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A PICTURE OF WORLD ECONOMIC CONDITIONS AT THE BEGINNING OF 1929

Number II

STUDIES OF INTERNATIONAL PROBLEMS

PUBLISHED BY THE

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A PICTURE OF WORLD ECONOMIC CONDITIONS

AT THE BEGINNING OF 1929

NATIONAL INDUSTRIAL CONFERENCE BOARD, Inc.
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PREFACE

THE economic activities and institutions by which men live and peoples prosper are today inevitably international—both in the influences which they exert and in those to which they are subject. They rest upon foundations which in some measure always extend beyond national boundaries, and their strength or weakness in each nation often makes itself felt in many parts of the world. No nation, however strong, can now live wholly to itself alone, save at the price of a low level of well-being and a slow rate of progress. Beneath the surface differences of language, custom and political aims, the currents of industry and commerce have opened channels of mutual understanding and the forces of finance have woven a fabric of common interest among the business men of the world, upon whom not only national prosperity but international amity increasingly depend. To keep these channels of understanding open and to strengthen this fabric of common interest, comprehensive and authoritative knowledge of economic conditions and trends in the individual countries is indispensable.

The National Industrial Conference Board is engaged in scientific economic research on a non-political and non-partisan basis. Its aim is to secure, analyze and disseminate information concerning economic conditions and problems in the United States and in foreign countries, affecting industrial developments. The Conference Board feels that an examination and interpretation of the economic conditions and problems and of the experience of business men in various countries will not only be helpful as a means of fostering international understanding, but will also show the practical results of economic policies and methods employed to meet particular situations that have arisen in a country and which might at some future date arise in identical or similar form in other countries. With this end in view, the National Industrial Conference Board has sought out a number of prominent men in important foreign countries and has

enlisted their cooperation as *Foreign Correspondents* of the Conference Board. These men have been elected for their intimate knowledge of the economic life of their respective countries as well as their wide experience and understanding of international economic relationships.

Through these contacts, the Conference Board receives at intervals reviews of significant economic developments and problems pertaining to industrial, financial, commercial, and labor conditions in various countries. While publication of this material is in the first place intended for the benefit of American business men and economists, it is hoped that it will also prove of interest and value to the Conference Board's Foreign Correspondents and other foreign readers. For this reason it was felt desirable to include a review of the economic conditions and trends in the United States.

The present publication—the second in this program—is divided into two parts. Part I gives information, obtained from official and authoritative private sources and through the Conference Board's own investigations regarding industrial production, wages and employment, prices, foreign trade, and conditions of public and private finance in twenty-one foreign countries and in the United States. Some countries are discussed in greater detail than some others because of the relative availability of statistical and other pertinent information and because of the fact that the highly developed industrial countries naturally offer a greater variety of important problems which demand the attention of those interested in world economic conditions and trends.

Part II of the book contains original articles specially prepared by Foreign Correspondents of the National Industrial Conference Board. Considering that these gentlemen are busy men, with a wide range of interests and multifarious duties, it can not be expected that all of them can at all times respond to the Conference Board's request for such information. It is very gratifying, therefore, that the Conference Board has received, in time for inclusion in this book, reports from Sir Arthur Balfour and, in behalf of Midland Bank, Ltd., from the Rt. Hon. Reginald McKenna for Great Britain; from M. Franz von Mendelssohn for Germany; from Messrs. Henry de Peyerimhoff and André Siegfried for

France; from Signor Antonio Stefano Benni for Italy; from Hon. Georges Theunis for Belgium; from Messrs. Marcus L. Wallenberg and Oscar Rydbeck for Sweden; from Mr. Louis Dapples for Switzerland; from Mr. E. Heldring for the Netherlands; from B. Dessau for Denmark; from Sir Henry W. Thornton for Canada; from Senor Carlos A. Tornquist for Argentine, and from Baron Takuma Dan and Baron Koyata Iwasaki for Japan.

In presenting this material, the Conference Board expresses its great appreciation to these gentlemen for their generous assistance in providing American industry, through the National Industrial Conference Board, with a better understanding of conditions in their respective countries.

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

MAGNUS W. ALEXANDER,
President.

