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DOCUMENTATION

13

**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.)

**BULGARIA
ESTONIA
HUNGARY**

**KINGDOM OF THE
SERBS, CROATS
AND SLOVENES**

GENEVA, 1927

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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 30th, 1927, and transmitted by the members nominated by the Governments of Bulgaria, Estonia, Hungary and the Kingdom of the Serbs, Croats and Slovenes. Statements from Austria, Finland, Great Britain, Luxemburg, the Netherlands and Sweden were published in the first series of the present booklet ; statements from Italie, Latvia, Norway and Portugal were published in the second series. Any statements which may be forwarded to the Secretariat after this date will published as soon as received.

BULGARIA

Memorandum submitted by the Bulgarian Members of the Conference.

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Bulgaria is essentially a country of small landed properties cultivated on the extensive system. Out of her total area of 7,982,000 hectares of cultivated soil and her population of five and a half millions, Bulgaria has about 550,000 agricultural properties, which are worked almost exclusively by their own proprietors. The average extent of such a property is from 5-7½ hectares.

The greater part of the population of Bulgaria is composed of agriculturists (75.3 %), artisans and persons engaged in industry (9.9 %) and persons engaged in commerce (4.6 %).

The tendency of Bulgaria's economic development between the declaration of independence in 1879 and the Balkan War in 1913 was towards the introduction of modern methods in agriculture and the creation on the ruins of the old handicrafts of a national industry better in keeping with the new needs of the population. The progress made in agriculture was, however, very slow, being confined to the introduction of iron ploughs and a few other agricultural tools and machines. In 1913 there were still 420,084 wooden ploughs, and only 114,245 iron ploughs. Furthermore, these modern methods were chiefly introduced in the Dobrudja, in North-Eastern Bulgaria, where large landed properties were to be found.

The development of industry was equally slow, on account of the low protective tariffs (up to 1897 the tariffs amounted only to 8-14 per cent *ad valorem*), the shortage of native capital and other technical difficulties.

In 1912 the total number of industrial establishments in Bulgaria (exclusive of hand-workers) was 345, the invested capital was 91,000,000 leva, and the horse-power 27,885. The workmen engaged in these establishments numbered 15,886, and the value of the annual production was 122,000,000 leva.

The value of imports in 1912 was 213,000,000 leva, 69.6 per cent of this sum being for manufactured articles. Exports amounted to 156,400,000 leva, 84.7 per cent being raw materials, principally grain.

At the end of 1912, Bulgaria's national income was made up as follows : from agriculture, 936,800,000 leva ; from industries, 200,000,000 leva ; from commerce, 95,000,000 leva.

The most important branch of Bulgarian economic life was, then, agriculture, especially the production of grain. The principal district which yielded a surplus for export was the Dobrudja, 20-25 per cent of the total quantities of grain exported coming from this district.

In 1913 Bulgaria lost the Dobrudja, and with it her principal grain exporting district. The effect of this on the national balance of trade was to produce a consider-

able deficit. The equilibrium of the national economic life was shaken, and the reactions would have been disastrous if Bulgaria had not received an accession of territory in Thrace and Macedonia, including the coast of the Ægean with its famous tobacco-growing districts.

The necessity of readjusting the economic policy then became felt. The importance of the grain production began to decrease, and tobacco became the article of greatest importance for the country's balance of trade. The thoughts of the population naturally turned to the commercial possibility of the Ægean coast. This readjustment gave rise to a programme of economic activity, and efforts were everywhere being made on these new lines when the Great War broke out.

The new frontiers laid down for Bulgaria by the Treaty of Neuilly again disturbed the economic equilibrium of the country, just at the moment when the recovery which had begun in 1913 was acquiring permanence. Bulgaria now lost the most valuable areas of the territory which had been given her in 1913 to compensate for the loss of the Dobrudja : the famous tobacco-growing districts of Thrace (Xanthi, etc.), the fertile plains of Macedonia, and above all, the coast of the Ægean. Bulgaria again found herself in a difficult economic situation. She had lost her grain-producing area in the Dobrudja, and could no longer count on adequate compensation in Thrace and Macedonia. It was once more necessary to readjust the economic situation, but here serious obstacles were encountered owing to the disastrous consequences of the war.

Under the new system Bulgaria's economic life was seriously cramped by the crushing charges laid on the State finances. It appeared as if a catastrophe was imminent. Such a catastrophe, with its fearful consequences, was avoided, but only thanks to the extraordinary economic endurance of the Bulgarian people, the excessive taxation imposed on it and the exceptionally good prices realised by tobacco between 1919 and 1923.

Since 1919 the Bulgarian people has submitted to the most bitter privations and the greatest sacrifices to enable the State to meet its international obligations. To do so, the State has had to refuse its citizens the most legitimate assistance and services. The small agricultural proprietors have resigned themselves to an extremely low standard of living, and support themselves on the products of their own fields. The judges of the Supreme Court of Appeal have had to be content with a miserable salary equivalent to 213 French francs per month. Such sacrifices lie behind the exemplary conduct which Bulgaria observed immediately after the war, and her payment of her pre-war debts and other international obligations.

The debts which Bulgaria's private citizens had contracted abroad before the war were settled under conditions extremely unfavourable for Bulgaria, from the point of view of the exchange, the property of Bulgarian nationals in certain countries having been sequestrated during the war.

The principal consequence of this new economic situation was the depreciation of the national currency. This entailed at the same time a great diminution of the purchasing power of the population, and a consequent falling-off in consumption and savings. Apart from the familiar social and economic disturbances which it brought about, the depreciation of the lev, which continued until the end of 1923, had disastrous reactions on the national capital.

The liquid capital in the country disappeared. In the last four or five years the shortage of available funds has become a chronic phenomenon in the economic life of Bulgaria. The metal reserves in the National Bank decreased from 64 million gold leva¹ at the end of 1919 to 37 millions at the end of 1920, rising to 43 millions at the end of 1926. Most of the resources at the disposal of the chief private banking concerns in Bulgaria come from short-term loans from abroad. The bank rate of the National Bank of Bulgaria has been at 10 per cent for three years. The official bank rate has not, however, any real influence on the offer of capital in the open market, since the bank of issue is only able to satisfy a very small proportion of the credit requirements of the country. The current rate for private loans in commerce has varied between 18 and 24 per cent, while showing signs of a certain decrease at the end of 1926. As regards agricultural and long-term credits, there is no regular offer, and terms for loans are abnormally high. This financial situation naturally places insurmountable obstacles in the way of the regular renewal and modernisation of agricultural implements, and this reacts unfavourably on returns. As for industrial, commercial and credit establishments, it is foreign capital alone which enables them to continue to exist.

The most valuable economic success which we have attained since 1924 has been the stabilisation of the national currency, but this, unfortunately, is not based on sufficient reserves in gold or foreign exchange. It is therefore in permanent danger, and any accentuation of the financial and economic difficulties of Bulgaria may make this danger acute. It would be possible to consolidate the stabilisation of the lev by a State loan, the yield of which would be employed to amortise, wholly or in part, the floating debt of the State to the National Bank.

The purchasing and saving power of the Bulgarian producer have vanished. Taxation and restrictions of every kind have greatly weakened the economic independence of the country. The economic effect of the refugee question has been to diminish the national savings, and it has been a large factor in aggravating the economic and social difficulties.

The uncertainty which still reigns regarding the question of a free outlet for Bulgaria to the Ægean makes it impossible for the State or the business-men of the country to adopt a sound commercial policy, or to organise their activities on systematic lines.

