIVIDENDS

In thousand yen

	1929	1930
	276 Companies March-August	268 Companies March-August
Net profits, yen.....	214,566	154,262
Ratio to paid-up capital.....	10.7%	7.6%
Dividends, yen.....	176,257	142,456
Ratio to paid-up capital.....	8.8%	7.0%

The shrinkage in national purchasing power is evidenced by the marked reduction in value, though not in volume, of the rice and cocoon crops. Wage reductions and unemployment were additional factors in depressing the buying volume.

	1929	1930
Rice crop		
value—yen.....	1,768,865,511	1,170,435,140
volume—koku.....	59,557,694	66,882,008
Cocoon crop		
value—yen.....	655,001,070	304,245,768
volume—kwan.....	102,093,194	106,464,516
Labor disputes against wage reduction.....	171	446
Unemployment, October ¹	292,324	374,140

¹ Estimates compiled by the Bureau of Social Affairs, excluding agricultural labor.

The development of foreign trade in 1930 shows a serious shrinkage in both exports and imports. It is noteworthy, however, that the tendency towards a less unfavorable trade balance continues, the excess of imports in 1930 showing the lowest record since 1918.

FOREIGN TRADE INCLUDING CHOSON AND TAIWAN DURING 1930

In thousand yen

Year	Exports	Imports	Total	Excess of Imports
1927.....	2,065,048	2,358,658	4,423,706	293,610
1928.....	2,038,000	2,372,799	4,410,799	334,799
1929.....	2,217,579	2,388,548	4,606,127	170,969
1930.....	1,518,551	1,680,061	3,198,612	161,510

The decline in exports was mainly due to the reduced value of raw silk, silk tissues, and cotton tissues, which was responsible for 81.7% of the total decrease. The decline in imports was more widely spread, but raw cotton, wool, and iron and steel products made up nearly one half of the total decrease.

PRESENT POSITION AND OUTLOOK

Serious as the present world-wide economic crisis appears to be, a crisis which is fully shared in this country, the situa-

DEVELOPMENT OF EXPORT TRADE OF THREE IMPORTANT COMMODITIES DURING 1930

In thousand yen

	1928	1929	1930	Decrease Compared with			
				1928		1929	
				Amount	Per Cent	Amount	Per Cent
Total export: Japan proper	1,971,955	2,148,618	1,469,850	502,105	25.5	678,768	31.6
Total export: raw silk, cotton tissues, and silk tissues	1,218,974	1,343,702	789,472	429,502	35.2	554,230	41.2
Others	752,981	804,916	680,378	72,603	9.6	124,538	15.5
Raw silk: value	732,697	781,040	416,647	316,050	43.1	364,393	46.7
volume in bales	547,964	574,849	469,896	78,068	14.2	104,953	18.3
Cotton tissues: value	352,218	412,707	272,117	80,101	22.7	140,590	34.1
volume in thousand square yards	1,418,798	1,790,560	1,571,825	(+) 153,027	10.8	218,735	12.2
Silk tissues: value	134,059	149,955	100,708	33,351	24.9	49,247	32.8

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DEVELOPMENT OF IMPORT TRADE OF THREE IMPORTANT COMMODITIES DURING 1930

In thousand yen

	1928	1929	1930	Decrease Compared with			
				1928		1929	
				Amount	Per Cent	Amount	Per Cent
Total import: Japan proper	2,196,314	2,216,240	1,546,075	650,239	29.6	670,165	30.2
Total import of raw cotton, iron and steel, and wool	811,197	834,553	528,283	282,914	34.9	306,270	36.7
Others	1,385,117	1,381,687	1,017,792	367,325	26.5	363,895	28.3
Raw cotton: value	549,942	573,016	362,048	187,894	34.2	187,968	36.8
volume in piculs	9,755,173	10,789,571	9,573,486	181,687	1.9	1,216,085	11.3
Iron and steel: value	149,383	159,722	93,628	55,755	37.3	66,094	41.4
Wool: value	111,872	101,815	72,607	39,265	35.1	29,208	28.7

tion here is probably viewed with less despondency than was the case a few months ago. Unemployment, although by far not so alarming as in other industrial countries, the latest estimate places the figure at 374,140 persons, shows no signs of improvement, and the economic situation in rural districts continues unfavorable. Solid progress has, however, been made towards reducing the costs of production, and the readjustment of prices has gone far enough to place the wholesale price index approximately on a par with international conditions. For the first time during the past decade the price level is no longer lagging behind that of other leading industrial countries, and this result has been achieved in spite of the drawback of a simultaneous return to the gold standard.