New York City,
April, 1929

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Election of Other Foreign Correspondents is Pending

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PART I

WORLD ECONOMIC CONDITIONS

General Survey

THE year 1928 has witnessed many noteworthy developments in the field of international relations and in economic and political conditions in individual countries. These developments have on the whole been favorable to a continuation of the progress which has been made in recent years towards a complete recovery from the numerous and deep-seated maladies caused by the unprecedented economic and political upheaval of ten years ago. The formation of the League of Nations; the creation of the World Court; the establishment of the Dawes Plan; the Disarmament Conference in Washington; the admission of Germany to the League; the conclusion of the Locarno treaties; and finally, the signing of the Multilateral Treaty for the Renunciation of War by the United States, France, Great Britain, Germany, Italy and ten other nations in Paris on August 27, 1928—all indicate that the nations of the world are replacing the old system of checks and balances, Ententes and defensive and offensive alliances by a new conception of international relations based on mutual understanding and a universal will to maintain peace.

In their efforts to maintain harmonious relations among the nations, the governments have been materially assisted by private individuals. The work of diplomats and statesmen, of military experts and professional politicians is being supplemented by that of practical business men, leaders of industry and finance, economists and statisticians. At no other time in the history of the world has the cooperation of public officers and private enterprise been so intimate and so forceful as during the last few years. Often in the past, the conflict of commercial interests has been the cause of, or the excuse for, war largely because the representatives of

industry and trade had no opportunity to sit around a table and discuss their difficulties in a friendly manner. The growing influence of private business on state policies is a most encouraging sign of our era. A business man knows that the prosperity of his business is bound up with the general prosperity of his country; and this principle he applies to international relations: the prosperity of his country can not be maintained at the expense of other nations.

The example of the United States, with its great territory unhampered by barriers of any kind, has brought home to Europe the need of coordinating the economic activities of the different countries so as to secure the greatest possible advantage from the natural resources of each country by means of a division of labor and elimination of trade barriers. The work along these lines, however, is still in its infancy. The desire for economic self-sufficiency; the exaggerated feeling of nationalism; the fear of war, and the need for national defense are the obstacles to a removal of obstructive barriers to trade. The establishment of numerous political units in 1918 has further aggravated the problem and made its solution more difficult. The formation of international cartels or trade agreements, at the initiative of business men and with the tacit approval of governments, is an attempt to eliminate the necessity for maintaining trade barriers by substituting for them private agreements among competitive industries concerning the division of markets. The experience with these international cartels is still rather limited, and it is impossible to pass judgment regarding their ultimate effect, but they indicate that just as the governments are trying to keep peace by means of treaties renouncing war, the leaders of industry are endeavoring to eliminate one of the causes of war—unreasonable and illegitimate competition for world markets.

The Multilateral Treaty for the Renunciation of War

The signing of the Multilateral Treaty for the Renunciation of War on August 27, 1928, by representatives of fifteen nations, including all the great powers with the exception of Russia, has been hailed throughout the world as a most significant contribution towards the advancement of peace.

The Treaty developed out of diplomatic conversations between the Government of the United States and the Government of the French Republic with a view to the formation of a treaty of perpetual friendship between the two countries. The Government of the United States felt, and the French Government agreed, that the opportunity to renounce war as an instrument of national policy should be extended to all the nations of the world so that its declaration in the form of a treaty might become a part of international law.

As finally adopted and signed, the Treaty is plain declaration on the part of the signatory powers that they "condemn recourse to war for the solution of international controversies, and renounce it as an instrument of national policy in their relations with one another."[1] They further agree that "the settlement or solution of all disputes or conflicts of whatever nature or of whatever origin they may be, which may arise among them, shall never be sought except by pacific means."[2] The right of all states to wage a defensive war is not denied by the Treaty, nor does the Treaty define what constitutes a defensive war. In interpreting the Treaty, the United States Senate Committee on Foreign Relations states explicitly that "the right of self-defense is in no way curtailed or impaired by the terms or conditions of the treaty. Each nation is free at all times and regardless of the treaty provisions to defend itself and is the sole judge of what constitutes the right of self-defense and the necessity and extent of the same."[3]

The fact that the Treaty allows all states to wage a defensive war and yet fails to define what constitutes a war of defense is claimed by some to deprive the Treaty of any particular significance, since the Treaty does not change the present judicial position. It does not restrict the right of France, for example, to fight for Belgium, Czechoslovakia, Poland, Rumania or Jugoslavia, her allies under the Locarno treaties. Similarly, Great Britain has the right to go to war as a member of the League of Nations and as a guarantor of the Locarno compacts. Under the terms of the Covenant, the

[1] Article 1 of the Treaty.