The system of a mercenary army imposed by the Treaty of Neuilly is a burden on the State budget.

Bulgaria's international debts, and in particular her reparations obligations — which, rising in ascending scale from a relatively moderate figure at the beginning have now been regularly discharged for some years — will automatically increase under the conventions which have been concluded, and will in the near future reach proportions which without any doubt will exceed the national capacity to pay. At the end of 1926, the population of Bulgaria was 5.5 millions, the national wealth was estimated at approximately 10.5 milliard gold leva, and the annual revenue, principally drawn from agriculture, at about 1.5 milliards.

¹ 1 gold lev = 1 gold franc.

The low price of tobacco and the difficulties which have attended its export since 1925, the insufficiency of the cereals harvest during the last two or three years, and the general financial and economic factors mentioned above have resulted in a certain decrease in exports, a considerable diminution of imports and a falling-off in the receipts of the Public Treasury.

The total value of exports in 1926 was 5.617 million leva, as against 5.642 millions in 1925. The export of tobacco which constitutes one-third of the total exports, only reached the total of 27 millions of kilos against 34 millions of kilos in 1925.

Imports have fallen from 7.291 million leva in 1925 to 5.7 millions in 1926. Imports by weight were 341,000 tons as against 353,387 and 413,000 tons during the three preceding years.

Treasury receipts have also gone down. The monthly average in 1924-25 was 606 million leva, but fell to 534 millions for the first nine months of the financial year 1926-27.

The restrictions which Bulgaria has imposed upon herself in order to meet her financial engagements and to adapt herself to the new and unfavourable economic conditions are already seen to be serious obstacles to her economic and social development. This situation might be greatly improved by a suitable regulation of the financial and economic relations between Bulgaria and foreign countries, on the basis of mutual interest and justice.

ESTONIA

Memorandum submitted by the Estonian Members of the Conference.

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The most pressing problem for all the so-called limitrophe (or border) States after the war has been the reorganisation of their national production to meet the changes in their internal situation and the requirements of international markets. After their declarations of independence, they were cut off from the great Russian market which they had not only supplied with a great variety of manufactured articles, such as textiles, machinery, rubber goods and iron goods, as also the products of their highly developed agriculture, such as butter, cheese, alcohol (potato spirit), but from which they had, in turn, obtained raw materials and cereals. The industries in all these States were organised to meet the specific requirements of the Russian market, and were only to a limited extent dependent on the rest of the world for raw materials and fuel. There existed also in certain branches of industry an interdependence between the present border States and the Russian interior, as for instance in the cotton industry, where the cotton mills of the Baltic supplied the Russian manufacturing centres of the interior with semi-finished products such as yarn and unbleached cloth. How great was the part played by the present border States in the industrial production of Russia can be seen from the following figures. Of the 873 cotton mills existing in 1914 in Russia, 245, with 2,000,000 spindles out of 8,750,000 and 39,000 mechanical looms out of 224,000, are now outside the U.S.S.R. In the case of the wool industry, of 1,082 establishments, 789, with 879,000 spindles out of 1,324,000 and 31,000 looms out of 51,000, are also excluded from the present Russian territory. Of the 517 paper mills, 102, with a production valued at 33,000,000 roubles out of a total of 94,000,000 roubles, are also excluded. The total value of the industrial production of Russia in 1912 was 7,743 million roubles, of which that of the lost territories was 1,383 millions, or 19 per cent.

What the economic isolation of these border States from former Russia means in the complicated problem of the economic restoration of the world is readily seen from the following comparative table of the foreign trade of the border States in 1925, of the Russian Empire in 1913, and of the U.S.S.R. in 1925.

	<i>Millions of U.S.A. dollars.</i>		
	Imports	Exports	Turnover
Estonia	26	26	52
Latvia	54	35	89
Lithuania	25	24	49
Poland	250	210	460
Total, 1925	355	295	650
Finland, 1925	139	140	279
Grand total, 1925	494	435	929
Russia, 1913.	517	733	1,250
» 1925.	347	303	650

As can be seen from these figures, the total turnover of the foreign trade of the border States in 1925 was exactly equal to the turnover of the U.S.S.R. in that year. To this, however, must be added the greater part of the figures for Finland, as the economic isolation of Finland from the Russian market has been as great as in the case of the other border States. To-day, therefore, the border States are playing a rôle on the world markets which is substantially more important than the rôle of the U.S.S.R., especially as they are importing goods for consumption and not merely for purposes of production, which is the Russian policy. The comparison with pre-war figures shows that the imports of the border States have attained a value not very far from the figures for former Russia or, taking into account the depreciation of gold, the volume of the import trade certainly is about two-thirds of the pre-war Imperial Russian figures. In exports the rôle of the border States is considerably smaller, and therefore they offer an outlet for Western goods, without a corresponding supply of their own products, which is not to be under-estimated in considering the stabilisation problem of the Western World.

For Estonia this problem of adaptation to new market conditions meant a complete reorganisation not only of industry but also of agriculture. The Russian market for Estonian agricultural products has been literally closed since 1918, except on one occasion, during the famine of 1921-22, when purchases of seed were made in Estonia on Russian account. It has been the policy of the Russian Foreign Trade Monopoly (*Vneshtorg*) to preserve the home market from foreign competition and to reserve it for home industries. Imports of manufactured articles are thus practically confined to machinery and semi-manufactured goods for production, while those for consumption are decreasing every year. This isolation of the Russian market from world industry has naturally affected most severely those branches which were specifically designed for that market.

Estonia has not only had to look for new selling markets, but has had to reorganise her purchasing arrangements, as Russian deliveries of necessary food products (grain, sugar, cattle food, etc.) have also practically ceased or are so erratic in character that it is impossible to rely upon them.

The agricultural production of this country before the war was confined mainly to potato-growing for the Petrograd industrial area, the distillation of alcohol from potatoes (vodka), of which also four-fifths were destined for the same district, cattle-raising in connection with the waste products of the alcohol distilleries, and dairy products, which were likewise mostly disposed of in Petrograd. The last named only occasionally found their way to Western European markets. The home production of cereals was not sufficient for internal requirements, and the city population was dependent on Russian imports. A certain proportion of cattle food was also imported. The only product of agriculture which was marketed in Western Europe was the flax grown by small farmers, but owing to low prices and strong competition from the interior of Russia, the area under flax was diminishing.

Even before the war the financial situation of the big estates, which covered over 50 per cent of the whole area of the country, was very grave. Owing to the fiscal policy of Russia, the price of alcohol was kept down and the distilleries very often worked at a loss, while, on the other hand, the railway rates from the south-eastern

agricultural districts to the Baltic ports were so low that the local markets were overrun by cheap Russian grain, and cereal-growing became also unremunerative. The estates were heavily mortgaged and carried on mostly on selling timber. As it was the policy of the Baltic nobility to retain and keep in their hands as much land as possible, the land being the basis of their political and economical power, large areas on these estates remained uncultivated, while the population emigrated. This unsound position was only maintained by the aid of the foreign Russian military power, and, as this was swept away by the revolution of March 1917, the expropriation of these lands by the new democratic Government and their division among the land-hungry agricultural population became imperative if the country was not to be submerged in the Russian chaos.