The abolition of the gold embargo has been financially successful, but its unexpected synchronization with the world-wide depression greatly increased the difficulties of the price adjustment. As anticipated, there was an outflow of gold which, for the whole year, reached the net amount of 247 million yen, but the fiduciary issue remains amply secured. Owing to the shrinkage of transactions, the export of specie did not produce any considerable tightening of money rates, which continued easy throughout the year.

A marked reduction in stocks of commodities has, for the time being at least, checked the downward rush of prices. It must, however, be admitted that the elimination of excessive stocks has not resulted from any increased demand but from the continued enforcement of production curtailment in the most important industries.

The economic structure has shown notable elasticity in adapting itself to the new basis of prices and may be said to be better prepared than at any time during the past several years to profit from any resumption of international economic activity. Unless, therefore, a new downward movement should lead prices to a yet lower plane, an unlikely contingency in view of the tremendous decline of the past year, the worst of the depression may have run its course.

It would, however, be premature to infer from these symptoms that a revival in trade and industry was imminent in this country. Considering the almost unprecedented in-

tensity and world-wide extent of the present depression, a genuine recovery can only take place if supplemented by an improvement in business conditions in other leading countries, especially those which are our best customers. The recent development of the depression in the United States and the renewed decline of silver, which reduces the purchasing power of China, constitute a much needed reminder of the vital influence which happenings abroad may exercise on the economic welfare of this country.

Tokyo
February, 1931

ECONOMIC REHABILITATION OF CHINA

Report of Mr. Li Ming, Chairman of the Board of Directors and General Manager, Chekiang Industrial Bank, Shanghai

THE world-wide economic depression has fallen heavily upon China, because of factors which, although general in the modern world, apply specifically to China owing to China's inadequate preparation for resistance to sudden economic changes. It must be understood that China is no longer the isolated country of tradition; nor can China follow an economic trend independent of world conditions. The past decade has definitely brought China into the world picture, and, as much as China reacts to world conditions, so much is every trading country affected not only by economic but also by political conditions in China.

The immediate effect of the current trade depression on China was the curtailment of the export trade in raw materials of an extremely varied character, arising not only from the reduction in the purchasing power of China's customers but also from the temporary cessation of certain industries in Europe and America in which Chinese products are important elements. For instance, a lessening of building operations anywhere will reduce the amount of paint consumed and will therefore lower the exportation of wood oil from the Yangtze Valley. As China is not yet an industrialized country, still depending almost entirely upon agricultural products for exports, this diminution of trade has had an extremely adverse effect upon the income of the people and has therefore delayed generally the economic and political reconstruction of the country.

In this connection, it is necessary to call particular attention to the catastrophic fall in the price of silver, the downward tendency of which may best be indicated by the following figures of the value of silver:

Average for 1st 6 months of 1929.....	U. S. \$ 55297 per ounce
Average for 2nd 6 months of 1929.....	U. S. \$ 50688 per ounce
Average for 1st 6 months of 1930.....	U. S. \$ 41268 per ounce
Average for 2nd 6 months of 1930.....	U. S. \$ 35040 per ounce
Average for January, 1931.....	U. S. \$ 29401 per ounce
Average for February, 1931.....	U. S. \$ 26999 per ounce

As silver is the standard of the national currency of China, it soon became almost impossible for the Chinese people to import goods from abroad except certain specific items with regard to which a ratio with falling silver was maintained. Thus, whereas China was unable to purchase machinery for the rehabilitation of industry, Chinese merchants in Shanghai were still in a position to import wheat, sugar and cotton. Nevertheless, the inability to find markets for exports and the general high cost of imports, due to a depreciating exchange value of currency and the necessity of the government to increase customs duties to protect gold and silver loan obligations, so seriously enhanced the cost of living of the people as to produce approximate panic conditions in the large commercial cities and trading ports. Panic conditions were avoided, however, inasmuch as China is still an agricultural country and the particular social concomitants of an economic depression in a highly industrialized state were absent. Similarly the post-depression rehabilitation is bound to follow a course in many respects independent of that pursued by the industrial nations.

