

ECONOMIC, FINANCIAL AND
TRANSIT DEPARTMENT

EUROPE'S OVERSEAS NEEDS
1919-1920
AND HOW THEY WERE MET.

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PREFACE

After the last war a system was organized for the provision of relief to the impoverished regions of Europe which has been described in a companion study to this, entitled "Relief Deliveries and Relief Loans, 1919-23." No parallel system to restore economic activity in these regions was organized. Indeed, reconstruction was never seriously considered as an international issue requiring concerted action until almost two years after the armistice.

The purpose of this pamphlet is to consider what were the effects of this lack of policy and how and to what extent in the absence of concerted action Europe was able to provide itself with the raw materials and other essential goods that it needed.

In the first chapter the post-armistice situation is very briefly described; in the second, the value and the kind of the purchases effected, both by the Continent of Europe as a whole and by various regions, are shown; in the third, an estimate is made of Europe's balance of payments during the two years 1919 and 1920. The actual purchases effected by Europe and the means by which they were financed are thus recorded, and this record is of considerable interest when considering the prospects and problems of the future.

But what was actually required to avert a breakdown and disaster can never be ascertained and was never seriously considered at the time. As is shown in the last two chapters, the breakdown and disaster took place.

This pamphlet is deliberately brief; but it is hoped that it is adequate to show the inescapable effects and inescapable tragedy of failure to face up courageously to the problem of reconstruction after a world war.

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

League of Nations
June, 1943

CHAPTER I

SITUATION AT THE END OF THE WAR

All countries in Europe were suffering at the end of the war from a lack of working capital and, from a loss through wear and tear or physical destruction of fixed capital. In many countries at the beginning of the armistice period, and in a few for a number of years, even the supply of consumption goods—food, clothing, coal—to keep the population in sufficient strength to produce efficiently¹ was short; reconstruction had to start with rebuilding the health and vigour of the population.

Smooth production requires considerable stocks of raw materials and semi-manufactured goods at successive points in the chain of production to absorb inevitable irregularities in supply or consumption. Such stocks were more, rather than less, necessary in the immediate post-war years when supply and transport were often interrupted by lack of coal, lack of trucks, labour disputes, etc. But stocks had, in fact, been exhausted during the war when overseas supplies were cut off by blockade and by lack of shipping,¹ though there remained, of course, considerable quantities of metals in process and potential supplies of scrap in the form of munitions.

Durable consumers' goods were likewise largely worn out, destroyed or in need of repair. House building and repair in particular had been practically at a standstill during the war, and in the war zones whole towns and villages had been devastated.

Productive capital was on the whole better maintained outside the battle areas; but part of the new plant was not suitable for civilian use. Much of the old machinery had not been replaced and in certain areas machinery had been deliberately destroyed by retreating armies; in many countries, it had been made unutilizable by the removal of parts containing metals valuable for war production.

The mechanism of transportation was particularly affected. Railway rolling stock was in a deplorable condition all over Central and Eastern Europe. More than a year after the armistice, in a large part of Europe less than half of the locomotives were usable, as the following figures show:

¹ However, Government-owned stocks compensated to some extent for the shortage of stocks in the hands of private industries; in Germany, for instance, the Government, even at the end of the war, held quite considerable stocks of textile materials and rubber.

TABLE 1
Percentage of Railway Rolling Stock Fit for Service at the Beginning of 1920

Country	Locomotives	Wagons
Austria	63	67
Baltic Countries	"situation chaotic"	
Bulgaria	37	56
Czecho-Slovakia	62	88
Greece	76	86
Hungary	27	76
Poland	70	90
Roumania	29	57
Russia	15	26
Yugoslavia	"heavy repairs awaiting reopening of repair shops"	

Source: International Financial Conference (Brussels, 1920), Paper IX, *The European Transport Situation*.

TABLE 2
Indices of Industrial Production and Mining

	1928 = 100*							
	1913	1919	1920	1921	1922	1923	1924	1925
France	79	45	49	43	61	69	85	84
Italy	63	58	59	61	67	72	82	92
Belgium	73		54	47	61	70	77	75
Western Allies ¹	74	49	52	49	63	70	83	85
Neutrals ²	79	³	78 ⁴	69	73	78	83	88
Germany	98	37	54	65	70	46	69	81
Czechoslovakia	73	58	53	69	61	71	74	78
Austria	85	34	41	54	65	69	76	84
Other Countries ⁵	.	.	.	59	74	74	77	77
Central and Eastern Europe	92	39	53	64	70	54	71	80
Total Continental Europe	84	47	56	59	68	63	77	83

* Although figures for 1913 are included in this table for most countries, they are in a number of instances of too doubtful comparability to be used as a base for the index in preference to a post-war year. The year 1928 is the base year given in the source on which this table is compiled. This base of course makes the level of production in the early post-war years appear lower than it would have, had a 1913 base been employed.

¹ Including Portugal.

² Denmark, Netherlands, Norway, Spain, Sweden, Switzerland.

³ Denmark: 83, Spain: 61, Switzerland: 108.

⁴ Excluding Netherlands and Norway.

⁵ Bulgaria, Estonia, Finland, Greece, Hungary, Latvia, Poland, Roumania, Yugoslavia.

Source: *Vierteljahreshefte zur Konjunkturforschung*, Sonderheft 31, (Berlin 1933), pages 64-66. The group totals have been calculated with the help of the weights given on page 54 of this source. In a few instances totals have been given though figures were not available for all countries in the group; except in the case mentioned in footnote (4) the importance of the countries lacking was small.

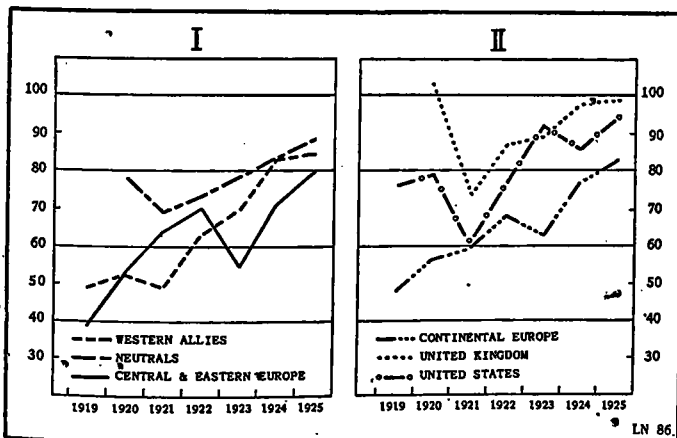
The available material was, moreover, poorly utilized. Lack of coal often caused interruptions of traffic. Each country in Central Europe prevented its freight cars from crossing its frontiers for fear that they might not be returned; this necessitated repeated reloading. The state of the roadbeds was often inadequate for rapid traffic, and many bridges were in a dangerous state.

The effects of the shortages of different classes of capital proved cumulative. Lack of foodstuffs was one of the main causes of the reduced productivity in certain areas. Lack of coal hampered traffic as well as production in many branches of industry. Inadequate transport prevented industries from being supplied with coal and raw materials, and the towns with food. The slow resumption of production affected exports and reduced the power of Europe to purchase foodstuffs, raw materials, railway material and machinery abroad.

The result of all these factors was a very low level of aggregate industrial production in 1919. In Table 2 are given indices of industrial production (including mining) for six of the most important industrial countries separately, and for three groups of countries in Continental Europe.¹

These group-indices are shown graphically in Diagram 1, where the production in Continental Europe is also contrasted with that in the United Kingdom and the United States.

DIAGRAM 1
Indices of Industrial Production and Mining
1928 = 100



¹ "Continental Europe" in this volume means Europe with the exception of the United Kingdom, Eire, Iceland, the Faroe Islands, the U.S.S.R. and Turkey.

It will be seen that only in the neutral countries—in so far as the data for these countries are available—was production relatively high in 1919 and 1920. In Czechoslovakia and Italy it was much better maintained than in the other belligerent countries. In so far as can be judged from these rough figures for Continental Europe as a whole, industrial production was less than half of the 1928 level in 1919, and between 50 and 60% of this level in 1920. On a 1913 base the indices would be 56 and 67 in 1919 and 1920 respectively.

Similarly, as shown in Table 3, the total production of cereals in Continental Europe in 1919 was only two-thirds of the prewar level, and total supply was only slightly greater.

TABLE 3
Indices of Production and Supply of Cereals¹
in Continental Europe

1909/13 = 100

	1909-13	1919	1920	1921	1922	1923	1924	1925-29
Production	100	67	72	81	77	90	80	97
Total supply ²	100	70	74	85	80	92	83	100

¹Wheat, rye, barley, oats and maize.

²Production plus net import.

This, in rough outline, was the economic situation. But the plight of Continental Europe can hardly be grasped from economic data alone.

To alleviate the economic difficulties of the moment, the countries of Continental Europe were naturally anxious to obtain from abroad, not only food and raw materials but capital goods to replace those lost or destroyed and also, pending the resumption of a more normal rate of industrial production, some of the consumption goods which the population had foregone during the war. The difficulties which these countries met in trying to cover their requirements on the world market can only be understood in the light of the economic situation of the world as a whole.

In the spring of 1919, after a few months of hesitation on the world markets, prices started again to rise. With wartime controls, especially in the United States, almost instantaneously abolished, pent-up demand exercised a potent influence on prices. The very rise in prices stimulated further demand for speculative purposes. Borrowing expanded rapidly, as Governments, anxious to fund their large floating debts, were loath to promote or even admit a rise in interest rates. In the resulting postwar boom, the nations which could mobilize foreign assets or obtain credits were able to buy supplies all over the world while the purchases of other nations were restricted at once by their lack of means with which to purchase abroad and by the high prices. At the same time, the virtual elimination of Russia as a source of supply increased the dependence of Europe upon imports of primary goods from the west.

In the sellers' market universally prevailing it was at once very necessary and very difficult to make international arrangements for providing the countries of Europe with essential foods and raw materials on reasonable terms. In the chapters that follow an estimate is made of the supplies Continental Europe actually obtained from abroad in 1919 and 1920 and of the resources by means of which these imports were financed.

CHAPTER II

THE PROVISION OF CONTINENTAL EUROPE WITH OVERSEAS MERCHANDISE, 1919 AND 1920

Trade statistics in the years 1919 and 1920 do not exist for all countries of Continental Europe, and those that do exist are not in all cases satisfactory. It has, nevertheless, proved possible to estimate the oversea trade of Continental Europe in foodstuffs, raw materials and semi-manufactured and finished goods during 1919 and 1920, and at the same time, to show separately the imports from the United Kingdom, the United States and other oversea countries. The figures given have been derived mainly from the trade statistics of the importing countries; but the statistics of the exporting countries have been used when import statistics were lacking and as a check for the whole calculation.¹ For 1919 use has also been made of the information available on relief deliveries;² in a number of instances, which mainly concerned minor items, estimates had to be made.

Owing to the variety of sources which it was necessary to use and the gaps in the information, the figures are necessarily rough—though the agreement of the results obtained from the import and export statistics is reassuring. A possible source of error arises owing to the necessity of converting the national currencies into dollars. Conversions have been made throughout at the average yearly rates of exchange and in cases where the exchange rates showed violent fluctuations and the flow of trade was not regular throughout the year, the annual value as calculated in dollars may be somewhat different from the value that would have been obtained if, for instance, monthly trade figures had been multiplied by average monthly exchange rates.³ It is, of course, impossible to assess a margin of error for estimates of this nature, but the figures for 1919 are not likely to be wrong by more than 10%, while the figures for subsequent years are certainly more accurate.

Information has been collected for 1913, 1927 and 1937 as well as for the years 1919 and 1920. The year 1927 may be considered as a standard of reference for the early postwar years. It represents as nearly as possible

¹ The results obtained from the import and from the export statistics are approximately the same.
² Cf. League of Nations, *Relief Deliveries and Relief Loans, 1919-1923*. Series II. 1943. II.A.1.