This action had to be taken during the war of independence in a very difficult political and economical situation, and there were not wanting fears that the reform would still further disorganise agricultural production. Happily the experience of the last few years has shown that the new farmer is able to keep cultivation on its former level and even to increase production over pre-war figures. The total planted area has advanced from 749,000 hectares in 1914 to 793,000 hectares in 1925, or by 6 per cent, the increase being especially marked in cereals for cattle food. The total production of cereals has increased from 467,000 tons (the average of 1911-15) to 502,000 tons (the average of 1921-25), or by 7.5 per cent. There is also a small increase in the production of field-hay, while that of potatoes and flax has decreased by 9 and 16 per cent respectively. The total production expressed in food-units was 1,955 millions in 1911-15 as against 2,008 millions in 1921-25, showing an increase of 2.7 per cent. The number of cattle has also increased considerably over that recorded before the war, the most important item being the increase of milch cows from 269,000 in 1916 to 335,000 in 1925, *i.e.*, by 25 per cent. If the fact is taken into consideration that these advances have been accomplished during the period of complete reorganisation of the whole system of agriculture, the results must be regarded as very satisfactory.

The most important branch of Estonian farming to-day is that of dairy products, which have shown a remarkable increase from 3,629 tons of export butter in 1924 to 9,660 tons in 1926, or by no less than of 156 per cent. The production of alcohol, the basic industry of the former big estates, plays no rôle in the agriculture of to-day, the volume having fallen from 230 million degrees in 1913-14 to 32 million degrees in 1925-26. The importation of foodstuffs into Estonia, though increasing considerably from year to year, is still presumably not higher than it was before the war, when it was calculated to be between 10 and 15 per cent of the total consumption, while in the average of the years 1921-25 it was 10.6 per cent. Through his co-operative selling organisations, the Estonian farmer has firmly established his markets for dairy products in Western Europe, and the outlook for the agricultural development is consequently favourable despite falling prices in the international markets.

The main difficulty in the agricultural development of this country is the restricted credit situation of the farmer, as free capital is lacking and interest rates in the home money market are very high. The Government has financed the farmers out of the budget to the extent of about 2 milliards of marks (over £1,000,000), but even this is quite inadequate, and development would be much more rapid if the necessary credits were forthcoming.

The process of reorganisation of agriculture and industry, by which Estonia has been able to balance her foreign trade, is shown clearly in the following figures of exports and imports in 1923 and 1926 :

	1926		1923	
	Imports	Exports	Imports	Exports
	<i>Millions of E. marks.</i>			
Food, drink and tobacco	3,430	2,969	2,268	903
Raw materials	2,044	2,908	1,941	2,373
Manufactured goods	4,074	3,646	5,121	2,303
Live animals	6	101	2	133
	9,554	9,624	9,332	5,712

The imports of foodstuffs have increased rather heavily, but are fully covered by a corresponding decrease in the value of manufactured goods imported, which have been replaced by home industrial products. In the export trade, the most remarkable achievement has been the increase of about 2 milliard Estonian marks in the foodstuffs group, due to increased agricultural production. The exports of industrial goods and raw materials have increased only moderately during these years. The percentage of agricultural exports in 1926 to total exports was 47 per cent, while industry supplied 39 per cent and timber 14 per cent. Both agriculture and industry have thus played a rôle nearly equally important in stabilising the economic position of the country, a fact which is all the more remarkable when it is remembered that the number of workers in agriculture is about five times as high as in industry.

I.

1(a). IMPORT AND EXPORT PROHIBITIONS AND RESTRICTIONS.

Since May 1st, 1921, when the licence system established during the war was abolished, there have been no prohibitions or restrictions on Estonian foreign trade except the following :

For the import of potatoes, a certificate of the Ministry of Agriculture is necessary to the effect that they are free from disease.

The import of meat and meat products is under veterinary control.

For the import of yeast, a licence from the Excise Department is required.

For alcohol and strong alcoholic beverages, a licence from the Ministry of Finance is necessary. Alcoholic beverages in barrels can be imported only by liquor factories ; in all other cases the import is allowed only in the original bottles.

The import of stout and beer is prohibited, but exceptions may be allowed by the Government.

Field-hay seeds must pass the seed-control of the Ministry of Agriculture.

Phosphorus can be imported only under licence from the Medical Department.

Gold and silver articles have to be assayed before they are delivered to the importers, and must conform to a certain minimum fineness.

Weights and measures must pass the control of the assay.

Radio-apparatus can be imported only under licence from the Ministry of Communications.

The importation of the following articles is prohibited :

1. Foreign lottery bonds.
2. Weapons concealed in walking-sticks, etc.
3. *Berries of coculli indici*.
4. Artificial saffron.
5. Cloth, paper, etc. covered with poisonous dyes.
6. Red aniline dyes not in crystals.
7. Labels, corks, etc. bearing foreign firm names without their respective merchandises.
8. So-called Bengal and all other phosphorus matches.
9. Playing cards.
10. Pigeons.
11. Patent medicines, if they are not specially permitted by the Medical Department.
12. Weapons and explosives, unless specially sanctioned.

The following articles must pass the export control :

1. Eggs.
2. Butter.
3. Cheese.
4. Meat and meat products.
5. Potatoes.
6. Fruit.
7. Flax.
8. Flax and clover seeds.

The export of the following goods is prohibited :

1. Platinum, gold, silver, precious stones and jewels, except in limited quantities as personal property or under licence from the Ministry of Finance (freely granted).
2. Scientific and art collections, without the licence of the Ministry of Education.
3. Electric lamps (bulbs).
4. Potassium salts (fertilisers).
5. Weapons, according to the Convention of Saint-Germain-en-Laye of September 10th, 1919.
6. Alcohol and liquors, without the licence of the Ministry of Finance.
7. Opium, morphia, etc., according to the International Opium Convention.

Most of these restrictions are self-explanatory. The export prohibition, head 1, is only formal and will soon be abolished. The prohibition under heads 3 and 4 are due to the fact that, during the German inflation period, the export prices of these articles from Germany to countries with a low exchange were lower than to countries with a high exchange. As it thus became possible to re-export them to the last-named countries, Estonia was asked to prohibit re-exports. Under present conditions these prohibitions could be altered.

1(b). LIMITATION, REGULATION OR MONOPOLISATION OF TRADE.

In this category there exists in Estonia only the State spirit monopoly. The State buys raw alcohol from the distilleries, usually at a higher price than that obtaining in the international markets, and has its own organisation for selling vodka, as also alcohol for industrial purposes. The refining of alcohol, diluting and bottling, as also denaturing, is likewise done by the State. There is also a *de facto* monopoly in ether, as this product can be sold only under licences from the Medical Department, and is procured for this purpose by the State from one factory only.

During the war a flax monopoly was established (still existing in Latvia), but was abolished in 1920.

1(c). ECONOMIC AND FISCAL TREATMENT OF FOREIGNERS.

Generally speaking, there is no differentiation in the economic and fiscal treatment of foreigners and foreign companies. Foreign business-men coming to Estonia for business purposes have to register themselves in three day's time with the respective Inspector of Taxes and buy a patent after the first business transaction. There are no special taxes for commercial travellers and agents, which are customary in most countries. Foreign companies have to take out a special licence for trading in Estonia and to designate a certain amount of their capital for this purpose.

Foreign insurance companies may be licensed by the Minister of Finance in agreement with the Ministers of the Interior and Foreign Affairs.

Branches of foreign banks can be only opened with the sanction of Parliament.

Foreigners are not permitted to possess or undertake the manufacture of explosives, nor to carry on business as apothecaries.