[2] Article 2 of the Treaty.

[3] *The Commercial and Financial Chronicle*, New York, January 26, 1929, p. 505.

members of the League can not go to war except in self-defense. The League goes even further by defining that an aggressor is that nation which goes to war without making an attempt to settle the difficulty by resorting to League methods for the settlement of disputes. By signing the Treaty, the members of the League did not commit themselves to a new principle. The United States seems to be the only great nation which has assumed a new obligation by signing the Treaty for the Renunciation of War, and this is precisely the fact that gives to the document the profound international significance which is generally attached to it. The enormous influence of the United States—the public opinion of the country—are formally pledged to maintain peace. It is true, the Treaty does not bind the United States to punish a treaty-breaking state by waging war upon it, but the preamble to the Treaty specifically provides that, if one nation violates the Treaty, the other nations are released from their obligations to the belligerent country.[1] The decision regarding the attitude which the United States shall assume towards a treaty-breaking nation is left entirely in the hands of its responsible authorities.

The Treaty enunciates a great moral principle. Fifty-eight nations, which have so far signed or signified their intention to sign the Treaty, are unanimous in their agreement regarding the futility of war. They have assumed a moral obligation not to resort to war to further their national interests, and they have to account for their behavior, not before a tribunal or court, but before the public opinion of the world. It would be useless to speculate what the practical value of the Treaty will be, but there seems to be no doubt that it is an important step in the right direction—the preservation of peace on which rests the prosperity of the world. For this reason, the signing of the Anti-War Treaty stands out as the most notable achievement of 1928.

The Unification of China

With the entry of the Nationalist troops into Peking in June, 1928, the unification of China proper was announced

[1] This part of the preamble reads: "Any signatory Power which shall hereafter seek to promote its national interests by resort to war should be denied the benefits furnished by this treaty."

as an accomplished fact. With the exception of Manchuria, having a population of 20,000,000, all of China was at least theoretically placed under the rule of one group: The Nationalist Government in Nanking under General Chiang Kai-shek. The Government has promulgated the "Organic Law of the National Government," which will remain as a working constitution until the people become able to exercise their political powers. The government is divided into five *yuan* (boards): executive, legislative, judicial, examination and control. This is a strictly party government. The Chairman of the Central Executive Council of the Nationalist party is *ipso facto* the President of the Government. The party chooses the Government Council, and the Council appoints the five *yuan*.

The unification of China after many years of discord and internecine struggle would be an event of world-wide importance. The development of the country's great natural resources, the industrialization of its enormous territory, and the development of its foreign trade are not possible without a stable government authorized to speak in the name of all its people. Nor can the difficult questions of extra-territorial rights, collection of customs duties, revision of tariff treaties, and foreign loans be definitely settled except by a government representing the Chinese people as a whole.

The Government of the United States has de facto recognized the Nationalist Government of China by consenting to annul all treaties hitherto concluded and in force between the two countries "relating to rates of duty or imports and exports of merchandise, drawbacks, transit dues and tonnage dues in China,"[1] and to apply the principle of complete national tariff autonomy, subject to the condition that the citizens of each country shall enjoy in the other country treatment in no way discriminatory as compared with the treatment accorded to any other country. Great Britain, France, Italy, Belgium, Portugal and Sweden have likewise recognized the right of the Nanking Government to secure full tariff autonomy for China. This success of the Government's foreign policy will no doubt greatly strengthen its position in the home field.

[1] From the text of the Treaty between the two countries signed by the American Minister to China and the Chinese Minister of Foreign Affairs on July 25, 1928.

A satisfactory agreement with Japan still remains to be made. It was officially reported on January 18, 1929, that the two countries had reached an accord on the new tariff.[1] At this writing, however, the negotiations between the two countries concerning a new commercial treaty, the Tsinan incident and the question of Manchuria remain deadlocked. A final settlement of these problems is of vital importance to both countries. The interests of Japan and China in Manchuria are held to be complementary. The population of Manchuria is Chinese, but Japanese skill and capital have largely contributed to the economic development of that province. It is pointed out that there is no sound reason why the Japanese Government should not allow the unification of Manchuria and China if the Chinese Government can give to Japan the assurance that Japanese economic interests will be amply safeguarded without the establishment of Japanese protection.