The outstanding efforts in the direction of economic rehabilitation of China will be political stability, improved means of communications, and currency reform.

It is impossible in this article to discuss the question of political stability at any great length. Suffice it to say that the National Government has been successful in putting down rebellions and eliminating contumacious militarists from the political arena, so that the prospects of actual unification are everywhere apparent. Among other notable achievements of China in the field of politics to be reckoned with are the abolition of *likin*, an obnoxious tax which since the Taiping Rebellion some eighty years ago has been working to the detriment of the inland trade; the reorganization of the customs on the basis of complete autonomy without limitations placed on China by treaties with the powers; the consolidation of the tax agencies and other administrative reforms of a high order. These are definite indications of stabilization of China's political and administrative systems, and there seems to be every prospect of a successful organ-

ization of the political life of the country on a constitutional basis fully protecting the life and property of the people.

The existing means of communication in China are lamentably inadequate, and for the improvement of communication facilities China requires a speedy rehabilitation and augmentation of her railway systems, inauguration of air routes, development of shipping, and construction of modern highways. The founding of the Ministry of Railways, the operation of air routes along the Yangtze Valley, the growing interest manifested by the nation in aviation, and the spontaneous actions taken by local authorities in constructing highways are distinct features of progress in improving transportation throughout the country. It will be necessary during the next few years to rehabilitate the existing railways and to build a network of new lines, and in connection with the work it will be possible for foreign investors to find an outlet for their surplus capital in China in a constructive enterprise of international significance. The opening of China by the construction of railways will have the additional value of releasing to world markets such natural resources of China as are to-day bottled up because of the inadequacy of the means of communications.

One of the urgent steps for introducing currency reform in China is the unification of the existing diversified currency systems on a genuine silver basis. As the lack of a standardized money system has greatly hampered China's internal trade, the unification is highly desirable. After monetary systems are consolidated, effort should be made for the gradual transformation of the silver to the gold standard to be in conformity with the currency system in use in the economically advanced countries of the world.

The loan policy of the National Government has been made amply clear in the pronouncements of the Minister of Finance, Mr. T. V. Soong, who generally advocates the reduction of the national indebtedness by the consolidation and refunding of the overdue unsecured loans, and then the employment of new credits, not to meet current expenditures but for purposes of rehabilitation and reconstruction. This policy should be supported by general efforts in the improve-

ment of the productive capacity of the Chinese people and the elevation of their standard of living.

It will be observed from this short statement of facts that in China we are now seeking a sound economic structure for our national development. With political stability fully established, communication facilities improved, and currency reform effected, China will be ready to keep pace with the general economic advancement of the world.

Shanghai
March, 1931

ECONOMIC CO-OPERATION OF BALKAN AND CENTRAL EUROPEAN COUNTRIES

Report of Mr. S. D. Alexander, President, Mirna Coal Mining Co., Inc.,
Zagreb

THE protracted business depression and its concomitant widespread social misery have at last brought the nations of Europe nearer to each other in the common effort of finding a way out of the world-wide distress. This topic is being generally discussed in endless variations, although very few agree as yet even on the point whether or not the bottom has been touched.

In the meantime, the unemployment data remain discouraging, state budgets are bulging either with straight "doles" or other more or less successfully camouflaged unproductive items, which in turn oppress still more the sources of business, farming, manufacturing, commerce, and finance alike. This common plight has caused men of good will to join forces and try to re-establish the sorely needed balance between supply and demand, production and consumption, through peaceful means, applying to the tremendous problem the weapons of reason and human solidarity.

