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INTERNATIONAL ECONOMIC CONFERENCE

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DOCUMENTATION

PRINCIPAL FEATURES AND PROBLEMS
OF THE WORLD ECONOMIC POSITION
FROM THE POINT OF VIEW OF THE
DIFFERENT COUNTRIES

(First Part of the Programme of the Conference.)

ITALY

NORWAY

LATVIA

PORTUGAL



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NOTE BY THE SECRETARIAT.

The first part of the agenda of the Economic Conference contains a paragraph which refers to " the principal features and problems of the world economic position from the point of view of the different countries ". The Preparatory Committee suggested that members of the Conference desirous of submitting statements under this heading should be invited to send them in writing to the Secretariat of the League of Nations some time before the meeting of the Conference.

In Circular Letter No. 155. 1926. II of December 31st, 1926, the Secretary-General of the League of Nations drew the attention of all the Governments invited to the Conference to the suggestion of the Preparatory Committee.

The present booklet contains statements received by the Secretariat up to April 20th, 1927, and transmitted by the members nominated by the Governments of Italy, Latvia, Norway and Portugal. Statements from Austria, Finland, Great Britain, Luxemburg, the Netherlands and Sweden were published in the first series of the present booklet. Any statements which may be forwarded to the Secretariat after this date will published as soon as received.

ITALY

Report by Dr. Alberto PIRELLI, Italian Member of the Conference.

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The enquiries carried out by the League of Nations have brought to light important differences in the economic development of different countries and different continents during the last decade.

In order, however, that international co-operation — which is the aim of the Geneva Conference, and to which Italy is anxious to contribute — may be established on a practical basis, it is essential to bear in mind also the different positions of various countries as regards the needs of their future development, which is one with the economic development of the whole world.

In responding to the League's invitation, therefore, I think it will be useful to deal briefly with the essential factors and specific problems of the Italian economic situation in order to arrive at the true position as regards Italy's general economic development.

I shall consequently emphasise the following points :

(a) Certain difficulties and certain peculiar needs — especially in connection with the scarcity of natural resources, the relative lack of accumulations of wealth formed by past generations, and the large population — which are at present hampering Italy in her economic life ;

(b) The desire and the capacity of the Italian people to overcome these difficulties, to raise themselves quickly from the level to which centuries of servitude to foreign dominion had reduced them, and to assert themselves victoriously in the most varied directions, as is shown particularly by the magnificent constructive effort of these last years ;

(c) The necessity of its being realised abroad that, unless certain fundamental needs are met, the effort that Italy is making to overcome these difficulties by the natural trade expansion would be rendered difficult and perhaps vain. This would naturally be prejudicial not only to the economic life of Italy but also to that of the world, of which it is a by no means negligible part.

The characteristic difficulties of Italy's economic position may be briefly summarised as follows :

(1) Italy has :

(a) A territory not only of small extent in proportion to her population¹ but for the most part mountainous² and of a mediocre degree of fertility ;

(b) An agricultural production which is insufficient for the needs of the population³ ;

(c) A population that is not already very dense⁴ but is growing⁵ too rapidly for agricultural production to keep pace with it, notwithstanding every effort to improve and intensify cultivation.

(2) The necessity therefore arises of either increasing emigration or developing productive activity in such a way as not only to supply growing internal needs but to increase the export trade, the profits from which would pay for the raw materials and foodstuffs which we are obliged to import from abroad⁶.

(3) While, however, the legislation and the restrictive policy of many foreign countries prevent the development of emigration⁷, the development of industry is rendered difficult by the lack of the essential raw materials on which in these days any process of industrialisation depends.

(4) Modern Italy started late and from a lower level than other nations in the work of technically and commercially organising her productive forces ; the reason being that during the last century, when other countries were developing their agricultural production, Italy was still divided and oppressed, or had only just shaken off that foreign dominion which for centuries had retarded technical progress and organisation in many parts of Italy.

(5) Italy has few colonies, and they are not rich, so that in this direction also she cannot find any important source of raw materials, markets for her own products or outlets for emigration⁸.

(6) Italy has likewise no riches accumulated by past generations which would enable her to develop the mechanism of production and to meet, in part, the needs of the growing population with the revenue they would bring in.

(7) Italy's economic effort during the Great War was, in proportion to her resources, greater than the effort made by any other belligerent.

¹ On December 31st, 1925, the population of Italy was 40,500,000, and the area 310,060 square kilometers.

² Of this area 39.5 per cent consists of mountains, 40 per cent of hills and 20.5 per cent of plains.

³ The annual excess of imports of agricultural produce over exports, excluding cotton and other colonial products is, 2,649 million lire (average for the three years 1923 to 1925).

⁴ On December 31st, 1925, 130.7 inhabitants per square kilometer.

⁵ The average annual increase of population from 1921 to 1925 was 439,000 ; within the old frontiers, from 1911 to 1921, it was 235,745.

⁶ At the beginning of the century Italy was importing annually raw materials and semi-manufactured goods to the value of 1,000 million gold lire ; in 1926 she imported three times that amount.

⁷ The number of emigrants rose from 352,782 in 1900 to 872,598 in 1913, and has since fallen to 283,442 (provisional figure) in 1926.

⁸ According to an estimate made by the Italian Ministry of the Colonies, Libya, the largest of the Italian colonies, cannot offer employment to more than about 300,000 Italians during the next twenty-five years.

It has been calculated that this burden reached a figure higher than a quarter of the national wealth. On the other hand, Italy was not granted colonial compensation, except on a very small scale, nor a fair share of reparations. The reparations assigned to her are completely absorbed by the payment of inter-Allied debts, so that she has to bear unaided the burden of repairing war losses and of reconstruction in the invaded territories.

The war debt settlement with the United States and England was concluded on a basis which seemed, and indeed was, very liberal in proportion to the sum total of the debt. Nevertheless, the burden of this debt represents a greater percentage of our budget and national assets than the corresponding percentage represented by the settlements of other debtor countries with their creditors.

Italy's work in overcoming these difficulties, which has culminated, during the last five years, in a fresh outburst of national vigour, may be summed up as follows :

(1) Agriculture has become more intensive, and production has greatly improved¹. The " corn campaign " proclaimed by Mussolini has done a great deal to encourage the cultivation of all kinds of crops. Large-scale improvement works have at the same time increased the area of cultivable land and cleared whole districts of malaria².

(2) Notwithstanding the scarcity of raw materials and the relative smallness of home consumption, the technical organisation of industry has developed, and the industrial export trade has also considerably increased³.

Despite greater industrial activity, coal imports have increased very little, thanks to the notable expansion of hydro-electrical plant⁴.

(3) The development of the mercantile marine, especially passenger services, has considerably raised the prestige of the Italian flag, and at the same time has to some extent compensated in the balance of payments for the decrease in remittances from emigrants⁵.

(4) All this is particularly noteworthy because, to make this progress possible, Italians have accepted a standard of life appreciably lower than that of other nations. A typical example of this is the recent return to war bread. Moreover, not only workmen and peasants, officials and employees, but even manufacturers, even bankers,

¹ The output of the principal agricultural products has increased as follows :

<i>Wheat</i>	from 49,300 thousands of quintals (average 1909-1914)			
	to 58,300 " " "	(" 1923-1926)		
<i>Maize</i>	from 26,000 " " "	(" 1909-1914)		
	to 27,000 " " "	(" 1923-1926)		
<i>Rice</i>	from 4,900 " " "	(" 1909-1914)		
	to 6,084 " " "	(" 1923-1926)		
<i>Wine</i>	from 44.0 millions of hectolitres (" 1909-1914)			
	to 44.9 " " "	(" 1922-1925)		

² Out of 1,887,145 hectares of marshland, 919,132 have already been drained and 584,930 are at present in course of being drained.