³ It was possible in the case of certain countries to calculate the dollar value of total imports month by month and to check the annual totals with these figures. In the case of Italy, for the year 1919, the figures arrived at in the two ways agreed perfectly. In the case of France, imports according to the monthly figures converted into dollars were lower than when the annual total figure was converted at the average annual rate; but even in this and similar cases there seemed to be no justification for applying a correction, based on the trade of a country with all other countries, to the trade with oversea countries, and still less to apply it to the trade in the three groups of commodities severally.

a "normal" year of the interwar period. Figures for 1913 and 1937 are given in order to illustrate the trend of the structural changes in Europe's oversea imports and in order to give some rough picture of the demand of Continental Europe for commodities from oversea shortly before the outbreak of the present war.

All the figures in Tables 5 and 9 are given at current values and at the prices ruling in 1927. To "deflate" aggregate trade values by a price index is in any case a rather delicate operation and small changes in the resulting "quantum" figures between one year and another should be ignored.

The price indices chosen for the purpose of this deflation are the indices of the "average values" of goods entering into the trade of the United Kingdom. These indices are available by groups of commodities. In deflating the values of Table 5, the import price indices for food and raw materials have been used for all imports of these commodity groups into Continental Europe and the average of the United Kingdom indices for the imports and for the exports¹ of finished goods have been applied to all imports of this group. The indices, after conversion from sterling to dollars are as follows:²

TABLE 4
Indices of Dollar Prices
1927 = 100

<i>Year</i>	<i>Food</i>	<i>Raw Materials</i>	<i>Finished Goods</i>
1913	70	79	70
1919	159	173	153
1920	151	171	163
1927	100	100	100
1937	76	82	81

The results obtained from these calculations are set out in Table 5 on page 14.

The high value of imports in 1919/20 was caused very largely by the high prices ruling. The quantum of imports in 1919, while not substantially less than in 1927, appears to have only represented five-sixths of that in

¹The difference in the movements of these two indices was quite small.

²Comparison with the development of wholesale prices in the United States shown below—which have the advantage of being currently available—shows that, in relation to 1927, British import prices in 1919/20 for raw materials and for finished goods were higher than the prices in the United States, a fact probably mainly due to high freight rates.

Indices of Wholesale Prices in the United States
1927 = 100

	<i>All Commodities</i>	<i>Farm Products</i>	<i>Raw Materials</i>	<i>Finished Goods</i>
1913	73	72	71	72
1919	145	159	151	137
1920	162	152	157	158
1927	100	100	100	100
1937	90	87	88	92
Dec. 1942	106	114	110	105

The average figures for 1920 conceal the revolution in values that took place during the course of that year. The price range during 1919/20 may be judged better from the following monthly figures:

January 1919	141	155	145	136
May 1920	175	171	169	167
December 1920	127	105	115	134

TABLE 5
Overseas Imports¹ into Continental Europe

- I. Foodstuffs (including live animals).
II. Raw materials and semi-manufactured products.
III. Finished goods.

	Total				Of which from:											
					United Kingdom ²				United States				Other Countries ³			
	Of which:				Of which:				Of which:				Of which:			
	Total	I	II	III	Total	I	II	III	Total	I	II	III	Total	I	II	III
A. Values at current prices:																
\$ (000,000,000's)																
1913	5.4	1.5	3.1	.8	1.1	.1	.6	.5	1.1	.3	.7	.1	3.2	1.2	1.8	.2
1919	9.8	3.8	3.6	2.3	2.6	.3	1.0	1.3	4.1	1.9	1.3	.9	3.1	1.6	1.3	.1
1920	7.6	2.5	3.5	1.6	2.1	.1	1.0	1.0	2.9	1.1	1.3	.5	2.7	1.3	1.3	.7
1927	6.3	2.0	3.4	.9	1.2	.1	.6	.5	1.6	.5	.9	.3	3.4	1.4	1.9	.1
1937	5.0	1.4	2.9	.7	1.0	.1	.5	.4	.8	.1	.5	.2	3.3	1.2	1.9	.1
B. Values at 1927 prices:																
\$ (000,000,000's)																
1913	7.2	2.2	4.0	1.1	1.4	.1	.7	.7	1.5	.4	.9	.2	4.3	1.7	2.3	.3
1919	6.0	2.4	2.1	1.5	1.6	.2	.6	.8	2.5	1.2	.7	.6	1.9	1.0	.8	.1
1920	4.7	1.6	2.1	1.0	1.3	.1	.6	.6	1.7	.7	.3	.3	1.6	.8	.7	.1
1927	6.3	2.0	3.4	.9	1.2	.1	.6	.5	1.6	.5	.9	.3	3.4	2.4	1.9	.1
1937	6.2	1.8	3.5	.9	1.2	.1	.6	.5	1.0	.1	.6	.3	4.0	1.6	2.3	.1
C. Quantum indices:																
1927 = 100																
1913	115	109	117	122	118	85	121	127	90	80	103	69	126	221	122	235
1919	95	120	62	167	131	165	101	160	155	255	93	212	54	72	40	82
1920	75	83	61	107	105	72	95	125	108	156	86	74	48	60	39	53
1927	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
1937	99	91	104	96	97	62	104	96	61	24	67	100	118	116	121	88

¹ The term "overseas imports" is used for convenience to denote imports from outside the continent. (Actually imports from the U.S.S.R. and Turkey arrive in part by rail, though in 1919 and 1920 the amounts involved were negligible.) Imports from countries within Continental Europe are excluded.

² United Kingdom: Certain European countries in their import statistics appear to attribute to the United Kingdom a portion of the overseas products sent to them through that country and included in its re-exports. It appears that the amounts involved were approximately as follows, in the five years in question: \$250, \$450, \$300, \$250, \$60 million (cf. also League of Nations, *Europe's Trade*, page 17). The imports attributed in this table to the United States and to other countries, particularly to the latter, would be too low by the same amounts.

³ Total imports from the U.S.S.R. (Russia) were, in dollars (000,000,000's), at current prices: 1913, 0.82; 1919, —; 1920, —; 1927, 0.23; 1937, 0.14.

TABLE 6

Export of Finished Goods from the United Kingdom to Continental Europe

	Quantities			£(000,000's)			
	Unit	1913	1919	1920	1913	1919	1920
Cotton yarn	Lbs. (000,000's)	130	134	89	9.6	27.0	27.3
Cotton piece goods	Yards (000,000's)	442	851	479	8.6	54.8	44.9
Other cotton goods					3.3	11.0	9.0
Linen piece goods	Yards (000,000's)	9.5	31.3	9.4	0.4	3.6	2.0
Woollen yarns	Lbs. (000,000's)	66.7	26.0	23.2	6.2	11.2	9.3
Woollen piece goods	Yards (000,000's)	35.1	116.8	111.4	6.9	52.6	44.9
					35.0	159.2	137.4
Apparel					3.6	10.6	13.1
Chemicals, drugs, dyes and colours					7.4	9.0	10.3
Coke and other manuf. fuel.	Tons (000's)	1746	2814	3366	1.4	7.8	17.9
Machinery	Tons (000's)	191	117	157	9.7	12.9	22.6
Iron and steel and manufactures of	Tons (000's)	122	102	110	10.6	26.5	37.0
* All other manufactured goods					32.6	69.2	100.3
Total					100.3	295.2	338.6

1913. In 1920 the import quantum was not even two-thirds of what it had been in 1913, and was a quarter below the level of 1927. That the quantum of imports in 1919 was not higher in spite of the great and pressing needs of the European population and the depletion of stocks must be attributed to the difficulty of obtaining credit, to the disorganized state of industry, which would have affected the demand for raw materials even if they had been available, and to shipping difficulties. What the real needs of Europe were, it is obviously impossible to gauge. We only know how much she obtained and that the general pressure of demand on world markets led to a rapid rise in prices while the urgency of her needs contributed in no small measure to the depreciation of her currencies.

The quantum of the imports of foodstuffs, which were more liberally furnished than raw materials, was some 10% higher in 1919 than in 1913 and 20% higher than in 1927; the quantum of raw material imports, however, was 47% lower than in 1913 and 38% lower than in 1927. What is perhaps most striking is the very large import of finished goods, which was 36% above the 1913 and 67% above the 1927 quantum. These large purchases reflect both the great demand for such goods on the part of a population which had not been able to buy them for a number of years, and the temporary inability of the local industries to produce the commodities desired owing to the time involved in the reconversion of plant, the purchase of raw materials from abroad, the assembling of a labour force, etc.

It is not possible to give a detailed picture of the manufactured goods imported in these years. More than half of these imports came from the United Kingdom. An analysis of the British exports to Continental Europe in 1913, 1919 and 1920 is given in Table 6. In this table quantity figures are given when possible. With respect to the value figures it should be borne in mind that British export prices in sterling for finished goods were in 1919 about 175% and in 1920 about 250% above the 1913 level.

The American trade statistics do not readily lend themselves to a similar summary. The following data concerning certain durable goods exported to Continental Europe are, however, worth noting:

TABLE 7
Exports from the United States to Continental Europe

	Quantity			\$(000,000's)			
	Unit	1913	1919	1920	1913	1919	1920
Freight cars	Nos.	....	22,432	12,285	0.05	49.8	23.1
Steam locomotives	"	3	318	721	0.02	11.6	27.4
Automobiles:							
passenger cars	"	3,760	12,812	23,615	3.1	16.3	29.9
commercial	"	49	6,017	2,798	0.08	20.2	7.6
Total automobiles					3.2	36.5	37.5

Of the food imports in 1919 one-half came from the United States and of the manufactured goods considerably over a half from the United Kingdom. The high figure of food imports in 1919—a total value of \$1.9 billion¹—reflects to a large extent relief deliveries.

The total value of imports from the United States in 1919 amounted to over \$4 billions and from the United Kingdom to over \$2.5 billions. In 1920 the total from these two countries was \$5 billions (\$2.9 from the U.S. and \$2.1 from the U.K.). The following table gives the percentage distribution by groups of commodities and by certain areas of origin.

The quantum of imports in 1920 of both finished goods and foodstuffs dropped about 35%, while the quantum and value of raw materials imported remained approximately unchanged. The decline of the food and finished goods imports² reflected no doubt to a certain extent some revival of agriculture and industry, but more important were the cessation of large-scale relief deliveries by the autumn of 1919 and the increasing difficulties experienced in the purchase of finished goods abroad as foreign assets became exhausted.

The analysis of the trade of Continental Europe as a whole, to which the preceding pages have been confined, hides important differences within that area. In Table 9, therefore, the Continent is divided into three groups of countries: the Western Allies; the Neutrals, which had suffered relatively little permanent damage from the war and had accumulated large foreign assets during it; and the rest of the Continent, Central and Eastern Europe, which continued to be subject to the blockade till well into 1919.³ Warfare and civil strife continued over considerable parts of this third group after November 1918; boundaries were at first undefined; and the whole mechanism of government and administration was so weakened as to render inflation almost inevitable. Probably for this group⁴ the figures err on the low side. Moreover, the imports of this group from the remainder of Continental Europe did not decline to so abnormal a level as those from overseas.⁵

¹ Billion is used throughout in the sense of a thousand million.

² The 35% decline in the quantum of food imports from overseas contrasts with a decline of only 1% in the net import (by weight) of cereals. Since the import of cereals accounts for only about one-third of the total food imports in 1919, it would not seem that there is a contradiction in these two findings. In France, for instance, the import of cereals increased by 8% from 1919 to 1920, while the quantum index of food imports from all countries as calculated by the "Statistique générale de la France" declined by 22%.

³ The blockade was raised in April 1919 for Poland, Czechoslovakia, Estonia, Austria, Turkey, Bulgaria, Roumania and Yugoslavia; at the end of June of that year for Germany.

⁴ To break down the data presented in Table 5 for smaller groups of countries increases the risk of error. Errors which cancelled out in total figures for all countries may appear in the group totals and affect the comparison of different years within the group as well as the comparison between the groups. Errors which were small relatively to the Continental total are larger in proportion to the total of any one of the groups. The risk is greatest in the case of the group of "Other Countries." The figures for this group, which represent about one-third of the total in 1919 and 1920, are less reliable than those for the other two. Though great care has been taken to check or supplement the trade statistics of these countries with other data, the final results are necessarily rough and subject to a rather wide margin of error.