The project of a Pan-European Union has generally been greeted as a lofty ideal, and its author, Count Coudenhove-Kalergi, has accordingly been treated with much sympathy and very little real co-operation. Things began to happen only after the powerful personality of Mr. Briand took hold of the idea of European reorganization, and recently quite an imposing number of leading statesmen met at Geneva for the purpose of laying down workable plans of union.

The vigorously critical report of the economic section of the European Committee did not give much cheer to the gathering. It was, however, again a man of business, the former Finance Minister of Holland, Mr. Colijn, who convincingly reminded the assembly that business in Europe was desperately in need of a comprehensive solution, and a quick

one, too. In this way—even if under the sting of necessity—economic considerations begin to outweigh purely political ones, and business interests cease to remain confined to the exclusive care of minor departments of the government.

The League of Nations has as yet not been very successful in dealing with principal economic problems. In the momentous matters of a customs holiday and the lowering of tariff barriers nothing durable has been accomplished. Everybody is seeing quite clearly the theoretical harm of the barrier system, but nevertheless the industrial states continue fostering by all means and regardless of cost their own agrarian production, while the agrarian nations still guard the protecting walls behind which a tender domestic industry is trying to develop permanent roots.

There is such a thing as suffering from too much success. The campaign for increasing the productivity of all branches of our present economic organization has been going on ever since the War, and the consequences are now on our hands. Particularly, the intensification of wheat production through the increasing use of machinery and the reclamation of additional areas for raising new crops occurred at a time when the demand for agricultural produce was generally receding, partly from changed nutrition habits, and also because large portions of the world's population, such as Russia, China, and India, were forced by different but fatally compelling reasons to undergo long periods of real starvation.

The agrarian states of our continent, and these are chiefly the nations of Eastern Europe, Jugoslavia, Bulgaria, Rumania, and Hungary, whose populations live mainly on and from the soil, were first and most severely affected by this abnormal state of affairs. Prices were constantly falling and are dangerously near the level of production cost even for the most fertile and best cultivated lands. The peasant and the land-owning class of several countries generally were headed for ruin unless something was done to meet this emergency which was threatening to become chronic. It occurred then to these nations that they were buyers as well as sellers. Their needs for manufactured articles are still considerable. The orders are going almost exclusively to the markets of the industrial states of Central Europe, and states-

men began to wonder whether these orders, if pooled together, could command a greater respect for the economic demands of their respective countries.

The initiative for a new economic orientation of reciprocity, even if at the cost of breaking away from long-established methods, came from Yugoslavia. Conferences of the primarily interested states—Rumania, Yugoslavia, and Hungary—were held first at Bucharest, then at Sinaia, and later at the Polish capital, Warsaw, this nation showing also much interest in the new scheme. No definite results have materialized as yet out of these negotiations. Nevertheless, they seem to be widening in scope, and a new general "grain conference" is scheduled for March 26, 1931, at Rome, under the wings, as it were, of the International Institute of Agriculture.

In any event, this movement has squarely challenged a time honored instrument of international trade, the venerable clause of the most favored nation, which practically means all the nations of the globe with whom regular trade relations are being entertained. This stipulation has outlived, it is claimed, its own usefulness and should give way to new international trade arrangements more closely based on the simple principle of "dout des." A new system of particularly rather than generally preferential treaties seems to loom at large. States anxious to sell their industrial products are going to be asked at the same time to make possible to their customers, the agrarian nations, to dispose of their crops at prices that will allow the tillers of the soil not merely to vegetate but will also enable them to buy and pay for the necessities not manufactured in their own countries.

Comprehensive treaties regulating the exchange of goods in large areas, including groups of states whose economic problems are of the same order or complementary to each other, are deemed necessary to put the scheme into effect. At the time of this writing, the contact between the interested administrations is still very lively, although it does not seem to have passed the important stage of technical study of the many very complex questions involved therein. It is proposed to organize in each state central grain buying, respectively grain exporting, corporations, in so far as such

do not already exist. This means state monopoly for grain, but at the same time the scheme would insure standardization of produce types, stabilize prices, and prevent competition as between the states bound by the marketing agreements. It is also hoped that the elimination of middlemen, with the consequent reduction of the distribution cost, as well as the supplying of land-owners, through public effort, with the needed financial support on moderate terms, would by itself ease their situation, and increase the real income from land even if prices should remain the same.