As in most other countries, the coastwise shipping is reserved to the national flag.

Foreigners have no right to own real property in the twenty-verst strip of land on the Russian frontier.

2(a) and (b). CUSTOMS NOMENCLATURE AND CLASSIFICATION.

The Estonian Customs nomenclature and classification is based on the former Russian tariff and does not conform to the proposed international classification. The principle adopted is to classify goods according to materials, and every subdivision begins with the respective raw materials and semi-manufactured products, finishing with wholly manufactured articles. The classification is as follows :

1. Food and animals.
2. Animal products.
3. Timber and woodwork.
4. Stones, ceramics, etc.
5. Fuel, asphalt, resins, etc.
6. Chemicals.
7. Minerals, metals and metal articles.
8. Paper and printed matter.
9. Textiles.
10. Millinery, haberdashery, etc.

The adoption by Estonia of the international classification is not a question of principle but of practical difficulties, the most important of which is that Latvia has the same classification as this country, and to change it would involve an enormous amount of new technical work in connection with the proposed Estonian-Latvian Customs Union. It must also be borne in mind that the Customs personnel is familiar with the existing tariff.

The same remark applies also to the nomenclature of the tariff.

The Customs tariff is a *specific* one and does not contain a single *ad valorem* item. Temporarily a few rates were increased by percentage coefficients, but a revision of the tariff in connection with the Latvian-Estonian Customs Union is contemplated and, as soon as this unified tariff comes into force, its permanence is assured owing to the complexity of the tariff-changing machinery of the new Union, as new rates must be agreed upon by the Mixed Commission and be passed by the Parliaments of both countries. The new tariff will consist of general and minimum tariff.

The level of the Estonian *import duties*, taking values and charges as a basis, works out at between 14-16 per cent *ad valorem*. In 1925 the value of the imports was 9,557 million marks and the duty charged was 1,660 millions. The duty-free import was 1,554 millions, of which cereals were over 1 milliard and *cattle food* and *fertilisers* upwards of 400 millions. The group of *raw materials* and *fuel*, with a value of 1,976 million marks, is also practically duty-free, as the duties charged on it were only 21 million marks, or 1 per cent. If these two groups are deducted from the total imports, the remaining goods, of a value of 6,125 millions, had to bear the chief weight of the duties, which in this case works out at 22 per cent *ad valorem*.

On imported foodstuffs, except the duty-free articles, the duty is on the average 33.5 per cent, the most important items being :

Duty on *ad valorem* basis :

	General tariff.	Conventional tariff.
	%	%
Sugar	45	—
Wheat flour	27	—
Wheat	29	—
Tobacco	100	96
Rice	37	28
Salt	30	—
Coffee	60	45
Alcoholic beverages	up to 700	up to 355

All these duties are fiscal in character.

The average import duties in the group of *manufactured goods* work out at about 20 per cent, divided into the following categories :

	%
Leather and furs	20
Paper and paper goods	23
Cotton yarn and cloth	45
Woollen yarn and cloth	28
Other textiles (silk)	55.4

	%
Ready-made clothing	21
Machinery	4
Electrical appliances and machinery	7
Motor-cars	14
Scientific instruments, etc.	15
Metals	3.5
Metal articles	15
Porcelain, faience and glass and articles made therefrom	35
Oils, resins, etc.	23
Rubber goods	20
Chemicals	11
Haberdashery, etc.	36

The heavy duties in this list are partly those on luxury articles (silk, porcelain, haberdashery), while in part they are protective, *e.g.*, textiles, and, in a less degree, glass, paper and leather. Except in the case of textiles, however, there are no protective duties of importance in existence, as the duties on paper and leather goods are to a certain extent nominal, newsprint paper and leather goods being sold in the country practically at their international market prices. The protection afforded to textiles has been necessary to help this very important branch to reorganise itself in accordance with the requirements of new market conditions. Industries having a natural basis in the country, such as the wood and cement industries, as also the entire metal and chemical branches, have practically no protection. (The import of agricultural machinery is nearly duty-free.) The aim of the Government has been, not to create by means of artificial protection many enterprises for supplying the home market with all possible goods, but to develop important branches having a natural basis in the country and able to withstand international competition without protection. In addition to the branches already mentioned, there are the oil-shale industry, the phosphate industry, and industries based on agricultural raw materials.

The *export tariff* comprises only a few items, the most important of which are the export duty on calf hides (14-19 %), flax (12.7 %) and the somewhat prohibitive duties on unsawn timber and pulpwood. The flax duty is fiscal in character, while, in the case of the other two categories, a Government proposal is before the Parliament to lower them considerably.

3 (a). SUBSIDIES, DIRECT OR INDIRECT.

Timber for building wooden ships is supplied by the Government at a specially low price. A special Governmental fund exists out of which, for shipbuilding at home and purchases of ships abroad, long-term credits up to ten years are given, with interest at 6 per cent per annum. This fund is a small one and has had no sensible results.

For regular shipping lines between Estonia and foreign ports, as also between Estonian ports, certain subsidies amounting to a few million marks yearly are given, but these are only granted in cases where the lines are working at a loss.

3. (b) DUMPING.

There is no anti-dumping legislation in existence, notwithstanding the fact that, in some branches of industry, especially in iron, woollen and glass groups, the effect of foreign dumping is felt.

3 (c). DISCRIMINATION ARISING FROM THE CONDITIONS OF TRANSPORT.

No discriminatory measures affecting transport facilities are in existence. The railway transit freight rates to and from Russia are considerably lower than internal rates. Estonia has ratified the Convention of Barcelona.

3 (d). FISCAL MEASURES DISCRIMINATING AGAINST FOREIGN IMPORTED GOODS.

No fiscal measures discriminating against foreign imported goods are in force. The only measure of this kind which might be thought to come under this category is the 10 per cent additional levy on foreign alcoholic beverages, for credit to the State " Culture Fund ", but a corresponding tax is levied on home-made liquors. The " Culture Fund " is devoted to the encouragement of literature, music, fine arts, etc.

II. INDUSTRY.

The present situation of industry in comparison with pre-war conditions can be gathered from the following table :

	Number of enterprises		Number of workmen	
	1914	1925	1914	1925
Oil-shale	—	4	—	1,685
Peat	unknown	10	unknown	854
Textiles	17	27	19,400	8,639
Wood	16	49	3,300	3,998
Paper	12	13	2,200	2,249
Leather	8	9	400	355
Footwear	—	3	—	509
Metals	33	40	17,400	4,517
Chemicals	12	15	900	1,428
Stone- and earthen-ware	17	21	2,400	1,440
Polygraphy . . .	35	20	500	1,078
Foodstuffs . . .	14	33	700	1,975
Electric power- stations	2	6	unknown	392
Gas	2	2	unknown	176
	168	252	47,200	29,295

The gross and net production of industries during the period 1922-25 is shown in the following table :

	Millions of Estonian marks.							
	Gross production.				Net production.			
	1922	1923	1924	1925	1922	1923	1924	1925
Stone- and earthen- ware	199	402	394	375	171	361	336	308
Metals	512	668	535	560	373	433	391	379
Chemicals	148	223	290	403	75	76	124	197
Leather and footwear	503	548	688	880	155	144	232	214
Textiles	1,448	2,347	2,373	2,969	574	707	773	942
Wood	457	900	970	1,089	258	360	400	501
Paper	888	1,001	1,207	1,520	421	497	611	699
Polygraphy	109	108	217	227	83	153	171	169
Foodstuffs	962	1,540	1,959	2,024	605	624	802	871
	5,226	7,737	8,633	10,047	2,715	3,355	3,840	4,280

From these tables the present situation and the process of reorganisation accomplished during recent years is seen at a glance.