³ Finished and semi-manufactured industrial products have increased from a value of 753 million lire in 1900 to 1,389 millions in 1913 and 11,997 millions (equal to 2,398 million gold lire) in 1926.

⁴ Consumption of electric power : 1,098 million kilowatt-hours in 1908-1909 ; 7,355 million kilowatt-hours in 1925-1926.

Imports of coal, 8½ million tons in 1908 ; 12 million tons in 1926.

⁵ In Italy's international balance of payments for 1924, the expenditure of foreigners in Italy amounted to 2,900 millions, funds sent home by emigrants to 2,600 millions, and the receipts of the mercantile marine to 700 millions. The deficit on the trade balance was approximately 5,000 million lire.

receive less remuneration in Italy than nationals of other countries engaged in similar work.

Furthermore, Italians are submitting to very heavy taxation in order to balance the budget after the efforts demanded by the war and by post-war reconstruction ¹.

No country, I believe, has made such great sacrifices as Italy has done in order to balance her budget, by means of heavy taxation and by abstaining from expenditure which other nations would have considered indispensable.

* * *

The economic position of Italy, compared with the world economic situation, presents, therefore, the following characteristics :

(1) As regards cost of production, Italy enjoys an advantage compared with certain foreign countries in cheapness of labour, although this advantage is in reality much smaller than a mere comparison of nominal wages would suggest. It is in any case far more than neutralised :

- (a) By the cost of conveying the raw materials and fuel which Italy has to import from abroad ;
- (b) By heavier taxation ;
- (c) By the greater cost of money ; and
- (d) In many branches of industry, by the smallness of the home market, which prevents mass production.

Italian industry certainly does not ignore the advantages which may be obtained from international agreements making for specialisation of production and the expansion of markets. In concluding such agreements, however, the essential needs of a young industry in process of development, such as is Italian industry, and the special financial, economic and demographic circumstances of the country must be borne in mind.

(2) As regards *imports*, Italy will continue to be an important customer abroad for foodstuffs, raw materials, and even for semi-manufactured products.

Imports of certain finished industrial products are on the decrease because, as I have said above, Italy finds it necessary to develop her industries in order to give work to the growing population which is unable to emigrate ; on the other hand, there is an increase in certain categories of imports, even of finished products, which meet new needs.

¹ The fiscal burdens borne by different nations cannot be properly estimated by a mere comparison of the amounts paid in taxes and dues ; a certain standard of subsistence must be deducted per head of population, and the fiscal burden must be calculated with reference to the balance of the national wealth and to population. Even by this method the poorer countries are placed at a disadvantage, because the method runs counter to the principle of graduation. However, it appears from an estimate made at the end of 1925 that, after the deduction of a minimum non-taxable standard of subsistence, even if that proportion is only 48 per cent per head of the population for Italy, and respectively 60 per cent for France and Belgium, 75 per cent for Great Britain and 100 per cent for the United States, the taxation imposed on the remainder of the national income of these five countries is as follows : United States and Belgium 13 per cent, Great Britain, 27 per cent, France 29 per cent, Italy 38 per cent. (The national incomes of the countries mentioned are calculated on the basis of the most recent and reliable expert estimates.)

Moreover, it almost always happens that the development of a country changes, but does not diminish its foreign trade.

(3) With regard to *exports*, Italy continues to sell certain agricultural products and foodstuffs and certain semi-manufactured and finished products, and has developed an export trade in other products of the textile, mechanical and chemical industries, etc., owing to the necessity I have already mentioned.

The principal obstacles to the Italian export trade are as follows :

(a) The high cost of certain products for which raw materials and fuel from abroad are needed ;

(b) Insufficient financial support, which is due to the difficulties encountered by Italy in investing money abroad and obtaining long credit ;

(c) High protective duties which, for one reason or another, various countries have imposed, even quite recently, and which sometimes turn out to be particularly prejudicial to Italian interests ;

(d) The smallness of the basic market, that is, of the Italian home market ¹.

(4) As regards *emigration*, the number of Italian emigrants has diminished owing to restrictions imposed by certain countries, and this has had numerous consequences, the most important of which are :

(a) The necessity for speeding up the industrialisation of the country ;

(b) The reduction in the amount of remittances from emigrants, which formerly helped to level up the balance of payments ;

(c) The reduction in the export of certain characteristically Italian products which are consumed by the large colonies of Italians abroad.

(5) As regards the balance of payments and the trade balance, Italy is naturally troubled by the fact that her imports are for the most part necessaries (food, raw materials, fuel), whereas many of her exports are finished products which are less necessary and more exposed to world competition, and that two of the factors on the credit side of the balance of payments — the tourist traffic and remittances from emigrants — are subject to considerable fluctuations.

Before concluding these brief notes, I should like to make a personal observation. Nowadays, there is much talk everywhere of class war, due to the inequality of the distribution of wealth and to the corresponding inequality between the standards of living of different classes ; but far too little attention is paid to the contrast between the positions of *nations* which have attained an equal degree of civilisation but whose economic conditions are very different. It is easier for an individual to rise from one class to the next than for a nation, even if capable of expansion and desirous of rising by peaceful progress to a higher place among her sister nations, to obtain recognition and satisfaction of this legitimate ambition.

The new Italy has stamped out the plague of Bolshevism, at the cost of great fiscal sacrifice set her finances in order, consolidated her war debts by giving up all

¹ It is a commonplace that nearly all industries can get better prices for their products on the national market than abroad ; hence the difficulty encountered — to take only one typical instance — by the Italian motor industry, which sells only 25 per cent of its output in Italy and exports the other 75 per cent, whereas the American motor industry sells 90 per cent of its output on the home market and can consequently export the remaining 10 per cent at very low prices.

the reparations due to her, made concessions to her own war debtors, and adapted herself to a lower standard of living than that of other nations in order to reconstruct her economic life and feed her growing population. She also suffers from a shortage of raw materials, has no centuries-old accumulation of wealth, and cannot find adequate outlets for emigration ; and so she has a right to expect other countries to understand her fundamental difficulties and needs, and to remember the efforts and sacrifices she has made in order to overcome those difficulties, and the unfair position in which she has too often been placed in the past.

In like manner, Italy is willing to recognise the special difficulties and needs of other countries.

This mutual recognition of difficulties and needs is the essential condition of effective co-operation ; and such co-operation alone can lead to the satisfactory development of the economic life of each single country — that is of the economic life of the whole world.

LATVIA

Statement submitted by the Latvian Members of the Conference.

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As a country on whose territory part of the Great War was waged, and one which subsequently won its political independence, Latvia, in considering the world's present economic position, must necessarily review the changes effected by the war in her own economic organism as well as in her interdependence with the European economic system.