The economic unification of Europe is too big and complex a task to be tackled at once. Through regional grouping of large structurally similar areas the problem is being simplified, and a sound basis is being laid for the gradual realization of the infinitely more ambitious project of the United States of Europe. Economic co-operation will pave the way for definite political understandings, and very characteristic even if modest positive results may already be registered only by reading the list of nations sitting around the same table in uncontroversial discussions of their common difficulties.

It must be pointed out, however, that the problem of direct interchange of goods between agrarian and industrial states or state groups hedged by preferential agreements is not as simple a matter as it would seem at first sight and on listening to vanguard apostles who talk even of custom unions. We have already mentioned the forcing of agrarian production in primarily manufacturing states as one of the determining elements of the present situation. These interests still exist and are clamoring for continued protection. On the other hand, the primarily agricultural states are possessed of important industrial developments, the result of long and costly efforts. These positions they are not ready to give up, nor would it be economically wise to withdraw all the props from young but thriving industries, based largely on agriculture, that strengthen the domestic consumption market and thus enable it to absorb ever-increasing quantities of agrarian produce.

But where there is earnestness of proposals there certainly is also a way to put them into effect. The difficulties cannot

be charmed away, but they are not insurmountable, either. Overseas trade relations are also numbered among the major difficulties. These would, however, not be vitally affected should Europe succeed in organizing a smoother absorption of the produce surpluses of its own agrarian areas by the industrial regions regardless of nationality, if we consider that European overseas grain imports are fully six times larger than the surplus stocks threatening to stifle the landowners of our continent.

This earth of ours has still plenty of room for all its people of good will. Adjustments are sometimes needed, and they certainly are now. They should then be made in a spirit of understanding and co-operation so that the strengthening of the feebler parts may result in a sounder and more stable whole.

Zagreb
March, 1931

A BIRD'S-EYE VIEW OF THE RECENT ECONOMIC POSITION OF JAPAN

Report of Baron Takuma Dan, Director, Mitsui and Company, Limited,
Tokyo

THE bad effect of the world economic depression has been felt in Japan no less than in any other country. But in our case the situation has been further complicated by a variety of causes peculiar to this country, chief among them being the lifting of the embargo upon the export of gold in January last year. The consequent heavy outflow of gold causing a sharp contraction of currency, a severe fall in the price of commodities, particularly of agricultural products, a sharp depreciation in the value of bonds and shares, a marked shrinkage in our foreign trade, all this attests to the disastrous effect of the untoward forces originating at home and abroad.

As to the movement of gold throughout the world in 1930, it is noticed that, while on the one hand the United States and France have increased their gold holdings by £90 million and £41 million respectively, Japan had, on the other hand, her stock depleted by £24 million. Japan's loss of gold in 1930 was only second to that of Argentine in 1929, which amounted to £36 million. It is not difficult to imagine how serious will be the result of the loss of so much gold in a single year. It is needless to say that an outflow of gold is necessarily followed by a corresponding diminution in the note circulation. The note issue for January this year, when compared to January last year, shows a contraction of 170 million yen on the average, a fall of 12.5%.

Turning our attention now to the course of commodity prices, the Bank of Japan's wholesale index number registered a decline of 21.3% on the twelve months. In the same period prices in New York, London, and Paris fell by 19.9%, 22%, and 13.5%, respectively. Taking the average for July, 1914, as a basis, the price index in Tokyo for Decem-

ber last was 127.8, while those in New York, London, and Paris were 109.2, 103.7, and 101.4 respectively. But it must be remembered that the list of commodities comprised in our index number, compiled by the Bank of Japan, includes a certain number of goods which are not affected by the worldwide movement in prices for reasons of their being state monopolies or otherwise "sheltered" from foreign competition. If due allowance is made for this, the price-changes during last year were by far the severer than elsewhere and the fall would exceed over 30%. Of the principal products, raw silk has fallen 40%, and rice 35%, while cotton yarn, though it has considerably recovered during the past two or three months, still shows a decline of 22.3%.