⁵ The value of imports of this group ("Other countries") from North-western Europe (that is, from all other countries of Continental Europe except Italy, Portugal and Spain) was as follows, in billion dollars at current prices:

Year	I	II	III	Total	Of which, into Germany
1919	0.3	0.3	0.5	1.1	0.9
1920	0.2	0.2	0.3	0.7	0.6
1927	0.3	0.4	0.4	1.1	0.8

A considerable share of the imports in 1919 and 1920 undoubtedly consisted of inferior-quality goods released from war-time stocks in the exporting countries.

TABLE 8
Continental Europe: Percentage Distribution of Overseas Imports

	Year	Total	Of which:					
			Commodity groups			Countries of provenance		
			I	II	III	United Kingdom ¹	United States	Other countries
A. Values at current prices	1913	100	28	57	15	20	21	59
	1919	100	39	37	24	26	42	32
	1920	100	33	46	21	28	37	35
	1927	100	31	54	15	19	26	55
	1937	100	27	58	15	19	16	65
B. Values at 1927 prices	1913	100	30	55	15	20	20	60
	1919	100	40	35	25	27	42	31
	1920	100	34	45	21	28	37	35
	1927	100	31	54	15	19	26	55
	1937	100	29	56	15	19	16	65

Note: This table is based on the same figures as Table 5 and reference is made to the notes to that table.

¹ If adjustment is made for the amounts indicated in footnote (2) to Table 5, the share of the United Kingdom would work out as follows for the five years in question (at current prices): 16, 22, 24, 15, 18.

TABLE 9

Overseas Imports¹ into Continental Europe, by Groups of Countries,

- I. Foodstuffs (including live animals),
 II. Raw materials and semi-manufactured products.
 III. Finished goods.

	All Countries Total	Western Allies ²				Neutrals ³				Other Countries ⁴				
		Of which:				Of which:				Of which:				
		Total	I	II	III	Total	I	II	III	Total	I	II	III	
A. Values at current prices \$(000,000,000's)	1913	5.4	2.0	.5	1.3	.3	1.3	.5	.6	.2	2.1	.6	1.3	.3
	1919	9.8	5.9	2.1	2.5	1.3	2.5	.8	1.0	.7	1.3	.9	.1	.3
	1920	7.6	3.9	1.2	2.0	.7	2.2	.6	1.0	.6	1.5	.7	.6	.2
	1927	6.3	2.5	.8	1.5	.2	1.4	.5	.5	.4	2.3	.7	1.3	.3
	1937	5.0	2.1	.6	1.3	.2	1.2	.3	.6	.3	1.6	.4	1.0	.2
B. Values at 1927 prices \$(000,000,000's)	1913	7.2	2.7	.7	1.6	.4	1.9	.8	.8	.3	2.7	.7	1.6	.4
	1919	6.0	3.6	1.3	1.4	.9	1.6	.5	.6	.5	.8	.6	.1	.2
	1920	4.6	2.4	.8	1.2	.4	1.3	.4	.6	.4	1.0	.5	.3	.2
	1927	6.3	2.5	.8	1.5	.2	1.4	.5	.5	.4	2.3	.7	1.3	.3
	1937	6.2	2.6	.8	1.6	.3	1.5	.4	.7	.4	2.1	.6	1.2	.2
C. Quantum indices 1927 = 100	1913	115	107	84	105	208	138	174	146	82	111	95	119	116
	1919	95	145	167	95	430	112	104	109	125	35	78	7	52
	1920	75	97	102	77	223	95	80	105	101	40	65	25	45
	1927	100	100	100	100	100	100	100	100	100	100	100	100	100
	1937	99	106	99	106	128	140	92	129	103	86	83	92	73

¹Including imports by land from the U.S.S.R. and ²Turkey (negligible in 1919 and 1920).

³France, Belgium, Italy, Portugal.

⁴Denmark, Netherlands, Norway, Spain, Sweden, Switzerland.

⁵Germany, Austria, Czechoslovakia, Hungary, Yugoslavia, Bulgaria, Roumania, Greece, Finland, Estonia, Latvia, Lithuania, Poland.

TABLE 10
Continental Europe: Indices of Imports of Certain Raw Materials (by weight)
 1927 = 100

	<i>Western Allies</i> ¹			<i>Neutrals</i> ²			<i>Other Countries</i> ³			<i>Total</i> ⁴		
	1919	1920	1921	1919	1920	1921	1919	1920	1921	1919	1920	1921
Cotton	70	86	69	75	79	74	17*	31	60	45	59	65
Jute	85	63	51	43	60	44	1*	28	58	39	45	51
Rubber	69	59	43	150	190	200	10*	30	50	52	58	58
Quantum index, raw materials	99	80	.....	109	106	.....	9	27	.....	65	64	.....

¹ France, Italy, Belgium.

² Spain, Sweden, Norway, Netherlands, Denmark, Switzerland.

³ Germany, Austria, Hungary, Czechoslovakia, Roumania and Greece for all three materials; further, Poland (cotton and jute) and Finland, Estonia, Lithuania, Bulgaria (cotton).

⁴ Figures in original source partly estimated.

Adapted from data in International Labour Office, "Enquiry into Production," Vol. XI, Part II (Gêve, 1923), and International Yearbook of Agricultural Statistics.

However this may be, the differences between the data for the three groups of countries are so striking as to remain significant, even after making allowance for a wide margin of possible error. Thus, though the "quantum" of goods imported by Continental Europe as a whole was only about 5% less in 1919 than in 1927, the Western Allies imported about 45% more and Central and Eastern Europe about 65% less than in 1927 and the decline in the "quantum" from 1919 to 1920 was almost entirely attributable to the Western Allies. It was this group that was mainly responsible for the large import of finished goods from overseas in 1919.¹

The stability of the raw material imports from 1919 to 1920 mentioned earlier was not common to the three groups. The raw material imports of the Western Allies, which had a greater opportunity to reconstitute their depleted stocks in 1919 than had the other countries, and which also were more severely affected by the depression which began to make itself felt in the middle of 1920, declined, according to the "quantum" indices, by 20% from 1919 to 1920. In the neutral countries these imports remained almost stable; in the other countries they increased very largely, though remaining still far below normal.²

In view of the somewhat speculative nature of the "quantum" figures given, it is desirable to compare them with direct information on quantities. Such a comparison is possible for three raw materials, cotton, jute and rubber.

It will be noted (i) that the imports of each of the three materials into Continental Europe as a whole were far below normal in both 1919 and 1920; (ii) that in 1919 the neutral States imported larger quantities, in relation to 1927, than the Western Allies (with the exception of jute) and far larger quantities than the group of "Other Countries"; and (iii) that the imports of the last group increased sharply from 1919 to 1920 but even then were only about 30% of the 1927 imports. Table 10 thus confirms the evidence furnished in the earlier tables.

The following table, relating to the weight of certain raw materials imported into Germany, also brings out clearly the extremely low level of these imports up to the second half of 1921. In 1922, however, raw material imports increased considerably, to decline again—except in the case of coal—in 1923 at the time of the occupation of the Ruhr.

¹ Within this group, the index figure for the import of finished goods from overseas in 1919 is highest for France (695); but the figures for Italy and Belgium are also relatively high (307 and 177 respectively). The official French import figures for 1919 and 1920 have been modified in the tables in this study according to the corrections applied to them by M. P. Meynial in the *Revue d'Economie Politique*, 1925, p. 13.

² After a visit to most countries in receipt of relief in October 1919, Sir William Goode, the British Director of Relief, observed that he was "absolutely convinced that to continue to provide food (to Poland, Yugoslavia, Czechoslovakia, Austria, Hungary and the Baltic countries) without at the same time providing raw materials on which to re-establish industry (was) merely to aggravate the problem of Europe." ("Economic Conditions in Central Europe." *Parliamentary Papers*, Misc., Series No. 1 [1920].)

TABLE 11.
Germany, Indices of Imports of Certain Raw Materials, by Weight
1913 = 100

Year and Half-year	Ores	Oils	Coal	Textile Materials			
				Total	Cotton	Wool	
1920	I	37	26	15	20	18	28
	II	44	34	16	28	35	23
1921	I	35	30	20	40	68	80
	II	49	70	21	66	68	80
1922	I	73	55	37	71	56	141
	II	77	67	127	55	52	74
1923	I	23	42	198	51	44	87
	II	13	36	140	45	38	64

Source: *Wirtschaft und Statistik*, 1921-1924.

* In the interpretation of these figures two factors should be taken into account: first, the release of government stocks, which is discussed below, and secondly, the reduction of the German Customs territory through the separation of the highly industrialized territories of Alsace-Lorraine, Luxemburg, the Saar and South-Western Poland. The textile industry of Alsace, for instance, represented 10% of the total German capacity in 1913;¹ the loss of the iron industry was put at two-fifths of the prewar capacity.²

¹ *Wirtschaft und Statistik*, 1922, page 103.

² *Wirtschaft und Statistik*, 1921, page 517.

CHAPTER III
THE BALANCE OF PAYMENTS OF
CONTINENTAL EUROPE, 1919-1920

(1) *Current Transactions.*

During the war the excess demand of the Allied countries for foreign exchange had been met by credits, first from the British and later from the United States Treasuries, and the currencies of the United Kingdom, France, Italy and Portugal had been "pegged" at levels only slightly below their respective parities. Pegging was stopped, however, in March 1919, though United Treasury credits continued to be used by the Allies subsequently. As shown in the preceding chapter, the gross imports of the continent of Europe from overseas in the two years 1919/20 amounted to about \$17.4 billion. We consider in this chapter how Europe financed these imports.

In 1919, exports were about \$2.0 billion and covered 21% of imports; in 1920 they were about \$3.0 billion and covered 38% of imports. The distribution by the same countries of destination as were given in Table 5 was as follows:

TABLE 12
*Trade of Continental Europe with Overseas Countries,
1919 and 1920 combined*
\$(100,000,000's)

<i>Trade of Continental Europe</i>	<i>Trade with</i>			
	<i>United States</i>	<i>United Kingdom</i>	<i>Other Overseas Countries</i>	<i>All Overseas Countries</i>
Total Imports	7.0	4.7 ¹	5.7	17.4
Total Exports	.8	2.3	1.9	5.0
Import surplus	6.2	2.4	3.8	12.4

¹ For the reasons mentioned in footnote 2 to Table 5, the imports originating in the United Kingdom were smaller, by some \$800 million, than the amount given in this Table.

The import surplus of Continental Europe from the United States—\$6.2 billion or half of the total import surplus of \$12.4 billion—was equal to nearly 90% of the total recorded¹ export surplus of the United States in the

¹ Probably more nearly 100%, after taking into account the omission of freight, etc., charges in the U.S.A. import statistics.

two years 1919 and 1920 (\$6,966 million). The net import surplus of Continental Europe from the United Kingdom of \$2.4 billion—or, if allowance is made for commodities recorded as imported from the United Kingdom but originating elsewhere,¹ perhaps \$1.6 billion—is remarkable since the United Kingdom herself had an unusually large import surplus of £1,000 million in 1919 and 1920 combined, or roughly \$4.1 billion.

Of the import surplus of Continental Europe for the two years combined of \$12.4 billions, it may roughly be estimated that \$5.7 billions were financed by the export of gold and from income on account of various services, etc.

TABLE 15
*Estimate of Balance of Payments of Continental Europe,
1919 and 1920 combined*

\$(000,000,000's)		
Import surplus		12.4
Net gold export ^a		.1
		12.3
Net income on account of:		
Ocean freight ^b	1.8	
Emigrants' remittances ^c	1.4	
Expenditure of foreign armies ^d	1.0	
Interest and dividends ^e	.7	
Tourists ^f	.3	
Relief gifts ^g	.1	
Miscellaneous services ^h	.3	
		5.6
Remained to be financed		6.7

^a Gold export by Germany to pay for relief: \$250 million; net gold import of all other continental countries: \$150 million.