The effects of the war were felt in this country in a particularly [disastrous way in the form of heavy losses of population, which from 2.55 millions in 1914 diminished to 1.6 millions in 1920 (on January 1st, 1927, the number of inhabitants had increased to 1.87 millions). Another consequence of the war was the almost complete destruction of industry owing to the evacuation, under Russian military orders, of the principal industrial undertakings to the interior of Russia. The number of workers, which in 1910 amounted to 93,000, fell to 21,000 in 1920, whereas parallel to this decline in the number of workmen, the number of industrial undertakings increased from 782 to 2,839. These figures indicate an unfavourable tendency of industry to be split up into numerous small undertakings—a tendency which reduces rational productivity and gives evidence of the shortage of capital prevailing after the war.

The situation of agriculture as the result of the war was catastrophic, as is shown by the fact that 25 per cent of all rural buildings were destroyed, the sowing area reduced by 40 per cent, and 20 per cent of the livestock evacuated, killed, or requisitioned by the Russian and German forces.

Finance and commerce suffered in no less degree owing to the fact that the Russian rouble — the pre-war currency in Latvia — had depreciated by 1919 to zero, and all bank deposits, if not lost altogether, had become valueless. At the same time Latvia lost her principal pre-war market (Russia), and it suffices to point out that her exports to Russia, having reached about 500 million gold francs in 1913, did not attain more than 2.7 millions in 1921, reaching a maximum of 10.24 millions in 1926. As a matter of fact, the annual total of Latvia's post-war exports has reached slightly more than one-third of her pre-war exports to Russia alone (1926 : 188.4 million gold francs).

Finally, the war and its political consequences affected in a very unfavourable manner the system of communications and transport, in which Latvia is an organic link. Apart from the complete cessation of intercourse through the Baltic between Western and Eastern Europe, which is reviving very slowly and on a somewhat insignificant scale, although Latvia has accorded considerable tariff reductions and special facilities to transit traffic through her ports, the Latvian ports are cut off from their natural economic areas, and at the present moment only Riga draws to some extent

on the resources of its economic hinterland, whereas Libau (Liepaja) is separated not only from the Vilna district, and thus deprived of its pre-war timber trade, but also from the central Ukrainian grain region, to which it was united by the Libau-Romny line. Needless to say that Libau lost also its import trade which it handled for the regions mentioned. Windau (Ventspils) no longer carries on any commerce with Russia, whilst before the war the Windau-Rybinsk railway was an important artery of traffic.

An illustration of the post-war situation is furnished by the figures referring to the net tonnage of vessels entered and cleared at the three ports mentioned ; its total in 1913 was : for vessels entered 3.6 million registered tons and for vessels cleared 3.6 million registered tons, the respective figures in 1920 being 0.48 and 0.46 millions.

Such was the heritage from the war on which Latvia started her existence as an independent State. The most pressing problem was to rebuild and to organise the economic system of the country and to adapt the latter to the new economic constellation.

It was clear that the country had to turn to such productive resources as were ready for immediate utilisation. In the first place these were to be sought in agriculture and timber exploitation, and the first regular balance sheet of foreign trade (1920) shows that 62 per cent of the total exports consisted of flax and 31 per cent of timber. At the same time the import figures, consisting to the extent of 41 per cent of articles of food, reveal the abnormal economic situation of the country. Subsequent years have shown that Latvia still remains an agricultural country, but the intrinsic significance of this branch of production has undergone considerable changes. At present agriculture contributes annually about 50 per cent of the total exports, of which the principal items are flax (20,000 - 25,000 tons per annum), butter (10,000 tons), linseed (20,000 tons), meat and bacon (3,500 tons). Dairy and meat products have considerable possibilities of development, since hitherto only 16 per cent of the farms have participated in co-operative dairies working for export, and that the livestock is growing rapidly in number, having already surpassed the pre-war figures.

On the other hand, corn-growing has attained or passed the pre-war level, with the exception of the staple food—rye. In respect of food corn, Latvia is dependent on supplies from abroad of rye and wheat, the average annual imports of the former being about 60,000 tons and of the latter 45,000 tons ; no supplies from abroad of fodder corn are required. Besides rye and wheat, only sugar (35,000 tons per annum) and herrings (17,000 tons) represent important items of food imports, which at the present time constitute about 25 per cent of the total import balance sheet.

The Agrarian Reform, which created 87,000 new farms (of an average area of 10-27 hectares) out of the State Land Fund, has contributed towards the rationalisation of farming and has yielded a maximum utilisation of human labour. Still, agriculture remains, from the technical point of view, on a rather low level, the maximum harvests per unit representing not more than 65 per cent of the respective yield in highly cultivated countries.

Large imports of artificial manures are required ; long-term credit for drainage, improvements and cultivation is badly needed, and the means which can be advanced by the State are not sufficient to meet urgent requirements in this direction.

Another branch akin to agriculture plays an important part in the economic assets of the country, namely : her timber resources and their utilisation. Under existing circumstances Latvia supplies the foreign market with an annual average of 400,000 tons of timber and wood materials (about 22 per cent of all exports), but by improving the system of internal transport this quantity might easily be increased.

The reconstruction of industry has progressed rapidly if the number of industrial workers in 1920 (21,000) and 1925 (500,000) is compared ; judged by this index, industry has recovered up to more than 50 per cent of its pre-war volume, but actually its output, which has been estimated for 1925 at 276 million gold francs, represents less than one-third of the pre-war production. The principal exporting industries are paper (5.5 million gold francs), leather (4 millions), linoleum (3 millions), rubber 2.3 millions), matches (1.2 millions). Altogether, industry is responsible for about 23 per cent of all exports.

With regard to the consumption of raw materials necessary to industry, coal stands in the first place at 400,000 tons per annum (including coke) ; considerable quantities of hides, animal fats, naphtha, cement, oil-seeds and rubber are being imported. The imports of cotton and wool are comparatively unimportant, although representing considerable absolute value. The industrial position is also illustrated by the principal industrial imported goods, among which cotton and woollen fabrics represent an annual item of some 35 million gold francs (in the proportion of 4 to 1), industrial and agricultural machinery 20 millions (proportion 2.5 to 1), chemical products 17 millions, vehicles 5 millions, and electrical appliances 4.5 millions.

Against the favourable feature of cheap labour there are two great drawbacks hampering the development of industry — lack of capital (including absence of mineral wealth) and lack of markets. The amortisation of newly equipped factories, for which capital has been attracted under very burdensome conditions, renders competition with Western industries working on a large scale and with comparatively cheap money extraordinarily difficult.

The financial difficulties of the country have been successfully overcome. The currency was stabilised in November 1921 ; and Latvia was the first European country after the war to introduce the gold standard (national currency the “ lat ”, equal to the gold franc). An autonomous bank of issue (“ Latvijas Banka ”) was created on November 1st, 1922. The Treasury started its work in 1919 with nothing ; at present the balance sheet of the Bank of Latvia closes with 200 million gold francs, and the total balance sheet of the private credit institutions with 180 million gold francs. For the regulation of short-term and long-term credit on real property, the State Mortgage Bank and the State Land Bank have been established.

Apart from the reconstruction of the country's economic life, the problem of markets has been the principal difficulty of commercial policy. Whereas before the war Russia was the great consumer of Latvian products, a profound re-orientation of the foreign commerce of Latvia has taken place since the war. Great Britain is now responsible for 34 per cent of all exports, followed by Germany (24 per cent) and Belgium (14 per cent). The successor of pre-war Russia (the U.S.S.R.) absorbs now only about 5 per cent of Latvia's exports, and the opening of the Russian market is considered one of the fundamental conditions of economic progress.