The *textile industry* was working before the war for the Russian market and has partly succeeded in finding new markets in neighbouring countries, such as Latvia, Lithuania, Denmark, Sweden, etc. A few erratic and unreliable orders have been given by the U.S.S.R. Production has increased in recent years, partly by re-arranging the lines of products, whereby the home market is supplied with a variety of goods not previously manufactured. The *cotton industry* is working at about 39 per cent of pre-war capacity and the *flax and woollen industries* at about 50 per cent.

After the remodelling and modernisation of the most important *pulp* and *paper mills*, this branch of industry has considerably widened its activities, and is practically working up the whole raw material available in the country. This is the only branch which is able partly to retain the Russian market, but owing to the uncertainty of orders there is a marked tendency to revert to the production of wood-pulp and cellulose, which can always be disposed of in the international market. The production before the war was 35,000 tons of paper, 9,600 tons of wood-pulp and 11,000 tons of cellulose, while in 1925 the production was 38,000 tons of paper, 19,000 tons wood-pulp and 16,000 tons of cellulose.

The most important branch of the wood industry is the veneer factory in Tallinn with a productive capacity of 2,000,000 cubic feet. It has well-established markets all over the world, but is not able to work at full capacity owing to the lack of raw materials, which before the war were partly imported from Inner Russia and Latvia.

The saw-mills have a yearly production of about 50,000 standards, but their productive capacity is considerably higher.

The big *metal works* and *wharves* created in Russian times, particularly for military purposes and for building railway cars and warships, have not up to the present been able to procure the financial aid necessary for reorganisation, the help given to them by the State being quite inadequate. Their activities are therefore more or less at a

standstill. In the meantime, many repair shops and small establishments have grown up and are working for the home market.

The only big factory in the *chemical* branch which was competing successfully before the war with the German Dye Trust on the Russian market has been unable to succeed in the new environment and has discontinued its activities. The *match industry* has developed in a most satisfactory manner, and the production in 1925 was 207,000,000 boxes as against 70,000,000 boxes before the war.

The normal capacity of the *cement industry* is about 700,000 barrels, and the production in 1925 was about 380,000 barrels, which quantity was mostly exported.

In the *food and stimulants* industry, many new establishments have been created, such as tobacco factories, starch factories, flour mills, etc. Most of them are supplying the home market. Starch is exported in growing quantities.

The *leather industry* has developed satisfactorily and is working approximately at pre-war capacity. The three new boot-and-shoe factories are not fully occupied. The export is small.

It can be seen from the figures that there is a marked tendency for decentralisation in practically all branches, which is the result of the new industries created to satisfy the manifold needs of the limited home market. This tendency is clearly seen from the many small industrial undertakings which came into existence after the war. The number of these increased from 2,835 in 1920 to 3,841 in 1923, to fall back again to 3,245 in 1925. The net production of these small establishments is valued at about 500,000,000 E. marks yearly.

III.

(Re AGRICULTURE, see Introduction.)

HUNGARY

Statement submitted by the Hungarian Members of the Conference.

HUNGARY

Before the war, the solidarity of the economic life of various nations was such that one could speak of a world economic situation resting on a basis of uniform principles. Thanks to trade, transport, monetary systems and the organisation of credit, the entire world had become a single unit. This period was therefore characterised by the free movement of people, goods and capital.

This unity of the world economic situation was destroyed by the world war and by subsequent events. Economic units, based on the history of many centuries and on geographical position, ceased to exist or were violently disrupted.

The world economic situation, in common with the economic life of individual countries, was disorganised. During the war, this disorganisation was aggravated, on the one hand, by the destruction of an immense amount of property; on the other, by the fact that the world war, which brought the belligerent States to the extreme limit of their resources, imposed upon them, without exception, the necessity of multiplying means of payment in an artificial way. No belligerent State escaped this necessity, for those among them who exacted the maximum effort from their nationals in the matter of taxation found themselves obliged to increase the circulation of paper money. The purchasing power of money therefore decreased in those countries, while, at the same time, inflation continued to grow. Inflation accentuated the disorganisation of economic life by destroying values and abolishing capital; it had a fatal influence on the economic and social situation by bringing about absurd displacements in the distribution of property and wealth. But it was not only the belligerent States which suffered from currency depreciation; neutral countries likewise experienced considerable losses of wealth from the depreciation of capital invested in countries suffering from inflation.

After the war, in the logical course of events, the work of reconstruction should have begun. The task should have consisted in re-establishing order by the co-operation of all the social forces available in augmenting production and eliminating all interior and exterior obstacles likely to hamper it.

The work of reconstruction, however, met with serious obstacles arising from various causes; in particular it was hampered, in many places, by the tendency to substitute a new system of production for the existing individualist and capitalist economic system. In places where "Bolshevism" held absolute sway, profound disturbances — either permanent or temporary — affected the course of economic activity; even where these new tendencies were only found in an attenuated form, they were not at all favourable to economic development.

The Peace Treaties which proclaimed the victory of politics over geography, of history and political economy over ethnography even, constituted another powerful

obstacle to the work of reconstruction. The Peace Treaties broke up, on the one hand, the natural economic unity of certain territories and, on the other hand, united under one State territories the economic interdependence of which was either negligible or non-existent ; moreover, they cut across the principal lines of communication in Europe without considering that the interests of the whole of Europe were concerned in their normal working. The territorial provisions of the Peace Treaties are diametrically opposed to the tendency, already very marked before the war, towards the expansion of economic units. For purely political reasons the frontiers of nine new Customs territories have been traced. Reconstruction would have involved gigantic labour even if the Treaties had not changed the framework of economic units, but, in the newly formed territories, these changes have replaced the principle of solidarity in conformity with the tendency of economic evolution, by the principle of selfishness and isolation.

Under these conditions, the economic war, instead of coming to an end, broke out afresh. The depreciation of currencies further aggravated the situation and obliged most States to take such measures as import and export prohibitions, restrictions on exchange transactions, closing of frontiers, limitation of traffic by other means — and all this prevented the unstable economic position of Europe from regaining its equilibrium.

Having acquired independence, countries formed from territories which had lost their economic unity, driven by the instinct of self-preservation, endeavoured to ensure primarily their own existence. It goes without saying that these endeavours involved an intellectual and material effort which was entirely wasted. The attempts made by these States to adapt themselves to the new order of things only succeeded in widening the breach between the various parts of what formerly constituted a single organic unit.

The economic provisions of the Peace Treaties hindered economic reconstruction no less than the territorial provisions had done. The sequestration of property belonging to nationals of the conquered States, in flagrant violation of the principle of private property, the surrender of ships, the provisions regarding the payment of pre-war debts, the commercial restrictions included in the Treaties, constituted further obstacles to the reconstruction of the national economic life of the conquered States. The reparations clauses were bound to render the economic reconstruction of the vanquished States problematical until the Dawes Plan and the plans for the economic reconstruction of Austria and Hungary brought about a mitigation of the severity of the Treaty provisions. This evolution of world economic conditions was most harmful to the economic life of individual nations. The war and the Peace Treaties have finally disturbed the equilibrium of economic conditions throughout the world, and have imposed a crushing burden upon the economic life of Europe. The characteristic feature of the present situation is that Europe's share in world revenue has diminished. Europe, considered as an economic unit, is in a similar position to that of her inhabitants considered as individuals. A balance-sheet drawn up for the whole of Europe would show that all her sources of revenue are greatly reduced.