^b Estimate for France, Netherlands, Norway, Sweden, Italy, Denmark, Spain and Greece. This figure may appear high but the following rough check would seem to substantiate it. The net shipping income of the United Kingdom was £400 million in 1919 and £340 million in 1920, or \$3.0 billion for the two years combined. The tonnage of the merchant marines of Continental Europe in the middle of 1920 was 79% of that of the United Kingdom. Hence the shipping income of Continental Europe in 1919 and 1920 would have been \$2.4 billion had her ships earned the same amount per ton as the British vessels. The contribution to the balance of payments of Continental Europe was less, however, since the Continental merchant marines are likely to have spent relatively more than did that of the United Kingdom on the purchase of bunker coal abroad and since allowance must be made for freight earnings in traffic among the countries of Continental Europe.

^c Based on the United States and Argentine balances of payments.

^d Based on French estimate of the expenditure of the American and British armies in France (\$736 million), and on the United States figures for the occupation costs chargeable to Germany in so far as these were not covered by reparation cash payments in the same year (\$236 million). The latter figure for occupation costs apparently represents total occupation costs, not the amounts actually spent in Germany. It seemed desirable, therefore, not to raise the figure to take account of the expenditure of the British army of occupation, for which, moreover, information is not available.

^e It is of interest to note in this connection that, to finance the expenditure of the American Army in the Allied countries, the U.S. Treasury purchased francs, sterling, etc., the dollar equivalent of which was credited against the advances for purchases of war material in the United States. Expenditure of the armies of occupation in Germany was partly effected in foreign currencies, partly in marks bought with foreign currencies. Thus the occupation constituted a certain, though not very important, source of foreign exchange for Germany.

^f Estimate for France, Netherlands and Switzerland.

^g Estimate for France and Switzerland.

^h Based on the United States balance of payments and League of Nations "Relief Deliveries and Relief Loans, 1919-23." The amount given in this Table is less than the total of relief gifts recorded in that publication since a large part of the gifts was made after 1920.

ⁱ Transit, insurance, etc.

¹ Cf. Footnote 2 to Table 5.

According to this calculation, which cannot, of course, claim a high degree of precision, some \$6.7 billion must have been financed by the import of capital. The sources of this capital import would appear to have been as follows.

(2) *Long-term capital.*

The most important long-term capital transactions in the immediate postwar period were intergovernmental loans.¹ During 1919 and up to the end of September 1920 the United States Treasury continued to make cash advances to the Allies and to some of the liberated countries that were technically considered as Allies. Additional loans were granted by other United States Government agencies, such as the United States Grain Cor-

TABLE 14
Loans by the United States Government to European Governments in 1919 and 1920
\$(000,000's)

	<i>Total</i>	<i>For Relief</i>	<i>For other Purposes</i>
1. Treasury Advances	1,781	298	1,483
2. Loans by the U.S. Grain Corporation and the American Relief Administration	142	142	—
3. Loans by the U.S. Liquidation Commission	598	378	220
4. Loans by the War Finance Corporation	39	—	39
Total	<u>2,560</u>	818*	1,742
Adjustments:			
5. Repayment of Spanish loans	29		
	<u>2,589</u>		
6. Advances to the United Kingdom	215		
7. Loans for goods in Europe	361	576	
Net Total, Loans to Continental Europe		<u><u>2,013</u></u>	

Notes:

1. Cf. Table 15 below.
2. From League of Nations, "Relief Deliveries and Relief Loans, 1919-1923."
3. *Ibid.*, and Final Report of the United States Liquidation Commission.
4. See observations in text.
5. Repayment of a loan obtained by the United States Government from Spanish banks to finance war purchases in Spain. Though this loan was not "inter-Governmental" this relatively small item may conveniently be included in this table.
6. Cf. Table 15 below.
7. U.S. Liquidation Commission Loans to France and Belgium.

* This figure is approximately equal to the total direct relief loans granted by the United States after the war (\$778 million—League of Nations, "Relief Deliveries . . ." Annex Table IV, total/ column (10) plus \$48 million lent by the United States to the United Kingdom, France and Italy for relief to Austria (*Ibidem*, Table 2, p. 15). The small difference is due mainly to "rounding off."

¹ Most intergovernmental loans were short-term loans in form, but it was understood that the lending countries would not ask for repayment at short notice and all these loans were, in fact, funded in the 'twenties.

poration and the American Relief Administration. Furthermore, in January 1920 the United States War Finance Corporation was authorized to grant credits to American exporters for a period not exceeding five years. In the next few months it arranged a number of large credits for the exports of raw materials and machinery, to a total value in excess of \$43 million, of which \$4 million was repaid before the end of the year.¹ In May 1920, however, its activities were interrupted by a ruling of the Secretary of the Treasury to the effect that Governments should cease extending credits for the stimulation of exports. Since the Governments of the importing countries usually guaranteed the credits granted by the War Finance Corporation, these credits are classed with intergovernmental loans in Table 14, above.

Table 14 shows the total amount advanced by United States agencies in 1919 and 1920 and the extent to which these advances covered (a) relief and (b) other goods and services.

In order to arrive at the amount of intergovernmental credits to be entered in the balance of payments for Continental Europe three adjustments have been made. In the first place—a minor item—repayment by the United States Government of a loan from Spain has been included.² Secondly, Treasury advances to the United Kingdom have been excluded; and in the third place a deduction has been made for credits granted by the United States Liquidation Commission on goods which are not entered in Table 12 as imports from the United States.³

After these adjustments a figure of approximately \$2.0 billion is obtained for the intergovernmental loans from the United States to be entered in the balance of payments of Continental Europe.

Detailed information on the relief loans granted by the United States to Europe will be found in another League publication.⁴ Table 15 shows the nature of the expenditures made by European Governments against United States Treasury credits, in so far as these expenditures were reported to the Treasury for the period from December 1st, 1918 to November 1st, 1920. In this period expenditures were reported at \$3,066 million. This sum includes, in addition to loans received in 1919 and 1920 (\$1,781 million), amounts spent from loans obtained previously and, further, a sum of \$679 million representing the value of domestic currency sold by Allied countries to the United States Army for its expenditure abroad.

¹ *Review of Economic Statistics*, 1921, page 185.

² League of Nations, International Financial Conference, Paper X, "Relief Credits and the Promotion of Exports," 1920.

³ Cf. note 5 to Table 14.

⁴ It will be observed that of the loans by the United States Liquidation Commission, \$598 million, only \$361 million have been deducted on this account. The difference represents United States Army supplies included in European imports as recorded in Table 12.

⁵ League of Nations, "Relief Deliveries and Relief Loans, 1919-1923."

TABLE 15
*Expenditures¹ in the United States Reported by Foreign Governments against
 credits established by the United States Treasury and Treasury advances
 December 1, 1918 to November 1, 1920*

\$(000,000's)

	Purchasing Governments								
	Total	United Kingdom	France	Italy	Belgium	Czechoslovakia	Greece	Roumania	Yugoslavia
Munitions	348	153	159	29	7	—	—	—	—
Food, tobacco & other supplies	1,138	537	429	153	19	—	—	—	15
Relief	298	16	54	16	125	49	—	23	—
Transport & Shipping	112	—	68	43	1	—	—	—	—
Interest	296	118	144	28	5	2	—	—	—
Maturities	176	46	130	—	—	—	—	—	—
Silver	131	129	2	—	—	—	—	—	—
Not Specified	567	130	329	85	2	7	15	—	—
Total Expenditures²	3,066	1,129	1,314	354	159	56	15	23	15
Less: Foreign Currencies bought by U.S.	679	341	332	4	1	—	—	—	—
Net Expenditures: Expenditures made from advances, granted before December 1, 1918 ²	2,387	788	982	350	158	56	15	23	15
Net Advances made December 1918- October 1920	2,170	401	956	541	164	56	15	23	15
Advances made during December 1918	389	186	86	85	32	—	—	—	—
Advances made during 1919 and 1920	1,781	215	870	456	132	56	15	23	15

Source: Annual Report of the Secretary of the Treasury for the Fiscal Year ended June 30, 1920, pages 345/8.

¹ Excluding expenditures for "Reimbursements," totalling \$409 million which are offset in the total net expenditures by the inclusion, in the source on which this table is based, of an item "Reimbursements from United States credits to other Governments."

² This amount is found as a residual item and includes, therefore, expenditure made but not reported. The balances available to the Allied Countries owing to unused advances are treated in this study as short-term assets and their use as a movement of short-term capital. (Cf. infra.)

The table gives "total expenditures . . . as reported by the U.K. to 30.VI.1919, by France to 31.I.1920, by Italy to 31.VIII.1919, by Belgium to 28.II.1920, . . . and in addition certain specific expenditures to 1.XI.1920."

The postwar loans granted by the United Kingdom Government to Governments of Continental Europe were as follows:

	£(000,000's)	=	\$(000,000's)
Relief Loans*	19		91
General credits	162		695
Total Loans	181		786

The period during which these loans were given runs from April 1st, 1919 to March 31st, 1922. In the fiscal year 1919/20 general credits totalled \$571 million, in the following fiscal year, \$80 million—a total of \$651 million. As the rate of lending in 1919 was much higher than in 1921, it is reasonable to assume that the total in the two years 1919-20 was not less than \$800 million.¹

There was no substantial net import of capital into Continental Europe on account of loans raised abroad other than inter-Governmental loans. Capital issues in the United Kingdom for the account of the Continent were negligible. Capital issues in the United States for the account of Continental Europe amounted to over \$200 million in the two years 1919-20, but they were almost completely offset by the repayment of loans falling due.²

Mention may be made of the fact that, not only in 1919 and 1920, but also in the next few years loans issued for the account of Continental Europe in the United States and the United Kingdom were directed almost exclusively to the countries of Western and Northern Europe. The unsettled financial and political situation in Central and Eastern Europe led to an unwillingness to grant long-term loans to countries in this area, and, in sharp contrast to the period of 1924 to 1928 which is given in Table 16 for purposes of comparison, they obtained only a small proportion of the loans floated.

There was a very large import of existing securities into the United States (nearly \$1,000 million in the two years 1919 and 1920) of which a large part came no doubt from Continental Europe. It has been estimated, for instance, that the Netherlands sold over \$200 million of foreign bonds in 1920 alone.³ The total value of the bonds sold by countries of Continental Europe in the United States cannot be ascertained; in Table 17 below, a figure of \$0.7 billion has on somewhat slender evidence been inserted.

¹Reference may be made in passing to substantial credit transactions between Governments of Continental Europe shortly after the war, though such transactions did not, of course, affect the balance of payments of Continental Europe taken as a whole. The French Government lent \$268 million to other European Governments in 1919 and 1920, and \$343 million, after deduction of repayments, in the five years 1919 to 1923. Italy, Norway, Sweden, the Netherlands and Switzerland granted relief loans to a total value of \$97 million (League of Nations, "Relief Deliveries and Relief Loans, 1919-1923," Table V). The following other inter-Governmental loans may also be mentioned:

1. "Reconstruction loans" granted by the Netherlands to France (\$10 million), and to Germany (\$26 million) the latter being the utilized portion, by the end of 1924, of a loan of Gulden 140 million—\$55 million—granted in 1921. A Gulden 60-million credit to Germany for the purchase of food granted at the same time was used to a very small extent only.

2. Loan to Roumania by Italy (lira 116 million or roughly \$10 million).

²Based on data in Cleona Lewis, "America's Stake in International Investments."

³League of Nations, "Memorandum on Balance of Payments and Foreign-Trade Balances, 1910-1923," page 27.