The total absolute value of foreign trade (exports and imports) is about 450 million gold francs, and its proportion to the pre-war turnover (in the absence of exact statistics, owing to the inclusion of Latvia in the general pre-war statistics of Russia) can be measured only by a comparison of the tonnage entered and cleared in the Latvian ports, which in 1925 and 1926 was almost constant (1.4 million tons one and the other way, respectively) — that is to say about 40 per cent of the pre-war level.

Another basic tendency of commercial policy is close co-operation with all neighbouring States. For this purpose the treaty system of Latvia contains the so-called "Baltic and Russian Clause" permitting her to grant Finland, Estonia, Lithuania and the U.S.S.R. special privileges which do not come under the provisions of most-favoured-nation treatment. This clause found its first practical application in the Treaty for a Customs Union between Latvia and Estonia (February 5th, 1927). Logically a closer economic *rapprochement* with Lithuania should follow. This scheme, tending towards the creation of larger economic units, rational utilisation of economic forces, mutual supplementation, and the removing of all artificial economic barriers between the respective countries, would certainly strengthen their individual, collective and international economic power and significance and facilitate international trade in the Baltic.

If in the foregoing the objective post-war difficulties have been briefly characterised from the point of view of Latvia, difficulties which arise from uncontrollable facts and circumstances, mention must be made of the sporadic obstacles which international commerce encounters, as seen from this country's standpoint, and which could be removed if approached in the true spirit of international co-operation.

For one thing, it is of course evident that a small country has no power to control prices of staple goods and goods of mass consumption without creating serious complications on the internal market. Therefore it is inevitable that in certain cases prices of imported goods are unstable and subject to incidental fluctuations, and the importers frequently abuse their position of practical monopolies of supply. On the other hand, great countries, in taking measures to contravene such wilful influences on their production and consumption, adapt rigorous measures of import restrictions, prohibitions or monopolies of foreign trade. Latvia's foreign commerce, which does not possess the means of effectively counteracting such practices without seriously harming her own economic interests, suffers to a great extent under such difficulties. The question of pure Customs measures is different, and may be explained by the organic requirements of individual countries, but the obstacles to foreign commerce and economic interchange in the form of forcible restrictions, prohibitions or monopolies are unnatural and intolerable.

The second question in the satisfactory solution of which Latvia is particularly interested is the question of credits. The reconstruction and stabilisation of the country's economic life has been achieved entirely by its own forces, and certainly the stable organism is continuing and will continue its development by its own force. But a considerable acceleration of this development could be achieved, and would be not only in the interests of the country itself but would greatly contribute to the economic prosperity of North-Western Europe. The advantageous position of the country, with the principal Central Baltic ports and its railway system

linked up with vast and important economic regions to the east and south-east, the great river Daugava (L'vina), with its unexploited water-power suitable for extensive electrification development and its vast timber basin, are assets which cannot be over-estimated. Transit traffic through Latvia at present fluctuates in the neighbourhood of an average of 500,000 tons per annum, but the development of the relations between Western and Eastern Europe opens up important prospects, and the potential possibilities of the Latvian system of communications guarantee a successful handling of this traffic even if increased many times over.

CONCLUSIONS.

Latvia represents an example of a country whose economic situation has been dominated by reconstruction and stabilisation tendencies, consequent partly on the direct devastating effects of the war and partly on the necessity of creating an economic basis for a new independent State. This has been achieved within the limits of existing possibilities and by the country's own forces. The volume of the country's internal production has been reconstructed (measured in absolute figures) in agriculture to nearly the pre-war level, in industry to nearly one-third of the pre-war standard. Foreign commerce has attained one-third of its pre-war turnover ; financial stability has been maintained since 1922.

As a producer of goods for external consumption, Latvia plays her part in the flax and timber trade and commands rapidly increasing exportable quantities of the produce of intensified agriculture.

As a consumer, Latvia absorbs a certain amount of cereals (rye, wheat) and sugar ; among the imports of materials of production, fuel and machinery are predominant.

Latvia's principal difficulties lie in the insufficient amount of working capital and in the incomplete utilisation of her port and railway system. Investment of foreign capital, co-operation with her neighbour States and an acceleration of the traffic between Western and Eastern Europe via the Baltic Sea are the goals which she is striving to attain in order to intensify her economic life and to take a more prominent share in international production, commerce and traffic.

NORWAY

Statement submitted by the Norwegian Members of the Conference.

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In the last two years the economic situation in Norway has been strongly impressed by the deflation which followed the rise in the krone towards the old parity. In the course of the year 1925, the rate for dollars rose from kr. 6.55 in January to 4.92 in December, and in 1926 and the past months of 1927 the movement continued from 4.92 to 3.84 ½, which rate was quoted at the end of March 1927. In the same period, the wholesale price index fell from 281 in January 1925 to 167 in March 1927. This violent movement has produced the usual effects : greatly reduced activity, increased unemployment and diminished income for the State and the municipalities, whereas the figures representing the burden of the public debt have remained unchanged. In relation to foreign countries, the effect has above all been a reduction in competitive power. As long as values have not been adjusted to the new price level, which is a consequence of the rise in the krone, domestic economic life will have to bear larger expenses than that of foreign countries.

Owing to these factors, it is very hard to show to what extent the present economic conditions prevailing in the world have influenced the economic situation in Norway. It is equally difficult to predict how the economic situation will develop under stable monetary values.

Nevertheless, certain features in the developments and in the situation in Norway are outlined in the following, and this is done in order that we may perhaps contribute to the discussion of the problems connected with the economic situation in the world.

In the first place, the question of population will be dealt with. Since the middle of the 19th century, the emigration from Norway has been very considerable. It has undergone fluctuations in harmony with the changes in prices and values. Following upon the crisis at the end of the 'seventies, the emigration varied between 10.5 and 15 per cent of the population and, after the crisis in 1900, between 9.1 and 11.7 per cent. During post-war years the emigration never attained more than 6.7 per cent, although both the economic conditions and the relatively substantial increase in the population fit for work seemed to necessitate an emigration equal in proportion to that which was recorded after the year 1900.

In order to throw more light on this question, we may refer to an estimate ¹ which has been made of the increase in the Norwegian population fit for work. This estimate may be compared with the research work which Professor Bowley has made for conference purposes in respect of a number of other countries. The main results of the estimate in question were as follows :

¹ *Norges offisielle statistikk* (Official Statistics of Norway), VIII, 6, page 108, *et seq.*, 1926.

Yearly percentage of increase :

	Total population.	Population 18-65 years.	Men 18-65 years.
1921	1.32	1.75	1.99
1922	1.08	1.53	1.70
1.1.23-1.1.26	0.75	1.55	1.73
1.1.26-1.1.31	0.62	1.42	1.60
1.1.31-1.1.36	0.66	1.30	1.43
1.1.36-1.1.41	0.66	1.12	1.22

It will thus be seen that also Norway finds herself in a period of substantial growth in the population fit for work.

Under present economic conditions, the pressure of the population becomes very strong, and it is intensified by the limited possibilities of emigration. Experience from the crisis at the end of the 'seventies and in 1900 shows that in the years of depression the increase in the population fit for work was reduced from figures similar to those reached at present, down to approximately ½ per cent. This was chiefly due to the large emigration which took place in those periods. A reduction in the increase down to ½ per cent in the period 1926-1931 would necessitate an emigration twice as large as the figures recorded in the last three years.