In turning to consider the situation in Hungary, it must be remembered that, in pre-war years, about 75% of the goods imported into Hungary were of Austrian origin and about 75% of Hungarian exports were destined for Austria. A single Customs system, a single commercial policy and financial system, agreements regarding traffic, liberty of trade and of industry — such were the principles prevailing over an area of 676,400 square kilometers. Thanks to Hungary's surplus of agricultural products, Austria-Hungary was practically an economically self-supporting country. Within the common Customs territory, Hungary found a market for almost all her agricultural products. The Customs union of agricultural Hungary and industrial Austria made it possible to derive the greatest possible benefit from Customs protection. Any surplus production which Hungary was unable to sell within the common Customs territory, she readily found a market for abroad.

This situation has radically changed. The single Customs territory of Austria-Hungary has been divided up between seven States with seven different Customs systems and seven different currencies. The dismemberment of Hungary after a thousand years has deprived the remaining territory of the greater part of its raw material and sources of energy. In former times, Hungary was an economic territory in which all the conditions necessary to production were happily combined. All this has been changed, and Hungary's situation to-day is a particularly difficult one, since her neighbours pursue an economic policy which increases the difficulties of agricultural production in a country in which agriculture is of primary importance. Hungary has, therefore, great difficulties to contend with in exporting her agricultural produce. The same applies to her raw products and, to an even greater extent, to her semi-manufactured agricultural products. The Hungarian mills, which even to-day are the finest in Europe, are undergoing a crisis due to the differential duties on flour which neighbouring States have imposed as a prohibitionist measure ; for this reason the mills can only produce a very small fraction of their normal output. The situation is similar in the meat industry. The manufacture of salami has been particularly hard hit, as has also the manufacture of beer, preserved foods, vegetable oils and several other products of the agricultural industry. The export of Hungarian wine is also rendered almost impossible by the Customs policies of neighbouring States. Excessive Customs barriers are not the only factor in the reduction of the export trade ; the example of the most important export articles, such as wine, flour, vegetables, fruit, animals and products of animal origin, etc., is sufficient proof that in this matter high Customs duties should not alone be taken into account. The prohibitionist tendency has created a complete system for the prevention of the free flow of goods to the principal markets ; this system comprises import prohibitions, sanitary and veterinary prohibitions (for the prevention of epizootics), the system of rationing used by several States, taxes on consumption, traffic duties, provisions concerning transport and tariffs, etc. — all of which are artificial obstacles to export trade.

We would draw the attention of those who accuse Hungary of protectionism to two facts ; firstly, in the commercial treaties concluded up to the present Hungary has shown her willingness to come to an agreement with other States ; secondly, her neighbours have had recourse, apart from tariff provisions, to several other protectionist measures which prevent the entry of goods even more effectively than do

Customs duties, the effect of which is often problematical and sometimes non-existent. It has been maintained that each country should, in the first place, favour existing branches of production and that therefore Hungary should, above all, devote herself to agriculture; but how can this principle be put into practice if the States surrounding Hungary raise a thousand obstacles to prevent the export of her agricultural products, while at the same time employing all possible artificial methods to promote their own agriculture ?

The result of these efforts is that agriculture is being forcibly developed, even in countries in which the soil and the climate are not suitable, and neighbouring States are endeavouring to adapt to their own country industries which, in Hungary, spring directly from agricultural production and constitute the greatest resource of the country. The best illustration of this state of things can be found in the fact that before the war, in Hungary, 60 % of the export of corn and flour consisted of flour, while now the proportion of flour exported is reduced to 20 %.

Hungary's exports are seriously affected by the increasing number of subterfuges which are used to evade the most-favoured-nation clause and especially by the provision which limits the application of certain Customs rates to goods of a specified origin or quality. This discrimination is only possible, in most cases, when agricultural products and the products of agricultural industry are concerned, such as butcher's meat, dairy produce, live animals, wine, etc. Naturally, there are other causes which serve to make the agricultural situation difficult. Everywhere agriculture is undergoing a crisis; everywhere — and Hungary is no exception — industrial products have undergone a rise in price compared with pre-war prices, while the price of agricultural products barely maintains the pre-war level. Agriculture has to contend with the same difficulty in every country, for its cost prices are higher. Countries which have no agricultural products to export can remedy this state of affairs by raising the Customs barrier. For Hungary, an exporting country, this means of defence would be useless. Under these conditions, the economic policy followed by States which are capable of absorbing Hungary's agricultural products is of vital importance to that country.

As regards the future, two possibilities are open to Hungary; either she must maintain and develop her agricultural production or she will find herself constrained to follow a more energetic policy, tending to strengthen her industry. In fact, if Hungary finds herself unable to carry out intensive cultivation of her soil and cannot therefore ensure a livelihood to her growing population, she will find herself constrained to create new industries, going beyond the limits of her natural development, in order to find work for the population which cannot be employed in agricultural pursuits, and in this way to increase in her own country the consumption of agricultural products.

The economic reconstruction of Europe is suffering, generally speaking, from lack of capital. Before the world war, Europe had sufficient capital to enable rich States to help other European or overseas countries. The world war and the post-war period have changed this situation. With the exception of England, all the ex-belligerent States, even France and Germany, who were once creditors in the economic world market, are now trying to import capital. Hungary has always lacked capital and even before the war had recourse to foreign loans. War, revolutions and inflation

have swept away the greater part of the wealth at her disposal and, more than ever, she has had to seek the capital she needs in the world market. In this respect, she has encountered the same difficulties as all the other European States, and those who took part in the war in particular. She has had to apply to new financial markets and accept loans at an onerous rate of interest. Obviously, so long as capital is not sufficiently abundant in the world market to allow the rate of interest to fall to a normal level, economic life will have a heavy burden to bear in the shape of high rates of interest.

Although Hungary is not a very important factor in the economic life of the world, she none the less has a share in it and reacts sharply to all its changes. Since Hungary's prosperity is closely bound up with the economic prosperity of the world, the problems connected with it must interest her keenly.

Among those aspects of the world economic situation which concern Central Europe, there are three which are of vital importance to Hungary. The first is the question of the treatment of foreigners, which has been raised by the International Chamber of Commerce. Since the cessation of hostilities, most of the States and chiefly those which were created as a result of the war, have introduced into their legislation and administrative regulations provisions which, by creating an unfavourable legal position for foreigners, hamper the free movement of persons and capital. The extension of the policy of isolation to every sphere, legal, administrative and financial, is not at all in conformity with the general trend of evolution, which tends to tighten the economic bonds between nations.

Another international economic problem which touches Hungary very closely is that of the traffic on the Danube, regarding which the International Chamber of Commerce will submit a detailed memorandum to the Economic Conference taking into account the proposals of the National Hungarian Committee. Hungary is situated in the middle of the Danube basin. The Danube is one of the most important factors in its economic life. It is easy to understand that Hungary's material prosperity is seriously threatened by the fact that, owing to the policy of isolation followed by certain riparian States as regards transport, the total traffic of the Danube, which reached a figure of seven million tons before the war, is now below four million tons. The restrictions which are responsible for this decrease are in direct opposition to economic evolution.