TABLE 16
*Bond Issues by Continental European Countries in the United States and the
 United Kingdom, 1919-1928*
 \$(000,000's)

	<i>Western and Northern Europe</i>			<i>Central and Eastern Europe</i>			<i>Total</i> (3) + (6)	<i>Percentage Distribution</i> <i>Continental W. and N. C. and E.</i>		
	<i>U.S.A.</i>	<i>U.K.</i>	<i>Total</i>	<i>U.S.A.</i>	<i>U.K.</i>	<i>Total</i>		<i>Europe</i>	<i>Europe</i>	<i>Europe</i>
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1919	65	—	65	—	—	—	65	100	100	—
1920	151	5	156	35	—	35	191	100	82	18
1921	75	23	98	—	12	12	110	100	89	11
1922	99	121	220	36	21	57	277	100	79	21
1923	35	—	35	35	71	106	141	100	25	75
1919 - 1923	425	149	574	106	104	210	784	100	72	27
1924	353	42	395	167	142	309	704	100	56	44
1925	106	1	107	423	36	459	566	100	19	81
1926	54	47	101	339	69	408	509	100	20	80
1927	49	16	65	424	77	501	566	100	11	89
1928	102	24	126	361	111	472	598	100	21	79
1924 - 1928	664	130	794	1714	435	2149	2943	100	27	73

A certain amount of long-term capital was no doubt imported into Continental Europe from countries other than the United States and the United Kingdom, but information on this is almost completely non-existent. No figure is, for instance, available on the amount of amortization payments made by the oversea debtor countries to the creditor countries of Continental Europe; but these payments may perhaps tentatively be put at \$200 million for 1919 and 1920 combined. There was, furthermore, a by no means negligible export of securities, both foreign and national, from Continental Europe to some of the debtor countries. According to figures published for the Argentine¹ this country repurchased between October 1918 and May 1920 from Europe, including the United Kingdom, about \$100 million worth of Argentine bonds and subscribed further to domestic issues of French and Italian Government bonds for a similar account.

On the basis of these facts the import of long-term capital by Continental Europe from the oversea debtor countries may perhaps be set at \$0.5 billion; and total imports by Continental Europe of long-term capital at \$4.0 billion.

(3) *Short-term capital.*

Information on the flow of short-term capital is, for obvious reasons, much less satisfactory than that on long-term movements, and practically all indications on the movement of short-funds have to be inferred from the residuals in balance of payments accounts after all other items have been taken into consideration. As these residuals include also all errors of the whole account they are a far from satisfactory measure of capital movements.

By deducting the estimated net long-term capital import into Continental Europe (\$4.0 billion) from the deficit on current account as calculated in Table 13 (\$6.7 billion), the net inflow of short-term capital may be estimated at \$2.7 billion—a figure obviously subject to a wide margin of error.

TABLE 17
Estimated Capital Import of Continental Europe, 1919 and 1920
\$(000,000,000's)

(i) Long-term:			
Intergovernmental loans:	from U.S.	2.0	
	from U.K. ....	.8	2.8
Other long-term	: from U.S. ....	.7 ^a	
	from other countries ...	.5 ^a	1.2
	Total long-term		4.0
(ii) Short-term (calculated as residual):	.....		2.7 ^a
	Total capital import (Table 13)		6.7

^a Tentative estimates (see text).

¹ John H. Williams, "Argentine Foreign Exchange and Trade since the Armistice," *Review of Economic Statistics*, March 1921, pages 49/50.

There is no possibility of establishing the country of origin of this imported short-term capital, but there are clear indications that most, if not all, of it came from the United States and the United Kingdom.

The net short-term capital export from the United States to all countries during 1919 and 1920 may be estimated in two ways, neither of which is quite satisfactory. Information concerning the short-term debt and asset position of the United States has been collected in connection with the exchange control regulations in 1918 and the first half of 1919, and again in 1923 (Table 18).

TABLE 18
Short-Term Debts and Assets of the United States
\$(000,000's)

	December 31st, 1918	June 28th, 1919	July 1st, 1921	July 1st, 1922
Assets	332	406	1,176	864
Debts	1,214	1,049	403	466
Net Debts (—)	— 882	— 643		
Net Assets (+)			+ 773	+ 398

Source: *Federal Reserve Bulletin*, December 1921; U.S. Department of Commerce, *Trade Information Bulletin*, No. 144.

According to these data there was a net outflow of short-term capital from the United States between the end of 1918 and the middle of 1921 of \$882 + \$773 = \$1,655 million. It is probable that the actual outflow during 1919 and 1920 was larger. In the first place, the reverse movement, reflected in the net inflow of short funds between July 1921 and July 1922 (\$375 million), may well have started before the former date. If it had started at the turn of the year 1920/21—that is, shortly after the beginning of the depression—at the rate of \$375 million per year the net outflow during 1919/20 would work out at nearly \$200 million more. Furthermore, the information concerning United States assets in 1921 and 1922, based on replies to questionnaires, is stated to have been incomplete. Taking account of these facts, a figure of roughly \$2.0 billion would appear to be a reasonable estimate for the net outflow of short-term capital from the United States.

The whole of the short-term capital export of the United States did not of course go to Continental Europe; part went to the United Kingdom. This is indicated by the balance of payments of the United Kingdom. Though the statements published for the early postwar years are somewhat uncertain, they would seem to bear out the fact—if account is also taken of various corrections applied to the statements for later years—that the United Kingdom had a net export of capital in 1919 and 1920 combined of roughly \$500 million. In these same years she exported, as mentioned above, \$800 million of capital

in the form of intergovernmental loans to Continental Europe. On the basis of these two figures it would appear that the United Kingdom imported capital from non-European countries to an amount of \$300 million, and this amount becomes even somewhat larger, perhaps \$500 million, if certain other movements of long-term capital are taken into consideration.¹ This import of capital probably took the form of a movement of short-term funds and also to some extent of a liquidation of security holdings.

Short-term credits were, in fact, considered the most appropriate means of financing raw material purchases, and such purchases had normally been financed with short commercial credits from London before the war. After the war, the English money market resumed this function. Though the credits extended were of short currency, their continuous renewal actually provided the debtor countries with a quasi-permanent addition to their supply of foreign exchange. The fact that the United Kingdom granted such credits, as well as other commercial credits to Continental Europe, would appear to indicate that it obtained short-term credits from the United States or elsewhere in excess of the amounts calculated above.

It appears, further, that the export credits granted by the United States to Continental Europe were, as a rule, quickly converted by the American exporters and bankers into claims on the United Kingdom. Owing to this practice the London market came to hold large amounts of the continental currencies, and for a considerable time it bought more of them in order to protect the exchange value of its holdings.²

Part of the flow of short-term funds to Continental Europe represented withdrawal of short-term assets held in the United States at the end of the war. Of the net short-term indebtedness of the United States to other countries of nearly \$900 million at the end of 1918, nearly \$600 million was owed to Continental Europe (Table 19).³

These large balances in the United States, of which only a fraction was held by Governments, had accumulated during the war owing to various circumstances. The European Allies effected large expenditures in the United States which were financed by regular advances from the United States Treasury against the surrender of government bonds. Advances, particularly to France, were also made in return for domestic currency used in defraying the expenditure of the American Army abroad.⁴ As the dollar funds thus created were only gradually drawn upon, the Allies always held considerable short-term balances in the United States. At the beginning of 1919 France held \$144 million and the other Allies in Continental Europe \$137 million. European neutrals, which had accumulated dollars largely in return for ship-

¹ Capital issues for extra-European countries in 1919 and 1920 were £100 million, about \$400 million, an amount probably somewhat in excess of amortization payments during the same years; net repayment of long-term loans in the United States exceeded the advances obtained from the Treasury by about \$100 million.

² Cf. B. M. Anderson, Jr., *Chase Economic Bulletin*, Vol. 1, No. 1, October 1920.

³ No distribution by countries exists for the data for 1921 and 1922 given in Table 18.

⁴ *Federal Reserve Bulletin*, December 1921, page 1402.

TABLE 19,
Net Short-Term Balances in the United States of other Countries
 \$ (000,000's)

Countries	December 31, 1918			June 28, 1919
	Private	Government	Total	Total
United Kingdom	46	96	142	105
France	94	50	144	69
Other European Allies	91	46	137	125
European Neutrals	314	9	323	271
Central Powers	-13*	—	-13*	-20*
Total, Continental Europe	486	105	591	445
Asia	87	2	89	-3*
North America	25	5	30	87
South America	-68*	103	35	16
Africa and Oceania	-5*	—	-5*	-7*
	571	311	882	643

Source: *Federal Reserve Bulletin*, December 1921. (This source contains much additional information.)

* Net balance in favour of the United States.

ping services rendered to the United States as well as other countries, held \$323 million.

It appears that these balances were used up rapidly after the war. They were used for the purchase of commodities, and for the liquidation of various debts of the Allied Governments. During the first half of 1919 the balances of all countries together declined by 27%, those of Continental Europe by 25%. At this rate, the withdrawals would correspond to an efflux of short-term capital to Continental Europe of \$600 in two years. There can be no doubt, however, that the actual flow of such capital to Continental Europe was considerably in excess of this amount and that, accordingly, the net assets of Continental Europe in the United States were replaced, at the end of the period under review, by a net liability. Part of the debt incurred by Continental Europe, and by Germany in particular, towards the United States reflected the acquisition by Americans of notes and bank balances in European currencies as a form of exchange speculation. These liabilities were largely wiped out later by the extreme depreciation of the mark and other currencies.¹

¹The McKenna Committee estimated that between 1919 and 1924 over one million individuals had provided Germany with 1.66 to 1.9 billion dollars of foreign exchange, the largest amounts being provided by "the citizens of a relatively restricted group of countries." In the same period Germany obtained about 150 million dollars by the sale of paper Marks.

CHAPTER IV

FOOD, RAW MATERIALS AND CREDITS: GOVERNMENT POLICIES

(b) *Food relief.*

Effective international action was only taken to meet Europe's requirements of food. Preparations for large-scale relief deliveries started shortly before the Armistice in the United States, and in December 1918 and the first months of 1919 these preparations were co-ordinated with the relief activities of the Allied Governments.¹ Under these arrangements a steady stream of food supplies arrived in Europe from February to August 1919. During this period foodstuffs to the value of about \$1,250 millions were delivered to some twenty European countries. For these deliveries payment was made in gold or other foreign assets by the recipient countries to an amount of almost \$400 millions, over \$800 millions worth was sold on credit and a small amount was in the form of gifts. In principle the allied and liberated countries received relief on credit and the enemy countries paid cash.² By far the largest part of the relief deliveries was handled by various United States Government agencies, such as the American Relief Administration, the United States Grain Corporation and the United States Legislation Commission.

After the signing of the Peace Treaty at the end of June, 1919, relief organized by the Allied Governments was sharply curtailed. In the course of the next few years, widespread relief activities were still maintained by private and semi-official organizations which distributed foodstuffs to a total value of perhaps \$500 million dollars, a great part of which was in the nature of gifts. But these activities were directed towards specific groups of recipients, mostly children. From the autumn of 1919 the task of securing the foodstuffs for the bulk of the population fell almost wholly to the several European Governments. The 1919 crop, as shown above,³ was far below normal. For the additional imports Government credits were, with few exceptions, no longer available; private credits had to be obtained or the utilization of the country's foreign exchange for other purposes had to be curtailed.

¹ For a fuller analysis of relief after the last war, see *Relief Deliveries and Relief Loans, 1919-1923*.

² Credits were, however, arranged for Austria.

³ Table 3.

(2) *Raw materials—lack of international action.*

Although some military stores other than food were included amongst the relief deliveries, the larger questions of supplying and financing other imports, raw materials in particular, and of reconstruction in general, was never faced with determination and imagination.

In the last two years of the war, the Allies had worked out a system for the joint purchase, distribution and transport of raw materials and food-stuffs. All the inter-Allied purchasing agencies for raw materials, as well as those for foods, were located in London. Some of these, such as the Wool Executive, had accumulated very considerable stocks of raw materials in the United Kingdom.

At the end of the war some endeavour was made both to preserve these organizations at least for the reconstruction period and to extend their operation to cover the whole of Europe. A step in this direction was the creation, during the Peace Conference, of the Supreme Economic Council (February 8th, 1919) with six sections dealing with finance, blockade, communications, raw materials, food and maritime transport. However, apart from relief, which was mainly handled by the American Relief Administration, the activities of the Council with respect to the economic organization of Europe were strictly limited in scope.¹ In fact, with the abrupt withdrawal of economic controls in the United States before the end of 1918, the possibilities of joint allied action were greatly reduced.

In a few instances, the spirit of inter-allied solidarity continued to prevail and influence policy with regard to the distribution of raw materials. Thus the British Directorate of Raw Materials stated that it

“ . . . had to look forward for a period of two years or more to being the sole purveyor of Australian and New Zealand wool, and a special responsibility was felt for the requirements of France, Belgium and Italy, and more particularly of the two former countries whose wool industries had been temporarily destroyed by German invasion. . . . The responsibility was cast upon this Department of building up a stock of wool in England sufficient for the requirement of our Allies as well as those of our own industries.”²

Similarly in the establishment of export quotas for British coal, relatively large percentages of the total exports were set aside for France (45%) and Italy (20%).