It has been found appropriate to mention this population problem, because it offers an occasion of showing how Norway is situated in this respect in relation to other countries. However, we fully realise that the emigration problem lies outside the programme of the Conference.

In common with the movement in population, the economic development shows great similarity to the situation prevailing after the war in a number of other European countries. We will mention the following points. The world crisis in 1920 was a very severe blow to the production of the country. An estimate of the production in the years 1923 and 1924 as regards the different branches of Norway's economic life made by the Exchange Committee of 1925 shows that the production was hardly larger in 1923 than in 1913.

In 1924 and 1925 there was, on the whole, quite remarkable progress. The year 1926 has again witnessed some decline in production, chiefly on account of the deflation which followed the rise in the krone. The reaction seems, however, not to have been as large as might have been expected. It did not extend to agriculture, whose yield has increased from year to year chiefly as a result of cultivation of new land. In recent years a decline in savings has been observed. It is estimated that savings as compared with pre-war conditions are reduced to approximately one-third, allowance being made for the alteration in the purchasing power of our currency. It should, however, be remembered that such estimates must be uncertain in view of the fluctuating value of the currency in the last years. Economic conditions have in recent years strongly felt the influence of the heavy public expenditure. It may be mentioned, for instance, that in 1913 the direct taxes paid to the State and the municipalities represented 13.5 per cent of the national income as against 21 per cent in 1924. There are small prospects of a reduction in taxes in the coming years, the expenditure of the State and the municipalities being in part linked up with the large increase in the debt.

It will thus be understood that the difficult economic conditions prevailing in Norway for the moment are mainly of a national character. Future developments are, above all, dependent on the way in which the economic life and the public household may be adjusted to the lower price level, which is made imperative by a return to the old party.

The growth of the productive life of Norway is, however, not only dependent on domestic conditions.

A study of the *Memorandum on Balance of Payments and Foreign Trade Balances, 1911-1925*¹, will show that the economic position of Norway is to a great extent dependent on the economic situation of the world. The commercial intercourse with foreign countries, calculated per inhabitant, is large. Of European countries, only Holland, Denmark, Switzerland and the United Kingdom of Great Britain and Ireland have a larger turnover. It will be seen from the balance of payments that Norway is an importer of capital. The import statistics further show that Norway is obliged to import the major part of her cereals, and that the country is equally dependent upon imports as regards the principal means of production, coal and iron.

In numerous branches the developments in Norway's economic life have therefore been affected by the conditions prevailing on the world market, in spite of the movement in the value of our currency in the last two years. This is above all the case as regards shipping and certain export branches.

Shipping plays a very important part in Norway. The size of her fleet is only surpassed by six countries, and, if the number of inhabitants is taken into consideration, no country has a fleet as large as the Norwegian. The earnings derived from freights are consequently of great importance. It is evident that the low freight rates quoted on the world market and the position of shipping in general must have a considerable bearing on the economic situation in Norway. In illustration of this point we may mention that, although the size of the fleet has increased from 2,586,000 gross tons in 1913 to 2,854,000 gross tons in 1926 and notwithstanding its greater efficiency, the net income of Norway in each of the years 1924 and 1925 calculated in Norwegian kroner, after deduction of amounts absorbed by disbursements abroad, was lower than in 1913. If the value of the krone had been unaltered and if the figure for 1913 be placed at 100, the figures for the net amount of the income of Norway would be 75 in 1924 and 65 in 1925. On the same basis, a provisional estimate of the freight amounts gives a figure of 97 for the year of 1926.

The forests, fisheries, waterfalls and mines form the basis of the exports of Norway. The total exports were derived from these different sources as follows :

	1913	1924	1925
Forests and forest products	32	34	39
Fisheries	37	36	30
Industry based on waterfalls, electro- metallurgical and electro-chemical industry	12	15	16
Mines	8	6	6
Agriculture	7	4	4
Sundries	4	5	5
	100	100	100

¹ League of Nations, Geneva, 1926.

Among the export industries, fisheries have especially felt the influence of the conditions prevailing on the world market. The fisheries of Norway are very considerable both in proportion to the number of inhabitants and in comparison with the fisheries of other countries. Of European countries, only Great Britain obtains a larger catch. The main cause of the difficult position of the Norwegian fisheries is to be found in the changes which the Russian market has undergone. Before the war, Northern Russia purchased a considerable quantity of our fish salted in bulk in the vessel. The cod was fetched by Russian vessels from Northern Norway. Since the war, this business in fish has almost ceased. The result is that a large part of the fish which was previously sold in salted condition is now made into stock-fish and klip-fish, mostly stock-fish. The markets for these goods have, however, not been developed in such a way as to offer compensation for the loss of the Russian market, and this circumstance, in connection with an abundant yield of the fisheries in 1926, has made it very difficult to dispose of the fish. Similar conditions apply to herring, of which quite large quantities went to Russia before the war. The Russian market has now to a large extent been lost. Further, Customs duties of a fiscal character make it very difficult to send the cheap Norwegian herring into Poland which, before the war, was a buyer of quite substantial quantities of our herring (the tariff of June 20th, 1924, fixed the duty at 15 zloty per 100 kilos of salted herring).

Among the other export industries, mining has in particular been seriously affected by the situation on the world market. This is, however, due more to the general situation than to the closing of particular markets.

A study of Norway's commercial intercourse with foreign countries will show that the balance of trade has improved considerably in the course of the last years. This fact has been dealt with in the *Memorandum on Payments and Foreign Trade*¹; and the development continued in the same direction in 1926. The causes of this progress have in part been indicated in the said *Memorandum*.

The result of the development has in fact been that the export industries have maintained their production far better in volume than certain of the industries working for the home market. As indicated in the *Memorandum*, this is partly explained by the possibilities of making forward sales, which these industries enjoy. It is also, as in the case of fisheries, due to the particular character of the export trade. The Norwegian fisheries are coastal and seasonal fisheries, and the fishermen have the choice between catching the fish, even if the price is low, or getting no income at all.

The industries based on the products of the forests, principally the wood-pulp, cellulose and paper industry, have been able to compete on the foreign markets. They availed themselves of the opportunity of making forward sales, and were also able to recuperate from the raw material part of the fall in prices, as expressed in Norwegian kroner, which has followed upon the rise in the currency.

Some of the new export industries have been less influenced by the rise in the krone. This is the case with the aluminium industry, whose activity consists in the refinement of imported raw materials.

Among the industries working for the home market which have suffered most severely under the domestic economic conditions, construction works, mechanical

¹ *Op. cit.*

engineering, shipbuilding works and the textile and shoe factories are the most important. Construction works, mechanical engineering and shipbuilding are industries producing capital, and they will therefore always suffer severely during a period of deflation. In other words, the demand has diminished considerably. During the present period of deflation, this is especially true as regards construction works and partly also as far as mechanical engineering is concerned. In the shipbuilding works the demand has been fairly large, inasmuch as there have been built many ships for account of Norwegian shipowners. Most of these ships are, however, built in foreign countries, the Norwegian shipbuilding industry being unable to build at the low prices offered abroad, due to the high cost of production. Besides, many of the shipbuilding yards are not equipped for the construction of the largest type of vessels, which are in demand at present.

During the period of inflation at the time of the war the industries underwent considerable expansion. The reaction was therefore felt very hard. The textile and shoe factories, both of which work exclusively for the Norwegian home market, have to a very large extent had to bear the brunt of foreign competition. The direct cause lies in the price level, which at all events is in part the outcome of the rise in the krone. Of course the character of the production enters into the question in view of the fact that the small Norwegian market does not offer an opportunity for a specialisation which might enable the industry to reduce the cost of production in the same degree as foreign countries.