The general depression is faithfully reflected in the stock market with a serious fall in quotations. The aggregate value of the shares quoted at the Tokyo Stock Exchange, which stood at 3,020 million yen at the beginning of July, 1929, fell to 2,441 million yen by the beginning of January, 1930, and to 1,460 million yen by the beginning of October, 1930. The beginning of the present year saw the stock market slowly picking up, but the actual volume of business still stood at a very low figure. Not a few leading shares are still quoted below the paid-up value, some of them representing less than half their paid-up value.

Our foreign trade tells the same story. Last year's exports, when compared with those for the preceding twelve months, show a decline of 31.6% in value, while imports were 30.2% lower. The shrinkage is particularly noticeable in our export trade, when we compare it to America's 26.7%, England's 21.6%, France's 14.5%, and Germany's 10.8%. Of our principal list of exports, raw silk fell off as much as 46.5%, while cotton goods were reduced by 34%. These figures of course refer to the value of exports, but the shrinkage in quantity was likewise very great.

The enormous decline in our export business as mentioned above, coupled with no less serious fall in the volume of domestic consumption, has inevitably resulted in a large reduction in the output of our manufactures. In other words, organized short time has been a general feature throughout our industrial world. To mention some of the

more conspicuous instances in this respect, the cotton mills curtailed their operations by 34.4%, the steel works by 50%, the cement factories by 53.2%, and the paper mills by 35%.

Let us next look at our agricultural situation. Both cocoon and rice, the two most important of our agricultural products, experienced a disastrous fall in price during the year just closed. Compared with the figures for the preceding year, the spring cocoon prices in 1930 recorded a fall of 46.5%, while the summer-autumn cocoon experienced a still more disastrous fall of 65.4%. The total value of the whole crops of the two seasons combined was placed at only 304 million yen, whereas the figure for the previous year was 655 million yen. A similar fall in price was also noticed in the case of rice, notwithstanding the government's purchasing policy. The price at the end of 1930 showed a decline of 37%, compared with the quotation for twelve months before, while the value of the total harvest in 1930 was placed at 1,000 million yen, as against 1,650 million yen for the preceding year. Taking the rice, cocoon, and all the rest of agricultural products, the value of last year's yield was only 1,888 million yen, as against the five years' average of 3,548 million yen. From this it will be easy to see how seriously the purchasing power of the farming classes has been crippled, thereby enormously aggravating the general economic depression. This is obviously a potent factor in operation against the turn of the economic wheel in the right direction.

From what has been stated, it will be apparent that our economic world in all its departments is now plunged in so intense a state of depression that we fail to notice bright spots on the horizon. Nevertheless, our economic development, even as it is now, shows remarkable progress when compared to what it was before the World War. To cite a few illustrations, the gold reserve, in spite of a serious outflow since the removal of the gold embargo, still stands at 834 million yen, as against 215 million yen at the outbreak of the World War, and gold stocks to deposits and notes or "reserve ratio" are kept as high as 55%. The postal savings

amounted to 195 million yen at the end of 1914, and increased to 2,337 million yen by the end of 1930. During the same period of time, the bank deposits increased from 2,229 million yen to 11,491 million yen, the amount of bills cleared from 10,401 million yen to 51,233 million yen, and the paid-up share capital from 1,695 million yen to 11,800 million yen. Foreign trade, which has recently experienced a severe setback, amounted to 3,016 million yen in 1930, as against 1,361 million yen in 1914. The electric power, which stood at 779,000 horsepower previous to the World War, has been expanded to 5,121,000 horsepower, while the number of cotton mill spindles have increased during the same period from 2.3 million to 7.09 million.

Let us now look at the output of the principal commodities. Here again we notice on the whole a wonderful development during the same period. The crop of rice increased from 50 million to 66 million koku,¹ cocoon from 40 million to 106 million kan,² raw silk from 23 million to 70 million kin,³ cotton cloths from 406,000 to 1,269,000 yards, coal from 21.3 million to 29.3 million tons, steel from 255,000 to 1,883,000 tons, cement from 3.7 million to 22.1 million barrels, and paper from 292 million to 1,367 million pounds.