The peace treaties dealt with the raw material problem only incidentally in connection with commercial policy. They contained no provisions affecting raw material supplies to newly created States or defeated Powers, with the exception of the clause³ according to which Czechoslovakia and Poland were

¹ H. W. V. Temperley, *A History of the Peace Conference*, Vol. I, Chap. VIII, Part II.

² Great Britain, House of Commons Financial Papers: *Memoranda of the Director General of Raw Materials, Ministry of Munitions*, London, 1920, Cmd. 788, page 13.

³ Treaty of Saint Germain (September 10th, 1919), Article 224.

to deliver to Austria, for a period not exceeding three years, a "reasonable quantity" of coal and lignite in exchange for other raw materials, the quantities to be delivered by both sides to be fixed, failing agreement between the States concerned, by the Reparation Commission. Arrangements for barter exchange were made in accordance with this clause, but their execution met with great difficulties.

No further action was taken for the provision of raw materials to Central Europe or for the distribution of the available materials between the various countries. Not until March 1920 did the Supreme Economic Council come forward with the recommendation that:

"The provision of raw materials being essential to the restoration of industry, means should be found by which the countries which are, in present conditions of international exchange, unable to purchase in the world markets, and so are unable to restart their economic life, can obtain commercial credits. It will be possible to achieve this when the countries have made the reforms indicated."¹

Special consideration was given to Germany and Austria:

"They [the Powers represented at the Conference] have also had under consideration the special position of Germany, where enterprise is at present paralysed and the possibility of obtaining commercial credit closed, by reason of the fact that her obligations for reparation are still totally unknown. It is most desirable, therefore, in the interests of the Allied countries, no less than in that of Germany that at the earliest possible moment the total of the reparation payments to be made by Germany under the Treaty of Versailles should be fixed, and . . . she should be enabled to obtain essential foodstuffs and raw materials, and, if necessary, in the opinion of the Reparation Commission, should be allowed to raise abroad a loan to meet her immediate needs, of such amount and with such priority as the Reparation Commission may deem essential. In the case of Austria, the Powers here represented recognize that even more active assistance may require to be given."²

In October of the same year, the International Financial Conference at Brussels endorsed these recommendations, declaring³ that it

" . . . would welcome any action which can be taken by the League of Nations to enable the countries which under present conditions cannot purchase the necessary supplies for their reconstruction temporarily to obtain commercial credits on an approved basis for this purpose."

¹ Cf. International Financial Conference, Paper No. II, page 11, 1920. The reforms in question aimed at the reduction of expenditure and the deflation of credit and currency.

² *Ibid.*, p. 9.

³ International Financial Conference, Proceedings, Vol. I. Report of the Conference, 1920.

In this way the emphasis was shifted to the credit aspect of the raw materials problem. The Conference unanimously recommended a scheme for International Credits (the ter Meulen Plan). The full text of the plan is given in Annex I. It proposed the appointment by the Council of the League of Nations of an International Commission of bankers and businessmen to which Governments desiring to obtain foreign credits were to indicate what specific assets they would assign as security. Against these assets, the Governments would be able to issue bonds, countersigned by the Commission. The bonds were to be lent by the Governments to importers who would pledge them with foreign exporters as a security for private commercial credits. The bonds were to be used only for the import of raw materials and primary necessities according to a schedule to be approved by the Commission.

A nucleus machinery for the application of the ter Meulen Plan was created by the League of Nations and certain negotiations undertaken; but nowhere was the plan actually applied.¹

Probably the greatest weakness of the scheme was that it came too late. By the end of 1920 two years had elapsed since the Armistice, during which the countries of Central and Eastern Europe had received only a minimum supply of raw materials. If credits could have been arranged much earlier the financial position of these countries would no doubt have been easier. But with the continuation of warfare in Eastern Europe and political unsettlement in many of the countries which required assistance, private credits—even with a guarantee, on the part of the governments, of the borrowers—were necessarily extremely difficult to obtain. By the time the ter Meulen Plan was submitted exchange depreciation and inflation in these countries had gone a very long way.² The financial condition of some of these countries was indeed little short of disastrous and in these circumstances there was probably little chance of successfully soliciting private credits under any scheme so long as the wider problem of financial reconstruction remained unsolved. This was, however, precisely what the ter Meulen Plan endeavoured to do.³

It is true that the attitude expressed by the Resolutions of the Brussels Conference was somewhat different. These resolutions, following the declaration of the Supreme Council of March 1920, made it clear that it would not be possible to provide raw materials essential to the restoration of industries to countries which would not make the necessary reforms, that is, balance the

¹ In March 1921 the Governments of Great Britain, France, Italy and Japan agreed to release the assets pledged by Austria for her Reparation and Relief Loans with a view to these assets being used as security for ter Meulen Bonds (League of Nations, Official Journal, 1921, pages 284-285). But the difficulty of obtaining a similar release from the other creditor Governments prevented this plan coming into operation. Only in June 1923 did Austria obtain a long-term internationally guaranteed loan to the service of which the assets previously released were pledged. (League of Nations, *The Financial Reconstruction of Austria*, Geneva, 1926.)

² Cf. Table 23 below.

³ Mr. ter Meulen's speech to the Brussels Conference (Vol. I, page 117): "The plan should be kept entirely separate from any plan which may have for its object the issue of international Government loans, for any purpose whatsoever, and it should not embrace an attempt to stabilize rates of exchange or to attain any other in itself very desirable object, for the realization of which, however, the time in my judgment is not yet ripe."

budget, stop the printing of notes and exchange depreciation and restore freedom of commercial transactions.¹

The fulfilment of these conditions was, in fact, dependent on obtaining at least temporary foreign credits to tide over the period of extreme capital shortage. Thus credits and financial reconstruction were mutually dependent. To break this deadlock a scheme much bolder than the ter Meulen Plan was required, namely the granting of credit on the basis of a *plan* for reconstruction, the execution of which was guaranteed by some form of supervision. Such was the League scheme as finally applied to Austria and Hungary, which succeeded because it was "comprehensive and complete,"² while the ter Meulen Plan tried to departmentalize the various problems.

Doubt as to the practicability of the ter Meulen Plan was expressed by the Provisional Economic and Financial Committees of the League itself at its first meeting in December 1920. Indeed, the Committee "hesitated to recommend the Council to undertake the immediate establishment of a large and costly organization, preferring to retain a procedure which would meet the pressing needs of the international credit situation and which would give at the same time sufficient elasticity to the scheme should any important changes appear necessary,"³ although it recommended that "a trial should certainly be given" to it.

(3) *Raw materials—national action.*

In the absence of international action, and indeed of any concerted plan for international action during almost two years after the Armistice, the countries of Central and Eastern Europe took such domestic measures as they could. Among such measures, must be included not only those designed directly to promote the imports of raw materials, but also the restriction of imports of "luxuries" or of commodities which, it was thought, the country could produce itself, in order to economise foreign exchange; the restriction of exports to preserve vital materials for the domestic market, to keep their price down, to assure that exportable commodities were sold to countries paying in "hard currency."

The German Government, for instance, endeavoured to stimulate imports, by special credit arrangements. As an example, reference can be made to an

¹ Cf. Resolution II, Commission on International Credits:

"The Conference, of opinion that the revival of credit requires as primary conditions the restoration of order in public finance, the cessation of inflation, the purging of currencies, and the freedom of commercial transactions. The resolutions of the Commission on International Credits are therefore based on the resolutions of the other Commissions."

² *The Financial Reconstruction of Austria, op. cit.*, page 74. The following description of the scheme deserves quotation:

"And this plan, together with the mechanism for its execution, was prepared, adopted and published to the world *at once and as a whole*. There was no attempt to introduce items of reform piecemeal, with the danger that it would break down at its most difficult point. On the contrary, adoption of the more difficult features was made easier by the impossibility of picking and choosing and the knowledge that the plan must go through as a whole or not at all; and confidence was inspired by knowledge of the complete plan and its adoption as a whole, as it could not have been had certain integral portions remained unknown or uncertain."

³ Report of the Provisional Economic and Financial Committee to the Council. December 30th, 1920. (League of Nations, *Official Journal*, 1921, pages 44 ff.)

agreement concluded in December, 1920, between the German and the Dutch Governments for a 6%, ten years' credit of 200 million Gulden. Out of this sum 60 million Gulden were reserved for purchases of foodstuffs; the remaining 140 million constituted a revolving credit to finance imports of essential raw materials. In return Germany agreed to export to Holland coal and manufactured products. It was understood that this credit would be used primarily for purchases in the Netherlands and in the Netherlands-Indies and that the imports would be transported through Dutch harbours.

This policy of import stimulation was restricted, however, to necessary industrial raw materials. "The main policy of the German Government has been consistent through the year (1919) and has prevented the introduction into the country of anything except essentials: i.e. foodstuffs, fodder and raw materials for factories manufacturing necessities."¹

To procure raw materials for the iron industry the Government concluded the "Luxemburg Agreement" with France, under which France and Luxemburg undertook to furnish minette in exchange for deliveries of coke, made foreign exchange available for the purchase of foreign ores, forbade the export of scrap iron and fixed maximum prices for it.²

The new supply situation in the textile industry was, in 1920, "strongly influenced by the release of considerable quantities of textile raw materials kept in reserve up to the end of the war for the needs of the Army."³ Similarly the stocks of rubber released by the Government in 1919 were said to be sufficient for "many months" owing to the fact that consumption was limited by the shortage of coal.⁴

The raw material position of Czechoslovakia was notably better than that of the surrounding countries,⁵ a fact of which the relatively high index of industrial production in 1919⁶ is probably a reflection; yet even in this country the raw material position was still very grave in the autumn of 1919.⁷

The relatively favourable position of Czechoslovakia was partly due to energetic joint action of the Government and the industries concerned. Such action was rendered feasible by the facts that the Czechoslovak frontiers, with the exception of the Teschen district, were settled, that the political situation

¹ *Economic Survey of Certain Countries Specially Affected by the War at the Close of the Year 1919*, Department of Overseas Trade, London, 1920, page 40.

² Enquiry into Production, *op. cit.*, Vol. V, Part 1, page 137.

³ *Wirtschaft und Statistik*, 1922, page 102.

⁴ *Wirtschaftsdienst*, August 8, 1919, page 608; November 21, 1919, page 870.

⁵ "Czechoslovakia is, at least at present, in a privileged position with respect to its raw material supply in comparison to its neighbour countries: Germany, Austria, Poland, Roumania." Enquiry into Production, *op. cit.*, Vol. III (French Edition), page 51.

⁶ Cf. Table 2.

⁷ "In all these relief countries a considerable percentage of the industrial population is in receipt of unemployment pay. President Masaryk, of the Czechoslovak Republic, whom I saw at Prague on the 10th October, 1919, pointed out that it was impossible to put his people to work without wool and cotton for the factories, and that the problem of this new state resolved itself into a question of the export of merchandise or of population. If raw material were not forthcoming, the industrial population would have to leave the country. . . . What President Masaryk said of his own country might, with little or worse variation, be said of every country where relief missions were stationed and serves to emphasise the fact that credits are not needed merely for food in some countries, but for the raw materials with which to enable all the people to get to work." Sir William Goode *op. cit.*, page 10.

was relatively tranquil, and that the Government, in particular during 1919, showed great determination in putting the country's finances in order and stopping inflation.