The decline in the home industries in question does not, however, explain the fact that the imports have remained unaltered in the last three years. As mentioned in the *Memorandum*, the explanation is partly found in the fact that the buyers have postponed their purchases in the expectation of another fall in prices. To some extent the limited activity is of course responsible for the reduction in the demand.

Further, the expansion which has taken place in the production of the Norwegian agriculture in the last years partly accounts for the result, imports of certain foodstuffs (eggs, meat, pork) having diminished,

In spite of the fall in prices, expansion in the production has continued. The expansion is above all due to cultivation of new land, partly with the assistance of the Government. In each of the last years approximately 8,000 hectares have been brought under cultivation. Employment has thus been offered to 6,000-7,000 persons, which is quite a large number in view of Norwegian conditions. This has contributed very much towards making the situation easier, as this yearly cultivation of new land also brings with it greater employment of productive labour in general. Agriculture has besides, to a far larger extent than other branches, been able to adjust the cost of production to the new price level.

The prospects of the future expansion of the production of Norway will to a considerable extent depend on the harnessing of the waterfalls. The water-power of Norway suitable for utilisation represents 12,289,833 turbine water-power units at lowest flow of water, of which 1,324,364 horse-power have been harnessed. It being hardly probable that the development may to any large extent be carried on with the aid of Norwegian capital, the work will thus be dependent on the import of capital. The situation on the international money market will therefore play a large part in the future development of Norway.

In the matter of tariff policy, Norway has always during the different periods followed the tendencies which have been prevalent elsewhere in the world. Export duties and charges on exported goods are unknown in Norway, where the duties are limited to imports. The last general revision of the Norwegian Customs Tariff was finished in 1905. This revision was based on moderate protection and exemption from duties for raw materials. The duty of 10 per cent levied on the value of machines may be taken as a characteristic example of the degree of protection which it was intended to introduce.

In view of the fact that economic life has undergone various alterations since 1905, a new general revision of the Customs Tariff has been under discussion since 1915. Parliament is still discussing the proposals. A series of alterations of more provisional nature have, however, been embodied in the list of duties. The Customs Tariff is in general based on the weight, and the increase which has taken place in the value of the goods in the last decade has therefore disturbed the basis of the calculation. In 1922, higher duties on luxuries and other goods were introduced partly in the form of charges on the value. Further, a fixed supplementary charge of $33\frac{1}{3}$ per cent, later on raised to 50 per cent, was established in respect of all the duties contained in the Customs tariff, with relatively few exceptions. To this was added a variable supplementary charge on goods which are subject to duty on the basis of the quantity (the so-called gold supplement). This supplementary charge, which was intended to represent a compensation for the reduction in the value of the krone, is at present rapidly disappearing. The other supplementary charges referred to above are equally of a provisional nature, and will not be definitely embodied in the tariff. The new permanent tariff will probably also be based on a moderate protection of production.

As regards shipping, Norway has always followed the international point of view, and our legislation has placed Norwegian and foreign shipping on equal terms.

PORTUGAL

*Statement transmitted by M. FRANCESCO PINTO DA CUNHA,
Portuguese Member of the Conference.*

PORTUGAL

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Portuguese Member of the Conference.*

IMPOSSIBILITY OF SOLVING CERTAIN NATIONAL PROBLEMS OF AN ECONOMIC AND FINANCIAL CHARACTER WITHOUT INTERNATIONAL UNDERSTANDING.

*Communicated to the Secretariat of the League of Nations, Geneva, with a Letter from
the Portuguese Legation at Berne, April 6th, 1927.*

The purpose of the International Economic Conference which is to meet at Geneva on May 4th next is to study economic difficulties of each country and to enquire in what measure international action can bring about or facilitate the practical solution of these problems.

Perusal of M. Theunis' report on the work of the twenty-first session of the Preparatory Committee for the Conference shows that, although the principal questions on the agenda approved by the Conference have a worldwide importance, the difficulties submitted to the Conference are of primary and particular interest to Europe.

The ideas set out in M. Theunis' note are well founded. It is in our continent that the present economic problem is most acutely manifested, and it is therefore essentially a European problem. Europe has emerged from the war much weakened, and the centre of gravity of the world's civilisation threatens to shift to a more fortunate continent. At the very beginning of the Great War, part of Europe's gold emigrated to America. Stocks were used up during the war and have not yet been fully replaced. Transport systems are obviously insufficient. A great percentage of the most capable workmen in Europe perished on the field of battle. But, above all, Europe has ceased to form an economic *bloc* of a certain homogeneity, partly because a portion of what used to be Europe is now cut off from the old world and partly because what remains is divided by deep political hostilities, which preclude that frank and open solidarity among its members which might make it possible, if not to solve, at least to reduce the present difficulties.

The coming Conference must be considered as simply a continuation of its many predecessors ; it is, however, essential that its conclusions be drawn on new, on quite different lines. Hitherto, international conferences have confined themselves to laying down the rules which each country, assuming it to be isolated and without any possibility of foreign assistance, should follow in its internal administration to attain the desired state of economic and financial equilibrium preliminary to a period of free and broad progress. Consequently, the special object has been to get

international experts to meet and study together certain aspects common to the problems of the individual nations.

What we have to study to-day, above all else, and very closely, is the truth about the situation of Europe as a whole.

Enlightened circles in Portugal have been studying these questions in the light of the following main principles :

(1) The balance of payments of the European *bloc*, taken as a whole, tends to give less favourable returns than before the war, as a result of the decrease in the productive power of Europe.

(2) If Europe is unable to solve this difficulty by its own efforts, it is improbable that any other continent will help it.

(3) The different countries of Europe are permanently inter-related as importers and exporters of one another's commodities, and consequently none of them can remain indifferent to the financial and economic situation of the others ; hence the policy of national self-interest which, in practice, has prevailed since the Armistice up to the present day — and, it may be remarked, with small success — is definitely to be condemned.

(4) Stability of currency is a *conditio sine qua non* of the progress of any people ; the recommendations which the International Conference of Geneva will make with a view to achieving this object should be given every facility by other nations ; but the most important point of all is an agreement between the different European banks of issue.

(5) To restore normal conditions — not only mutual financial assistance, but also a general economic understanding — is desirable.

We are well aware how difficult it is to enter on this road of frank European co-operation. Nevertheless, if the International Economic Conference at Geneva succeeds in deducing principles which can open up new horizons and inaugurate an international policy for Europe, we shall have made a great step towards this cooperation.

These are the principles in the light of which the report which follows treats the financial and economic problems of Portugal.

THE FINANCIAL AND ECONOMIC SITUATION OF PORTUGAL BEFORE THE WAR.

Up to 1910, Portugal had a chronic budgetary deficit ; but from that date on great efforts were made to balance the State finances. Thanks to a drastic reduction of expenditure and to a wise and orderly administration, the accounts of the young Portuguese Republic for 1912-13 and 1913-14 closed with surpluses of respectively 3,681 and 3,097 contos (1 conto = 1,000 escudos), equivalent to £723,183 and £585,445 respectively.