The third question of equal importance is that of access to the sea. The Peace Treaty deprived Hungary of her seaboard. It is of vital interest to this country to have access to Adriatic ports on as favourable conditions as in pre-war times. In this respect, there are two urgent problems to solve: (1) to ensure that Hungary has a maritime port and communication with the sea, a necessity which is, moreover, recognised by the Peace Treaty; (2) to establish a tariff regime regarding transit which shall extend to transport similar possibilities as existed before the war. The present position is untenable, for the States which separate Hungary from the sea apply such high railway tariffs that the road to the sea is practically barred.

The International Economic Conference has undertaken to investigate and determine impartially the profound changes which have occurred in the world economic situation as well as in the economic life of individual nations. It also proposes to establish not only the facts but the causes of the present situation and to seek, on this basis, suitable methods of overcoming the crisis. Nearly all European States are suffering to-day from an economic crisis. Even small economic territories affect and react to the world economic situation and no one can look with indifference upon their fate. Hungary's situation must be judged from this point of view.

KINGDOM OF THE SERBS, CROATS AND SLOVENES

Statement submitted by the Serb-Croat-Slovene Members of the Conference.

KINGDOM OF THE SERBS, CROATS AND SLOVENES

Statement submitted by the Serb-Croat-Slovene Members of the Conference.

From 1924 onward the national economic life of the Kingdom of the Serbs, Croats, and Slovenes, which up to that date had made considerable progress, entered on a state of stagnation which soon developed into a real crisis. This crisis is general, and affects in greater or less degree every branch of economic activity ; in agriculture it is impossible to cover costs of production, with the result that the farmers are falling increasingly into debt, and efforts are being made to place agricultural production on a new footing. Merchants, manufacturers and artisans close their balances with deficits, and are therefore obliged to reduce and even to close down work. Suspensions of payment are growing more and more frequent.

Search for the causes of the phenomenon shows that various factors have contributed to this state of stagnation and this crisis in our economic life ; some of these causes are more or less common to all European States, others are peculiar to our own economic life ; and besides the general causes, which affect in greater or less degree every branch of economic activity, there are special causes which only touch certain branches of production.

We shall consider all these causes, but we may say at once that we shall lay special stress on those which are peculiar to our own economic life. We shall merely indicate on the broadest lines the causes common to all countries of Europe, as we assume them to be well known.

I.

The first contributory cause to the economic crisis lies in the abnormal economic conditions of the first years after the war, brought about by the rapid development of production.

After the war Yugoslavia, like every European country, suffered from a great shortage of merchandise. This shortage affected every kind of product ; both foodstuffs (agricultural produce), of which in normal times Yugoslavia had a surplus to export, and industrial products, for which she usually depended on imports from abroad.

This general shortage of merchandise, due to the extremely low supply and the excessive demand, directed our economic activity along lines which were bound, sooner or later, to lead it to the crisis through which it is at present passing.

The shortage in foodstuffs, and, as a consequence, the failure of supply to cope with demand, created a favourable market for the sale of agricultural produce. In their desire to take advantage of this favourable situation, our farmers hurriedly, and at relatively high cost, replaced the implements and material destroyed during the war,

and began to produce in abundance. Their surplus production supplied not only the home market, but that of Europe, especially Central Europe, where they sold their produce at very profitable rates, thanks to the insufficiency of the local production and the negligible competition from Russia and the trans-Atlantic countries.

The development of our industrial activity during the first years after the war presented a similar picture. National production was still very small, as was the importation of industrial products of foreign origin. Consequently, the supply of industrial articles in the home market was much below the immense demand which had to be met ; the market for industrial products was also favourable, even more so than for agricultural produce. Manufacturers naturally set to work to profit by this situation. They began with feverish activity to increase industrial production ; they continually enlarged existing industrial enterprises, and founded new ones ¹.

Such was the first period of our economic life after the war. This period was very similar in all countries, and has justly been called a "boom" period, being characterised by a general increase in production.

Unfortunately, this situation had not in it the elements of permanency. The economic situation in the different markets soon changed. This change, which was merely the result of the abnormal development of economic life during the first years after the war, brought about, first, stagnation and soon after, an economic crisis, and it is difficult to foresee how and when this crisis will end.

The transition from the former to the latter of these two periods which we have briefly described came about in the following manner ; our ability to sell our agricultural produce at high prices on the markets of Central Europe was suddenly checked by the appearance of immense quantities of agricultural produce originating in the trans-Atlantic countries, with a consequent sudden and general fall of prices. We shall return later to the effects which this change had on our agriculture.

The fall in prices of industrial products could have been foreseen with absolute certainty, since the foundation of numerous industrial enterprises and the enlargement of those already existing in Jugoslavia was bound to bring with it a constant increase of production and of the supply of industrial products on the local market. From that moment prices gradually went down, while the industrial enterprises yielded diminishing returns.

The fall in prices occasioned by the increase of home production was accentuated by foreign competition. The industries of Central and Western Europe, which, during the first years after the war, had only worked at reduced capacity, limiting their production almost entirely to the needs of their own national markets, soon reached and even passed the level of their pre-war production, and began to export their articles in large quantities on the world market, and in particular on the market of Jugoslavia. Supply exceeded demand, that is, exceeded consumption, and a fall in prices was inevitable ; merchandise even had to be sold at less than cost price. This inevitably brought about a crisis.

¹ Needless to say, manufacturers, not having capital of their own, drew largely on credit, without troubling much about the rate of interest, since in view of the high prices at which they were able to sell their products, they were in a position to pay very high interest.

The above reason is obviously of a general character, and applied *mutatis mutandis* to all European countries ; we shall not, therefore, dwell further on these well-known facts.

II.

We shall now proceed to analyse the causes peculiar to our own economic life, and to set out the present situation in the principal branches of our national economic life, particularly agriculture and industry.

AGRICULTURE.

The present state of agriculture on Jugoslavia forms a striking parallel with the state of agriculture in the countries of Central Europe during the second half of the last century, from the time when the European market was first invaded by agricultural produce imported from overseas countries, and especially from the Unites States of America.

Jugoslavia, in its economic structure, is essentially an agricultural country. It has large surpluses of agricultural produce which are exported to the world market, particularly that of Central Europe.

On the world market, our agricultural produce has to face the competition of similar products of overseas countries. For reasons which are sufficiently well known and which we need not recall, the cost of agricultural production in overseas countries is below our own, and this difference is not compensated by costs of transport, which, furthermore, are steadily decreasing.

Thanks to their low costs of production, overseas countries can offer their agricultural produce at prices which are below our cost of production. This means that our agriculture, in so far as it has to place its produce on the world market, is ceasing to yield a return.

If our agricultural production were intended exclusively to satisfy our own needs, the problem would be simpler ; we should only have to introduce agricultural protection to make up the difference in cost of production indicated above. But, as we have already remarked, Jugoslavia exports agricultural produce ; hence agricultural protection would not meet the difficulty.

Faced with this apparently insoluble problem, our agriculture is attempting to set its production on a new footing ; it is reducing those forms of cultivation (such as cereals) in which overseas competition is most severe, and is passing over to the forms of cultivation in which this competition is weaker, such as cattle-raising, horticulture, fruit-farming, and the cultivation of plants for industrial purposes. This transformation involves the foundation of industries which work up the articles in question ; cattle-raising must have a meat industry ; horticulture and fruit-farming, jam and preserve factories ; the cultivation of plants for industry, the factories which have to transform them, and so on.

Again, for the same reasons, attempts have been made to bring about more radical transformations, by a general reduction of agricultural production in general, and a corresponding increase in industrial activity.