Through the agency of purchasing syndicates of the various industries but with Government credit, the Government bought large stocks of crude petroleum, heavy oils, motor spirit and cotton from America at a moment when prices were still high and the dollar exchange extremely adverse.¹ Subsequently, however, when prices fell on the world market and the crown appreciated in relation to the dollar, and even more rapidly in relation to the currencies of the surrounding countries, exports became stagnant and the Government encountered great difficulties in selling its stocks of raw materials. Between October 1921 and October 1922 the value of the Czech crown more than tripled, rising from 1.0 to 3.3 dollar cents. The index of industrial production declined from 69 in 1921 to 61 in 1922 (1928 = 100).² In order to prevent an excessive loss on the stocks of raw materials accumulated previously, temporary import prohibitions were introduced.³

Difficulties of supply were not confined to the raw materials that had to come from countries outside Continental Europe. The trade on the Continent itself was also greatly reduced, especially the trade among the Austro-Hungarian Succession States which was hampered by trade barriers, in addition to political and monetary difficulties. Normal commerce between these States, which had previously formed one economic unit, disappeared almost completely. Only in the form of "compensation" (barter) agreements, negotiated between the respective governments,⁴ did a modicum of trade take place. Agreements of this kind were concluded, for instance, between Austria and Yugoslavia for salt and matches against foodstuffs (January 1919) and between Austria and Czechoslovakia for rayon against coal (September 1919).⁵

From this disorganization of trade Austria suffered probably more than any other country. Not only was the revival of her industries hampered by the lack of coal and the inadequate supply of raw materials but the restriction on the importation of luxuries practised by the surrounding countries limited Austria's power to purchase abroad. For these reasons, Austria's production was at a very low level not only in 1919 but also in 1920 and 1921. In these three years Austria's index of industrial production (1928 = 100) stood at 34, 41, 54 as against 37, 54, 65 in Germany and 58, 53, 69 in Czechoslovakia.⁶

¹ International Labour Office, *Enquiry into Production*, Vol. III, page 51.

² Table 2.

³ League of Nations, *Report on Certain Aspects of the Raw Materials Problem*, Vol. I, page 39.

⁴ Or their special agencies, like the "Office for the Trade of Austrian Goods" (created in January, 1919) and the Industrial syndicates, supervised by the "Commission for import and export trade" in Czechoslovakia.

⁵ The Luxemburg agreement mentioned earlier was of the same nature.

⁶ Table 2.

CHAPTER V

THE EFFECTS OF INADEQUATE POLICIES

As the preceding chapters show, the acquisition of raw materials was left almost entirely to the quite inadequate buying, bargaining and borrowing power of the individual countries. The absence of an effective international scheme for furnishing raw materials to those countries that were in need of them, and were not in a position to buy them themselves, had two main effects. The first effect, which was dominant in 1919, was that these countries simply did not obtain as much raw materials as their industries were able to work up, that their factories were idle and that unemployment continued at a high level.

The continuation of large-scale unemployment¹ for a year or more after the armistice was particularly unfortunate both from the narrower point of view of financial and from the wider point of view of social and political stability. Government expenditure, already at a high level owing to the continuation of military expenditure and other factors, thus continued to be inflated by unemployment benefits, and the attainment of some sort of balance in the budget was shifted still further into the future both on this account and because the taxable income of the community remained low owing to lack of raw materials and the consequential unemployment. More serious still was the continued presence of millions of workers for whom the miseries of the war were succeeded by the frustration of forced idleness.

The second effect was of a different nature. Inadequate provision of credits to finance the countries' requirements of raw materials did not always prevent their acquisition, especially after 1920. But it did result in a tragic cost having to be paid for that acquisition, not only by the countries in question, but by the whole world.

Under the pressure of the demand for foreign exchange to pay for raw material and other essential imports currency values depreciated and many in the end finally collapsed. The depreciation continued in many countries for a number of years (Table 20) during which it was impossible to reestablish stable-business conditions.

The lack of credits for raw materials was not, of course, the only or the first cause of exchange depreciation. The initial cause lay in the failure of gov-

¹ Cf. the authoritative statement quoted on page 39, footnote 7.

TABLE 20
Exchange Value of European Currencies (December averages)
Par Value = 100

Country†	1918	1919	1920	1921	1922	1923	1924	1925	1926
Austria	31.3	3.2	1.3	0.2 ⁹	0.01	0.01	0.01	100 ¹	100 ¹
Belgium	71.2*	49.8	32.7	38.9	34.2	23.8	25.9	23.3	14.5
Bulgaria		13.7	5.9	3.7	3.6	4.2	3.8	3.8	3.8
Czechoslovakia		10.0	5.7	6.1	15.3	14.4	14.9	14.6	14.6
Denmark	101.0	70.1	55.2	72.4	76.9	66.4	65.7	92.9	99.3
Finland	62.6*	15.9	12.7	9.9	13.1	12.9	13.1	13.1	13.1
France	95.2	47.9	30.7	40.2	37.3	27.2	28.0	19.4	20.5
Germany	50.8	8.8	5.8	2.1	0.06		100 ²	100 ²	100 ²
Greece	100.0*	84.9	39.2	21.4	6.5	9.8	9.4	6.7	6.5
Hungary	40.7*	15.5*	1.0	0.7	0.2	0.03	0.01	9.01	100 ⁴
Italy	81.5	39.7	18.1	22.8	25.9	22.5	22.3	20.9	23.0
Netherlands	106.2	94.2	76.9	90.1	99.0	94.5	100.5	100.0	99.5
Norway	103.7	76.9	55.2	57.1	70.5	55.6	56.5	75.7	94.4
Poland		6.3	0.8	0.13	0.02		100 ⁵	56.0 ⁶	58.6 ⁶
Portugal	61.5	30.9	9.7	7.4	4.2	3.3	4.4	4.7	4.7
Roumania		18.2	6.7	4.1	3.2	2.7	2.6	2.4	2.7
Spain	106.8	101.1	67.4	76.2	80.8	67.4	72.6	73.6	78.8
Sweden	108.6	80.6	73.1	91.8	100.7	98.1	100.7	100.0	99.6
Switzerland	106.9	95.5	79.8	100.5	98.0	90.7	100.5	100.0	100.0
United Kingdom	97.8	78.3	71.8	85.1	94.5	89.6	96.5	99.7	99.7
Yugoslavia		25.7	15.3	7.9	6.4	5.9	7.8	9.2	9.2

† The countries whose currencies returned to par during the period covered by the table are given in italics.

* Yearly average.

¹ Austria: new unit—1 Schilling = 10,000 paper kronen.

² Germany: 0,000,000,000,084.

³ Germany: new unit: 1 Reichsmark = 1,000,000,000,000 paper mark.

⁴ Hungary: new unit—1 Pengö = 12,500 kronen.

⁵ Poland: 1923: 0.000084.

⁶ Poland: new unit: 1 Zloty = 1,800,000 paper mark.

ernments to cover their expenditures from current reserves or borrowings, from current savings.

Some measure of inflation during the war and the early postwar years was indeed inevitable and the inflation which had actually taken place before the armistice created a situation in which an abnormal pressure on the foreign exchange markets of the inflating countries was almost bound to lead to disaster, a disaster which could not have been obviated without the provision of credits adequate to relieve such pressure.

Currency depreciation, however, tends to stimulate exports and reduce imports so long as domestic costs and prices lag behind the rise in the costs of foreign currencies and therefore prices expressed in these currencies. The stimulation to exports enabled the manufacturers of export commodities to acquire the foreign currencies necessary for the purchase of the raw materials they needed, and this fact coupled with the restriction of other imports due to the exchange depreciation no doubt eased for a time the stress on the balance of payments.¹

Though prices rose, they remained lower in terms of gold in the countries subject to exchange depreciation than those ruling in the countries with stable or relatively stable currencies (Table 21).

TABLE 21
Ratio between the wholesale price index, in gold, in Certain Countries with depreciating currencies and the United States wholesale price index
1913 = 100

Country	1919	1920	1921	1922	1923	1924
Belgium	—	—	—	98	87	92
Czechoslovakia	—	—	68 ^a	107	93	97
Finland ²	142	101	91	92	99	95
France ²	130	81	89	93	83	93
Germany ¹	47	46	56	55	62	91
Italy	100	66	78	83	80	78

^a December.

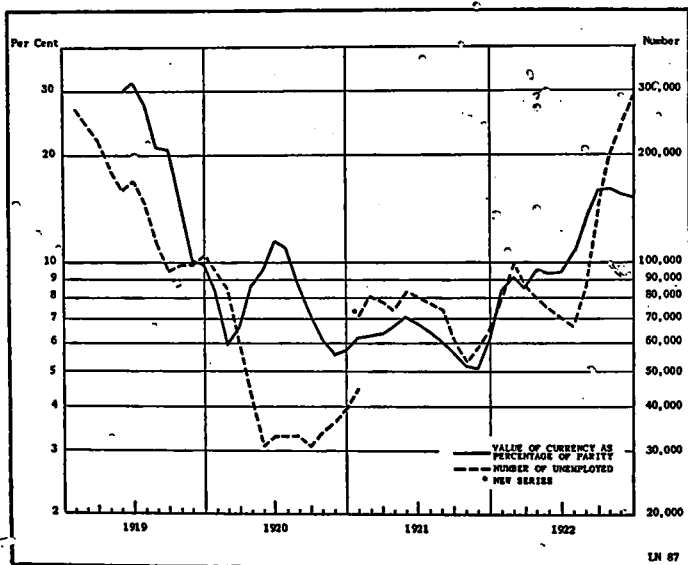
¹ Germany—In view of the rapid depreciation of the mark, annual averages of monthly ratios have been calculated.

² Finland, France—It will be noted that the currencies of these countries were overvalued during 1919. In the case of France—and the same appears to have applied to the other allied countries in the beginning of 1919—this was due to "exchange pegging" which maintained the external value of the currency while inflation decreased its internal value.

³ The following comment in a British Consular report deserves quotation: "Curious as it may seem, the low mark has also been the means of enabling the German manufacturer and exporter to reestablish foreign balances. Had the mark not been low, they could not have sold their goods and obtained foreign currency in the ordinary way of business. Now they have been able to do so, and the great anxiety of two years ago concerning the supply of raw material has thereby been removed." (Great Britain, Department of Overseas Trade: *Report on the Economic and Financial Conditions in Germany to March 1922*, pages 8 and 9.)

Accordingly exports were stimulated and imports reduced, in particular the imports of manufactured commodities which were affected most by low real wage rates. In this way exchange depreciation helped to promote employment. The indirect connection between exchanges and unemployment is clearly shown by Diagram 2, which refers to Czechoslovakia for the period 1919 to 1922. It will be observed that not only did employment increase when the exchange fell, but the appreciation of the exchange during 1922 was accompanied by a severe crisis and a rise in the number of unemployed from 100,000 to 300,000.

DIAGRAM 2
Czechoslovakia, Value of Currency and Unemployment, 1919-1922



Exchange depreciation stimulated exports. It did so because it enabled the countries with a depreciating currency to practice "exchange dumping." This "exchange dumping," the intensity of which varied almost from week to week with the erratic fluctuations in depreciating exchanges induced other countries to restrict imports either by special measures or by a general increase in their tariff rates, and commercial policy was thus forced down the wrong road at the outset.

Serious as these effects on other countries and on international trade were,

they were far over-shadowed by the consequences of depreciation and inflation in the countries subject to these currency disorders.

The price paid by them for the stimulus to export and greater opportunity for employment was the disintegration of their whole economic, social and political fabric. Exports were stimulated because the real income of the workers, the "rentier" and all those who received a fixed or more or less fixed money income was reduced as prices rose. Employment improved because labour had become cheap. The full force of the disturbances caused by the war was thus felt by these countries; their standard of living was reduced, and for a time their competitive power increased.

Those who lived on the yield of bonds, the interest on savings, or old-age and war pensions or on salaries not subject to monthly or weekly adjustment to the cost of living index suffered the most. These classes which as a whole constituted a stable and industrious section of the population were reduced to destitution while the speculator acquired the wealth which others had earned. Confidence in saving was undermined and took long to revive, if it was ever fully revived. In subsequent years, those who owned capital were often more anxious to hoard it in safety than to use it for promoting production. A section of those who had lost their savings in the maelstrom of inflation became the nucleus of revolution later.