Furthermore, the external floating debt was greatly reduced during the period 1910-14. On June 30th, 1910, the debt was 20,954,131 francs and £1,751,000 sterling. On June 30th, 1913, these figures had been reduced to 17,097,474 francs and £204,053 sterling ; on June 10th, 1914, we had a credit balance. It is true that, side by side with this reduction and during the same period, fiduciary circulation had increased

by nearly 23 per cent. This inflation did not, however, bring with it any great disadvantages, because, although the agio on gold rose by nearly 10 to 19.5 per cent, economic life in Portugal showed such activity during this period as to justify the hope that the Portuguese currency would return to its previous level. In fact, the increase of the fiduciary circulation was not used to meet budgetary expenditure, but was necessitated by the real demands of our economic life.

The economic situation of Portugal before the war was not brilliant, but it was not actually bad. It was realised indeed that, with our small industry and somewhat conservative methods of agriculture, it was necessary to carry on a policy of intensification directed towards increasing production. It was for this purpose that the Portuguese Government had commenced the reconstruction of the financial situation of Portugal, thinking that, once so far-reaching a task had been taken in hand, we could approach the money markets of countries possessing good currencies with a fair hope of obtaining the credits which we might need for this policy of intensification.

It should be noted that the balance of our international payments was not against us, although the balance of trade was heavily adverse. The figures for our imports and exports in 1913 were as follows :

Commodities	Imports			Exports		
	In contos	In pounds sterling	Percentage	In contos	In pounds sterling	Percentage
Raw materials	35,906	6,885,139	40.4	8,823	1,692,042	25
Foodstuffs	25,231	4,838,159	28.4	19,285	3,697,795	54.6
Yarn, tissues, felt and manufactured products	8,104	1,553,787	9.2	1,230	235,858	3.5
Apparatus, instruments, machinery, utensils, arms, ships and vehicles	10,056	1,928,284	11.2	185	35,475	0.5
Various manufactured articles	7,542	1,446,213	8.5	2,345	449,664	6.7
Live-stock	1,976	378,907	2.1	3,418	655,417	9.7
Wastage	165	31,639	0.2			
TOTAL.	88,980	17,062,128	100	35,286	6,766,251	100

An examination of these figures shows :

- (1) That the deficit in our trade balance amounted in 1913 to 53,491 contos (£10,295,877) ;
- (2) That exports amounted to barely 39.7 per cent of imports ;
- (3) That imports of foodstuffs are excessive, and that the difference between imports and exports of these products amounts to 5,947 contos (£1,140,364) ;

(4) That the difference between the imports and exports of manufactured articles of all kinds amounts to 12,070 contos (£2,310,478).

Before the outbreak of the World War, efforts were being made in Portugal to reduce the adverse trade balance. We based our chief hopes on decreasing the import of foodstuffs and on developing our industrial and agricultural production.

By 1911 Portugal was already producing almost the whole of the wheat necessary for her national consumption. The cultivation of wheat was developing and its methods improving in such a way that we ventured to hope that this state of things would become permanent. Certain products, as for example potatoes, were grown in sufficient quantities to meet all our needs.

On the other hand, we were justified in basing great hopes on the conquest of different markets for our delicious Portuguese wines ; on the intensification of the exploitation of the soil in our colonies, by which we were able to export their products on a larger scale ; the improvements in and development of certain industries, as those of reserves, woollen goods, chemical fertilisers, etc. ; the more profitable exploitation of certain Portuguese raw materials, such as cork, nearly the whole crop of which is exported in its crude state ; the utilisation of our water-power to provide electric power for industry, which would reduce the amount of gold leaving the country for the purchase of coal ; and the development of the tourist traffic by the improvement of the transport system and of the hotel industry.

Despite all our difficulties, our economic situation was far from bad. Thanks to our foreign investments and to the remittances of gold sent back by Portuguese emigrants to Brazil and other countries, we succeeded in balancing our accounts.

THE FINANCIAL AND ECONOMIC SITUATION OF PORTUGAL DURING AND AFTER THE WAR.

This was our financial and economic situation at the outbreak of the World War, which brought upon Portugal such great disasters, both material and moral.

Our fate was that of many other peoples. In Portugal none believed that the war could last so incredibly long as it did. At first there was much hesitation and unfortunate experiment. Instead of embarking on a balanced policy, with the help of free loans and taxation, we began by depending almost exclusively on the worst kind of loan — a forced loan — in the guise of inflation of currency. The failure to balance the budget, the increased circulation of paper money, and the consequent depreciation of the exchange are parallel phenomena which produced the same political, economic and social effects in Portugal as elsewhere.

As their difficulties increased, instead of reducing expenditure by reducing personnel, our various Governments preferred to reduce material, thus disorganising certain public services of general utility. During the period of hostilities, the importation of coal decreased, not only on account of its high price but also on account of the difficulties in procuring it. This involved our industries in all sorts of difficulties, which were not decreased even by our utilising the national timber supply. Industrial plant deteriorated. A few industries developed excessively, thanks to the artificial conditions due to the lack of competition. Certain branches of agriculture received special encouragement to produce, but the only result was the ridiculous one

that certain sources of production were cut off. One example was the mistaken policy of wheat subsidies adopted by the Government, which, while it delivered foreign wheat to the mills at a price below its import price, forced Portuguese producers of wheat to sell their crops at prices below the world price. The result [was that the production of this cereal diminished, while the consumption of it increased.

The effects of the other factors which contributed to ruin our national industry were precipitated by the ruin of our transport system. The war's legacy to Portugal was despair and misery — a tragic contrast to all our high hopes before its outbreak.

But this was little in comparison to what was awaiting us.

After the war ended, our great difficulties were increased ; our [currency fell dizzily, our fiduciary circulation increased unceasingly, deficits reached unexampled proportions. All indications seemed to show that our nation was marching with huge strides towards ruin, towards the abyss, when the Portuguese Governments, terrified, decided to adopt energetic and decisive measures to stem the evil. With this aim they began to curb expenditure. Taxation was progressively increased, and it may be said to-day that the paying power of the Portuguese people is by now practically exhausted. Attempts were made, with a certain degree of success, to raise internal loans. Special regulations were imposed on the purchase of foreign currency ; and, thanks to the action taken by the State to regulate the operations of purchase and sale of foreign currency, it was possible to raise the value of the Portuguese fiduciary currency by about 39 per cent. It was stabilised at this point at the end of 1924. The budgetary deficits have greatly decreased ; indeed the budgets are balanced, a fact which presents a certain danger in view of the consequent continual increase of the floating debt. At the same time, public opinion is putting ever more pressure on the Government to force it to proceed more certainly to a drastic reduction of expenditure. It may be noted that the budgetary deficit, which, during the financial year 1918-19, with its war expenditure, economic crisis and deficit on public services, had attained the figure of 150,103 contos (£19,854,973), had been reduced in 1923-24 to 134,478 contos (£1,092,163) and in 1924-25 to 167,043 contos (£1,472,393).