Will these attempts succeed, and if so, how far ? If these transformations do not succeed in relieving the economic crisis, are other measures necessary, and if so, of what nature ? These are the questions of the highest importance for the Kingdom of the Serbs, Croats and Slovenes ¹.

The situation of viticulture is quite exceptional. It is less affected by overseas competition than our other branches of agriculture, but the establishment of new political frontiers has been so disastrous to it that it also is suffering from a crisis, which is at least as serious as, if not more serious than, that of the other branches of agriculture.

We venture to give a brief description of the changes which the war has brought to this industry.

Before the war the wine-growers of our new provinces (the Voivodina, Croatia, Dalmatia, Slovenia, and Herzegovina) supplied a market which extended over a territory inhabited by more than 50,000,000 consumers. In this territory our wine-growers enjoyed advantages over their competitors from other countries (Italy, France, Spain and Portugal), since, unlike the latter, they had to pay no tariff duties on this market. Although even at that period the cost of production of wine in the above-mentioned districts was higher than in the competing countries, viticulture was enabled by the protective tariff to hold its ground.

After the war, however, this advantage disappeared. Our wine had to face its competitors on an equal footing in the market of the former Austro-Hungarian Monarchy in its principal centres of consumption (Vienna, Budapest and Prague) and, as our cost of production has remained higher, it has lost its capacity to compete on these markets.

Our viticulture is then, as we have said, in a particularly difficult situation ; exportation on the above-mentioned markets and on all other markets has become impossible ; it is left with the home market, which is unable to absorb the whole national production.

It must, however, be stated that the situation is not alike in all our wine-growing districts. In the vineyards of the Voivodina and Srem (Syrmia), the depression is only temporary, and will pass at the end of a few years, since here the vines are cultivated on ground which may easily be adapted to other forms of cultivation, such as wheat. In these regions the vines will therefore not be replanted and gradually one form of cultivation will be replaced by another.

The situation in Dalmatia, Southern Herzegovina and part of Slovenia is much less favourable. In these regions the vines are cultivated on rocky ground, which either cannot be used for any other form of cultivation or is only adapted for the cultivation, side by side with vines, of certain kinds of fruit trees, such as olives and figs. Here it is practically impossible to change to another form of cultivation, or even where it is possible, the choice is very limited, the cost is high, and a long period — more than 25 years — must pass before a return can be looked for.

¹ We need hardly mention that either of these two processes of transformation, even when most successfully carried through, results in a serious temporary loss of capital, which naturally makes the crisis already existing more marked.

This is a problem to which our country must pay the greatest attention, especially as a mistaken solution of it would entail the depopulation of entire districts — a result which would certainly be contrary to the best interests of the nation.

INDUSTRY.

The special causes at the root of the crisis in our industrial activity are different from those explained above. In this case, we have a familiar phenomenon in the history of political economy : the temporary inferiority of a young industry to those of its foreign competitors which have been working for a long time (*the “ infant industry ” argument*).

Most of our industries were founded in comparatively recent times. According to official statistics and private enquiries made into the subject, 60 per cent of our industries have been founded since the war, during the “ boom ” period 1919-1923, while the other 40 per cent were founded either before or during the war. It must, however, be remarked that these enterprises themselves have developed considerably since the war. Before the war they were very small and of limited capacity, and have only been transformed into large industrial enterprises since the war.

In competition with the industry of Central Europe, our infant industry will remain in a state of inferiority for a certain period of time and will have to be fostered and protected by the State to enable it to support foreign competition.

The history of political economy is full of examples in support of our argument, and we need give few proofs of its correctness. We shall simply adduce two or three instances of the causes for the temporary inferiority of our industrial activity.

(a) Our industrial enterprises, which were only founded or enlarged three or four years ago, have not yet succeeded in amortising the capital invested in them (buildings, machinery, etc.) and their annual balance-sheets contain large sums set aside for this amortisation. The industrial enterprises of the countries of Central and Western Europe have no similar amortisation expenses ; this is one of the reasons for their present superiority.

(b) Our industry was founded and developed during the “ boom ” period 1919-1923, that is, at the period during which, for the very reason of this boom, there was a shortage of capital accompanied by a rise in the rate of interest. In default of money, a great number of industrial enterprises had to have recourse to credit. In these operations, it was not always possible to keep a reasonable proportion between the capital really owned by the enterprises and that borrowed, and insufficient account was taken of the high rate of interest. Up to 1924, that is, during the most favourable period, these errors (disproportion between capital owned by the enterprises and that borrowed on credit, and very high rate of interest) did not prove serious, since the sale price of industrial products was high enough to cover the charges involved. But when, at the beginning of 1924, the prices of industrial products began to fall, these high rates of interest became insupportable.

(c) Our industry is also placed at a disadvantage owing to a lack of sufficiently skilled workers. Our factory workers are chiefly drawn from the peasants, who have never hitherto been employed in industry ; such workmen are far inferior in skill to the highly-qualified workmen who have been employed from childhood in the industry of Western Europe.

Besides this general cause, which applies more or less to all branches of industry, a new factor has appeared in the course of the past year which has greatly aggravated the situation of certain branches of industry ; this new factor is *dumping*.

It is a well-known fact that a number of industrial firms of Central and Western Europe are selling their products abroad at prices which are not only much below those at which they sell them in their home markets, but even below the cost of production.

There is no need for us to dwell on the question of dumping, since it has been made the subject of special reports ; we will only mention the fact that the industries of Jugoslavia which produce the articles imported into our country under the cover of dumping (wooden screws, files, copper sulphate, syrup of maize, etc.) are in a desperate situation, seeing that the products in question have been sold at barely half of their cost of production.

The account we have given would be very incomplete if we failed to mention the taxation which weighs heavily on the national economic life of Jugoslavia and aggravates the crisis.

We shall not enter on a detailed analysis of this subject, but we think it necessary to recall the causes which have necessitated the growth of the enormous burden of taxation which is placed on the taxpayer.

The debts contracted during the war, and the financial obligations which Jugoslavia has inherited as a Succession State of the former Austro-Hungarian Monarchy and which were imposed on it in virtue of the Peace Treaties, burden our budget with large sums which have to be found by the taxpayer.

Again, our budget is weighted down by very large expenditure which we were forced to incur to repair the losses inflicted on our national wealth by the war. Under this heading it is sufficient to mention the repairs to our permanent way and rolling-stock, which were entirely destroyed during the war.

Equally heavy financial charges have been incurred in consequence of the great administrative reforms necessitated by the situation which resulted from the war. A number of provinces which previously belonged to different States, and had different political and administrative organisations, have been united in a single State. This situation involves administrative reform on a large scale ; the consequence has been a heavy outlay of expenditure, which has had to be covered by taxation.

Finally, we must mention the new charges due to social legislation. Before the war, this only existed in rudimentary form in Jugoslavia, but since that time, it has been developed along the most modern lines. For countries where industry is long established and capital abundant, social legislation, which in such countries has developed little by little, is a burden which is easily borne, but in Jugoslavia, whose industry is young, this social legislation created as it were in a day, constitutes an extremely heavy charge.

We have not sufficiently exact statistical data to allow us to say what percentage of our national income is expended in State and local taxation. Nevertheless, the facts set forth above, and partial enquiries made on the subject, justify us in maintaining confidently that Jugoslavia is one of the countries most heavily burdened in this respect, and that these charges constitute a factor which has helped to aggravate our economic crisis.