CHAPTER VI

SUMMARY AND CONCLUSIONS

(1) *Summary of findings.*

1. At the end of the war productive capacity in Continental Europe was at an extremely low level; in 1919 industrial production was about one-half; agricultural one-third below normal.
2. During the years 1919 and 1920, Continental Europe appears to have imported about \$17.5 billions worth of goods from overseas, against an export of only \$5 billions. Foodstuffs and finished goods formed an unusually large proportion of these imports; the imports of raw materials were relatively small. Northern and Western Europe received proportionately much larger supplies than Central and Eastern Europe.
3. The import surplus of about \$12.5 billions in the two years mentioned was met from the following main sources: shipping services (about \$1,800,000,000) emigrants' remittances (about \$1,400,000,000) expenditures in Continental Europe of the American and British armies (about \$1,000,000,000), yield on foreign securities (about \$700,000,000), intergovernmental loans (about \$2,800,000,000, of which \$900,000,000 were relief loans), liquidation of security portfolios and, to an amount very roughly estimated at \$2,500,000,000, from short-term credits.
4. Food was supplied by relief organizations, mainly during the first half of 1919. Thereafter relief deliveries were on a much reduced scale.
5. No international plan was evolved for the provision of the war areas with the other goods essential for the restoration of their economic life for nearly two years after the armistice. The ter Meulen Plan, presented to the Brussels Conference in October, 1920, for raw material credits came too late and failed to materialize, and States were forced to acquire raw materials within the limits of their own financial capacities.
6. The absence of provision for raw material credits was an essential factor in the process of currency depreciation, inflation and hyperinflation.
7. Inflation and currency depreciation in their turn caused a violent redistribution of national income and wealth and prepared the ground for social unrest and political agitation.

(2) *Considerations of policy.*

As just stated at the outset international action was almost entirely confined to the provision of foodstuffs to starving populations. The problem of reconstruction, of reviving the economic activity of the war areas, was not faced as an international issue until the Brussels Conference met in the autumn of 1920 nearly two years after the armistice.

The Brussels Conference itself was more concerned with formulating principles of financial and commercial policy than with elaborating a general plan of reconstruction. These principles of policy in fact exercised a considerable and a beneficial influence and a plan for facilitating the purchase of raw materials was put forward. But, whatever the merits or defects of this plan, it came too late.

The acquisition of raw materials and other essential goods from abroad by countries with inadequate means for effecting foreign purchases at their immediate disposition was rendered still more difficult by the price boom that resulted from the removal of all wartime restrictions in the financially stronger countries and the indiscriminate rush to return to business as usual.

Governments in many parts of Europe, in which peace was only gradually restored, frequently uncertain of the boundaries of the states they governed, in possession of inadequate fiscal machinery, uncertainly controlling an unstable political situation, were unable to meet their budgetary expenditures without recourse to the printing press. The failure of national production and therefore of income to revive owing to lack of raw materials and other essential goods kept their power to collect receipts either from taxation or from borrowing at a low ebb and thus contributed directly to currency inflation. Simultaneously the pressure on the exchanges resulting from the desperate attempts to acquire such goods at any cost, depreciated the external value of the currencies of these countries and thus contributed indirectly to further inflation.

Action was only taken when inflation and the threat of social upheaval rendered it an unavoidable political necessity. But the effects of inflation, still less of hyperinflation, cannot be eradicated. They influence not only, indeed not so much, the current volume of production, but the whole organization of society and its psychological equilibrium.

When action was taken after the collapse of currencies, it inevitably assumed the form rather of curing one festering spot after another than of attempting to restore health and vitality to the whole economic body of the continent.

The League scheme for Austria which, after protracted negotiations, came into effect in October 1922 was the first international action to deal, within a specific geographical area, with the postwar economic problem as a whole. It assumed the interdependence of reconstruction, currency stabilization, budget equilibrium and capital import and found a workable solution for each of these problems. The principles adopted were first applied in this

most difficult case where a newly created state was virtually disintegrating owing to the desperate disorganization of its economy—and was successful. So were similar international reconstruction schemes applied in the following years in Germany (1924), Hungary (1924), Poland (1927) and other countries. These schemes may be open to criticism on the grounds that they postulated that economic reconstruction and reorganization would result almost automatically from financial reform; that in consequence too little attention was paid to problems of economic reconstruction or reorientation. But their real weakness was due to the fact that they came too late and only after irreparable harm had been done by the failure to formulate any general plan for reviving European industry and furnishing promptly the raw materials and other goods necessary for that revival.

It is impossible to compare the monetary cost of the reconstruction loans with what it would have cost to furnish Europe with a fair proportion of the raw materials and other goods that were available in the two first postwar years. It is more useful to recall the magnitude of the disaster that resulted from the absence of any general plan, the failure of production and trade to revive, the social and political effects of inflation and the extent to which these social and political effects were accentuated by the depression at the end of the first peace decade, and that depression accentuated by the burden of debt that Europe had assumed.

The depression of 1921 passed like a ripple over the inflating countries—but when the more serious depression of the 'thirties occurred, the weight of their external debt coupled with the dread of a recurrence of inflation undermined their powers, both of resistance and of recuperation.

The effects of the failure to face the problem of Europe's postwar requirements of raw materials and essential manufactured goods with any imagination or courage comparable to that shown in furnishing food relief, were no more local than transitory. The penury of European countries induced them to husband their resources by quantitative restrictions on exports and on imports and the fear of their lowered standard of living induced others to refuse to accept their products. Commercial policy was driven from the very outset down the wrong road and never found another.

ANNEX I.

*International Credits Scheme submitted by the Provisional Economic and Financial Committee to the Council of the League of Nations on November 30, 1920.*¹

I. In order that impoverished nations, which under present circumstances are unable to obtain accommodation on reasonable terms in the open market, may be able to command the confidence necessary to attract funds for the financing of their essential imports, an International Commission shall be constituted under the auspices of the League of Nations.

II. The Commission shall consist of bankers and business men of international repute, appointed by the Council of the League of Nations and shall have discretion to appoint agents and sub-Commissions, and to devolve upon them the exercise of its functions.

III. The Governments of countries desiring to participate shall notify to the Commission what specific assets they are prepared to assign as security for commercial credits to be granted by the nationals of exporting countries.

IV. The Commission, after examination of these assets, shall determine the gold value of the credits which it would approve against the security of these assets.

V. The participating Governments shall then be authorised to issue bonds to the gold value approved by the Commission. The bonds shall be in such form, with such date of maturity and rate of interest, as the Commission may decide and shall, in particular, enumerate the assets pledged against the bonds. The denomination of each bond, and the specific currency in which it is to be issued, shall be determined by the participating Government in agreement with the Commission, in accordance with the conditions applicable to the particular transactions in respect of which they are issued.

VI. The service of these bonds, which will be obligations of the issuing Government, shall be specifically secured out of the revenue of the assigned assets.

VII. The assigned assets shall be administered by the participating Government or by the international Commission, as a majority of the Council of the League of Nations may determine on the proposal of the International Commission. Nevertheless, in cases where the administration of the assigned assets is in the hands of the participating Government, the International Com-

¹ Report of the Provisional Economic and Financial Committee of the Council, December 3, 1920. Annex 1d. (League of Nations, Official Journal, Jan.-June, 1921, pp. 48-50).

mission at any time may, and in the event of default shall, require the participating Government to transfer the administration of the assets to itself.

The participating Government shall have the right of appeal to the Council of the League of Nations against this requirement, and the decision of the Council of the League of Nations on these questions shall be binding.

VIII. The revenues from the assigned assets shall be applied as follows to the service of the bonds;

1. Out of these revenues the Commission shall purchase and hold, or the participating Government shall satisfy the Commission that it has purchased and holds, foreign currencies sufficient to provide
 - (a) Cover for the coupons falling due in the next year of all bonds at any time outstanding in each of such currencies;
 - (b) A sinking fund calculated to redeem at maturity 10% of the bonds outstanding in each of the different countries;
 - (c) A reserve in such foreign currency or currencies as the International Commission may determine for the redemption of any bonds sold in accordance with paragraph 16.
2. Any surplus remaining after the provision of these services shall be at the free disposal of the participating Government.

IX. The participating Government will be free either to pledge its own bonds as collateral for credits for approved imports on private account, or to lend the bonds to its nationals as collateral for credits for approved imports on private account, and for the latter purpose will be free to fix such terms, including the security, if any, to be given, as it may think fit.

These terms shall be communicated to the Commission. The bonds shall not be used for any other purposes than those specified in this clause.

X. Each bond shall, before issue, be countersigned by the Commission in proof of registration.

XI. The fundamental purpose of the scheme being to facilitate and expedite the import of such raw materials and primary necessities as will enable the borrowing countries to re-establish production especially for export, bonds secured on the assigned assets shall not be utilised as collateral for credits for the import of other commodities, provided that, where the Commission is satisfied that the import of such other commodities will assist in securing the above purpose, it shall have the discretion to permit special exceptions to the above rule, subject to such conditions as it may think fit.

XII. For each borrowing country the Commission will draw up, in consultation with the participating Government, a schedule of approved imports which will be regarded as falling within the definition of raw materials and primary necessities.

XIII. Particulars of each transaction must be registered with the Commission, which, before countersigning a registered bond, will satisfy itself

that the credit is for an approved import and that the period for which it is proposed to be granted is a reasonable one.

XIV. The same conditions as govern the pledge of its bonds as the collateral for credits for imports on private account shall apply in cases where the participating Government pledges its own bonds as collateral for imports on Government account.

XV. After having received bonds, duly countersigned, the importer will pledge them with the exporter.

XVI. Pledged bonds shall be dealt with as follows:

- (a) In the absence of any failure by the importer to fulfil his contract with the exporter, the coupons on their due date, and the bonds as they are released, shall be returned to the importer, who shall return them to his Government forthwith.
- (b) In the event of the importer not fulfilling the terms of his contract, the exporter (or his assigns) may either hold the bonds until maturity or, if he prefers, he may at any time sell them in accordance with the laws and customs of his country, providing that, before the bonds are sold, a reasonable opportunity shall be given to the issuing Government to repurchase them by paying to the exporter the amount of his claim. The proceeds of such sale shall be applied by the exporter towards covering his claims against the importer. Any surplus not required for this purpose shall be accounted for by the exporter to the participating Government.
- (c) Any coupons or bonds returned to the participating Government or purchased by such Government shall be forthwith cancelled in accordance with the regulations to be prescribed by the International Commission; cancelled bonds may subsequently, with the approval of the Commission, be replaced by other bonds either in the same or in a different currency, in accordance with the conditions governing the original issue of bonds.

ANNEX II.

*Special Report of the Financial Committee to the Council of the League of Nations on International Credits.*¹

(Extract)

The question now arises as to the results which have been obtained.

Potential lenders have on many occasions shown themselves favourably disposed. Negotiations have been undertaken with various countries which have manifested a desire that the plan should be applied to them as borrowers.

¹ Report of the Financial Committee submitted to the Council on May 13, 1922. (C. 220. 1922. 15) League of Nations, Official Journal, 1922, page 640.

Thanks to the efforts of the organiser, the ter Meulen Plan is now universally known. It has emerged strengthened from criticism and the most thorough examination. It is not the least of Sir Drummond Drummond-Fraser's successes that he has caused the International Credits Plan to be acclaimed by the most authoritative representatives of American finance.

Before returning to Europe, Sir Drummond Drummond-Fraser officially received from the highest American authorities an assurance that the plan would be favourably received in the United States. The "Federal Reserve Board" has since constantly supported him, and its last *Bulletin* (February) contained the doubly significant words:

"None of these propositions for the restoration of credits has any considerable weight of public opinion behind it except the ter Meulen Scheme. This plan seems to have the support and approval of Western European as well as American bankers and financial experts, probably because it appears to meet the needs of the various types of foreign trade financing. If the Genoa Conference could bring about a recognition on the part of political borrowers of the necessity of domestic financial reforms and on the part of lenders of the desirability of the security furnished by the gold bonds, the necessary machinery could be almost immediately made effective."

These words, the importance of which is unmistakable, particularly in view of the organ which publishes them, contain perhaps the solution of the problem. Indeed, the great superiority of the system of "International Credits" over other similar systems is that, while giving adequate guarantees to lenders, it supplies the means of assuring an appreciable and constant improvement in the economic and financial situation of borrowing countries. If, as a result of the negotiations now in progress, the plan is put into application in certain countries; if, moreover, the work of reconstruction is to be extended to territories which are still a prey to disorder and anarchy, the International Commission provided for under the plan will probably have to be constituted in one form or another.

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