It goes without saying that the great progress that has taken place in our economic development, as analyzed above, has been strongly reflected in our international economic relations. This has naturally been especially striking in the case of the countries with which our relations have been intimate. Of these countries, the United States of America has exerted most potent influence upon our economic expansion. Formerly a debtor country, the World War witnessed her emerge as the leading creditor nation, with an enormous accumulation of gold and a vast amount of foreign investments. New York has naturally become an important money center of the world, a formidable rival for London. American motor cars and other products of the new machine age now dominate the world market, while her business

¹ 1 koku = 0.18039 kilolitre.

² 1 kan = 3.75 kilogram.

³ 1 kin = 0.602 kilogram.

organization and methods of production lead the world. Side by side with such phenomenal strides in the economic development of America, it is observable that our economic relations with her have kept steadily increasing in importance. In the field of trade, for example, our exports to the United States amounted to 184 million yen in 1913, representing 29% of our total exports, and in the same year our imports from her amounted to 122 million yen, being 17% of our imports. In 1930, these figures rose to 506 million yen in exports, or 34% of the total, and 442 million yen in imports, or 29%. Of our exports to America, raw silk occupies the leading position, accounting for 95% of the whole quantity sold abroad. In the sphere of imports, we buy from America 43% of wheat, 48% of raw cotton, 95% of motor cars, 56% of ammonium sulphate, 61% of lumber, and 55% of mineral oil. Looking at it from the American side, her exports to Japan represented 2.5% of her total exports in 1913, but increased to 6.4% in 1923, the ratio standing at 4.3% in 1930. Her imports from Japan, which amounted in 1913 to 5.1% of the total, increased to 11.4% in 1922, the ratio for 1930 standing not lower than 8.9%.

In the field of finance, our relations with America have grown much closer since she became a creditor nation during the World War. Of our total foreign indebtedness of 2,300 million yen, it is computed that the amount owned by America is not less than 675 million yen. Especially conspicuous is the part played by American capital in the development of our industrial enterprises. As is well-known, Japanese and American capitalists have long since been jointly carrying on certain branches of electrical and other industries. But of late a new turn has been taken in the introduction of American capital by Japanese electric power companies. Another noticeable development is that Japanese shares and debentures are now finding a market in America. A scarcely less important factor in the financial relations between the two countries is the investment of Japanese money in America, though, in the absence of accurate statistics, it is difficult to show any reliable figure on this subject.

In conclusion the writer wishes to take this opportunity of acknowledging with warm appreciation the friendly willingness with which the American financial leaders rendered their powerful help to Japan in January last year, when Japan had to establish a credit in New York in connection with the restoration of the gold standard.

Tokyo
March, 1931

TABLE OF CONVERSION

Foreign currencies were converted into dollars at the following rates of exchange:

- Argentina*, par, 96.48 cents per gold peso, or average for certain periods;
- Australia*, par, \$4.86 per pound or average for certain periods;
- Belgium*, par, 2.78 cents per franc or 13.9 cents per belga;
- Brazil*, par, 11.96 cents per paper milreis or average for certain periods;
- Chile*, par, 12.17 cents per gold peso;
- Colombia*, par, 97.33 cents per gold peso;
- Czechoslovakia*, 2.96 cents per crown;
- Denmark*, par, 26.8 cents per crown;
- France*, par, 3.91 cents per franc; pre-war par, 19.3 cents per franc;
- Germany*, par, 23.8 cents per reichsmark;
- Great Britain*, par, \$4.86 per pound sterling;
- Italy*, par, 5.26 cents per lira;
- Japan*, 45.3 cents per yen;
- Mexico*, 48.2 cents per peso or average for certain periods;
- The Netherlands*, par, 40.20 cents per florin;
- Norway*, par, 26.8 cents per krone;
- Russia*, 51.46 cents per ruble;
- Sweden*, par, 26.8 cents per krona.