One factor which makes the future appear more hopeful is that the Portuguese Debt has been reduced, even if the War Debt, reckoned in gold, is included. The following are the figures on July 1st, 1914, and January 1st, 1926, respectively :

Nature of Debt	Value in thousands of £'s sterling	
	July 1st, 1914	January 1st, 1926
Bonds in circulation of the 3 % Internal Consolidated Debt, various Redeemable Debts, 4½ % Gold Redeemable Debt, 6½ % Gold Consolidated Debt, External Debt of 1902, 1st, 2nd and 3rd Series (Gold), 4½ % (Gold) Tobacco Loan	53,447	10,011
Internal Floating Debt	9,180	11,456
Various Loans by the Bank of Portugal to the Treasury	13,200	13,861
War Loan from England	—	22,548
Total	75,827	57,876
Decrease		17,951

An analysis of the tables which accompany this memorandum will give a clear idea of the evolution of our financial policy. We will only say that, although the results obtained during the past few years have not been completely satisfactory — partly, perhaps, owing to complex reasons of internal character — we have yet succeeded in doing better than many nations which have received more effectual assistance than we have, depending as we have almost entirely on ourselves and our own slender resources.

We must therefore point out that the stabilisation of our currency on a comparatively high level, which was effected principally in the hope of a return to par — a hope which was not justified by the real facts at the time — caused great dislocations in industry and agriculture, without reducing the cost of living to a corresponding degree.

Two of our articles of export were principally affected : wines and cured fish. The woollen and chemical manure industries were only enabled to continue working by a protective tariff. A commercial and financial crisis was accompanied by a crisis in industry and agriculture. The dislocation caused by these economic phenomena resulted in the weakening of the productive power of the nation. The shortage of capital naturally brought about emigration.

These phenomena are to some extent reflected in our trade statistics. A few figures from the last published statistics, which relate to 1924, are given below :

Commodities	Imports			Exports		
	In contos	In £'s sterling	Percentage	In contos	In £'s sterling	Percentage
Raw materials	1,229,284	9,173,761	41.6	194,195	1,449,215	20.5
Foodstuffs	836,442	6,242,105	28.3	630,027	4,701,693	66.4
Yarn, tissues, felts, manufactured products . .	323,253	2,412,336	10.9	66,633	497,260	7.0
Apparatus, instruments, machinery, utensils, arms, ships and vehicles	314,002	2,343,299	10.6	9,855	73,530	1.0
Various manufactured articles	247,580	1,847,612	8.4	46,472	346,805	4.9
Live-stock	7,509	56,037	0.2	1,451	10,827	0.2
TOTAL	2,958,070	22,075,150	100	948,633	7,079,330	100

An examination of these figures shows :

(1) That the deficit in our trade balance, according to official statistics, attained in 1924 the figure of 2,009,440 contos (£14,995,820), an increase of 45.6 per cent on the deficit of 1913 ;

(2) That exports only represent 32.1 per cent of imports ;

(3) That imports of foodstuffs are still excessive and that the difference between the imports and exports of these products amounted to 206,405 contos (£1,540,412), or rather more than the deficit in 1913 ;

(4) That the difference between imports and exports of manufactured commodities of all sorts amounted to 457,728 contos (£3,415,883), a deficit 47.7 per cent higher than that before the war.

But the picture shown by these statistics is too gloomy. Owing to the action of the State in restricting exchange operations, in which it went so far that at the end of 1922 it reserved for itself a very high percentage of the bills in payment of exports, exporters have been led to declare figures much lower than the reality. This not only helps the flight of capital abroad, but also enables exporters who are also importers to evade the burdensome conditions on the purchase of necessary foreign currencies.

It must be further remarked that flight of capital has taken place on a large scale. At the time, its consequences for the nation were very serious, but to-day it is assisting in the economic reconstruction of the country, since the greater part of this capital is only awaiting the assurance that the present stabilisation of the currency will continue, and that the country is entering on a period of intensive work, to return to Portugal. Once the nation has commenced its march towards progress, once it has passed its period of difficulties, these reserves of gold will in fact act as a fly-wheel to maintain its initial velocity.

Some Solutions of the Portuguese Problem.

The whole Portuguese problem may be summed up in one phrase : intensification of production. But how is this object to be realised ?

First of all, the finances of the Portuguese State must be set in order, and set in order for good. To achieve this, we must make a colossal effort to reduce our non-productive expenditure. Portugal is anxious to succeed in this, although it must cost her sacrifices. There must be no fluctuations in the value of our national currency, since they engender instability in our productive apparatus by creating an atmosphere in which speculation flourishes. Therefore, the stability of our " escudo " (the escudo is the Portuguese monetary unit) must be based on firmer foundations, until, after long experience has justified the step, it is possible to decree the transformation of the present non-convertible currency into convertible currency. This operation cannot, however, be realised so long as the Portuguese bank of issue is not in possession of sufficient gold reserves. The two preliminary conditions for the operation are :

- (1) Stability of the currency, which has already been realised in fact for some years ;
- (2) Formation of a sufficient reserve in gold or first-class securities.

Once her finances are in order and she is in possession of a stable currency, the main objects which Portugal should pursue are the following :

- (1) To repair the roads and to complete the network of ordinary and fast transport roads. The present state of our roads is a very real hindrance to the regular circulation of our products.

(2) To transform a part of our water-power into electric power, so as to make ourselves independent of almost all the coal which we now import. Wherever there are lignite deposits which can be utilised, they too should be transformed into electric power at the pit-head. In general, industry should be adapted to the utilisation of electric power ; the railways themselves must gradually be electrified.

(3) To buy from abroad the necessary machinery to enable our industry to compete with similar foreign industries. It has been estimated that the deterioration in our industrial plant since the beginning of the war amounts to 25 per cent of its total value.

(4) To create conditions which allow of the more profitable exploitation of the soil of Portugal, by irrigation and other works which have been adequately studied by experts.

(5) To develop industrial and agricultural credit.

(6) To give adequate protection by means of suitable tariff legislation to such industries as are capable of existence, without attempting to instil life into those which are comparatively small and have not sufficient means to compete with foreign industry.

(7) To encourage industrial concentration in industry and develop the co-operative movement.

(8) To increase the value of the Portuguese colonies by exploiting their natural riches in a more profitable way.

THE PORTUGUESE PROBLEM IN ITS INTERNATIONAL ASPECTS.

Some of these problems can be solved by ourselves, by a personal effort of which the Portuguese are assuredly capable. The only solution of others lies in an international agreement. Such is the case with the problems of cork, fisheries, cocoa and wine, which can only be satisfactorily solved by understandings with the other States whose interests can be effectively combined with our own.

These partial agreements can perhaps be embodied in a general European economic agreement. This, however, must only be considered as a distant aspiration, a final goal. For the present, what has to be done is to reconcile conflicting national self-interests.

To realise our national aims, we must also count among the resources which may be at our disposal the German reparations and, above all, the yield of one or more foreign loans which must be floated. Portugal has certain unencumbered revenues — for instance, the tobacco monopoly — which would in themselves suffice to guarantee the interest and amortisation of a large loan.

If the Governments, especially of European States, genuinely pursue a policy of solidarity, Portugal may hope to carry out to the full a programme of public works which will enrich her and at the same time permit other nations to place in our country products which we cannot easily obtain. A poor country can never be a good customer. The poverty of many European nations is a costly evil which may sooner or later reduce to poverty even those nations which are at present relatively rich.

The advice given by international conferences is always valuable, but it is not enough, for it cannot replace the foreign gold which is sometimes necessary to set going public works and the economic regeneration of a people.

Even national self-interests require that, at so grave a crisis in international life, there should be a close solidarity between the members of the European *bloc*, who are still striving to save the old economic structure of society.

Cannot this solidarity be established ? If not, evil days are in store for this old Europe which, a few years ago, boasted, and rightly boasted, that it held the hegemony of the world.

Lisbon, March 24th, 1927.