The Westernization of Turkey

Another great area that has been barely touched by "Western" civilization, but has great possibilities for a sound economic and industrial development, is Turkey. For centuries that country has been conducting a losing struggle to maintain the unity of an empire stretching over three continents and inhabited by alien races. The events since the Balkan Wars, 1912–1913, have worked a revolution in the political and economic life of the country. The "Sick Man of the East," as the Ottoman Empire was called, has died, having been replaced by a young Republic of 283,000 square miles and 14,000,000 inhabitants, a strictly homogeneous group. The changes in Turkey have been rapid and sweeping. In 1925 the Republic was proclaimed and a new Constitution adopted; in 1926 the Swiss Civil Code, the Italian Criminal Code, and the German Commercial Code were adopted by the National Assembly with but small changes; in the same year the Gregorian calendar and the twenty-four-hour clock were introduced and civil marriage was made obligatory.

[1] *The Commercial and Financial Chronicle*, February 2, 1929, p. 605.

In 1928 were introduced two more changes that indicate the strength of the Government and its determination to convert Turkey from a medieval nation into a modern state. In April, the Constitution was amended separating Church from State. In the same month, the National Assembly passed a law substituting the Roman alphabet for the Arabic in all official documents. A new dictionary and new text books for schools are being prepared. After fifteen years, the new system will become compulsory. The Government believes that in that period of time the people will become accustomed to the use of the new symbols.

The consolidation of Turkey into a compact political unit with a strong government, freed from the problems of governing an unmanageable empire, has removed from world politics one of the primary causes of unrest. While formerly, the Turkish question was a world question touching upon the interests of all great European powers—Russia, Austria-Hungary, Germany, Great Britain and France—at the present time, Turkey is free to devote all its energies to the social and economic advancement of its people. The changes introduced during the last five years have been exceedingly drastic; and the future will show whether the cure was not too strong for the patient.

The Problems of Central Europe

Ten years have passed since the disappearance of Austria-Hungary and the establishment of independent national states on the basis of the right of each nation, as enunciated by a President of the United States, to determine what kind of government it was going to have. After ten years of peace, it is possible to obtain a broad view of the functioning of the new system. A foreign observer regards the situation with mixed feelings. On the one hand, he looks at Czecho-slovakia, with a stable government, sound financial position, prosperous industries and flourishing trade; and on the other hand, he hears of troubles in Macedonia, friction in Albania, protests of Hungary, and Serbo-Croat difficulties, not to mention the question of an Austro-German union and the problem of Bessarabia.

During the last year, a number of developments have occurred that help to clarify the picture and promise to

stabilize the conditions in the individual countries. In Rumania, the coming to power of the popular National Peasant party has enormously strengthened the Government in the management of internal affairs and in its dealing with the foreign situation. The new Government has already secured an international loan of $100,000,000, which testifies to the confidence of the world in the country's political stability. It has also made some progress towards a settlement of the Bessarabian problem. According to reports from Moscow and Bucharest, the Government of the Soviet Russia has agreed to abandon its claims to Bessarabia, while, as soon as this is done, Rumania is willing to renounce her claim to 365,000,000 lei in gold, which was transferred to Moscow during the war, and to resume diplomatic relations with Russia.[1] The renunciation of the Russian claim came about in connection with the signing of the Anti-War (Kellogg) Treaty and represents a move of vital importance towards peace in that part of Europe.

The Kellogg treaty is also responsible for the negotiations for the conclusion of treaties of mutual friendship between Russia and her other neighbors, particularly with Poland. The Polish-Russian tension has been a source of constant danger to the peace of Europe, and a satisfactory settlement of that problem alone would justify the great significance attached to the Kellogg Treaty.

The most important development in the Balkans is the complete suspension of parliamentary life in Jugoslavia. The problem in this country is one of blending two parts of a nation into a single entity: one has been for centuries under the influence of Western civilization; the other has been for centuries under the Turkish rule.

Even this general review of some of the problems of Central Europe, without going into the details concerning the clash of economic interests and national aspirations of the different countries and without touching upon the question of the treatment of minorities, is sufficient to indicate the delicacy of the situation and the necessity for a world-wide cooperation in the work of maintaining peace. The citizens of most of the new national states, created out of the Haps-

[1] *The New York Times*, February 6–7, 1929.

burg monarchy and the Russian Empire, have no appreciation of the meaning of democratic institutions, they have had no training in democratic government; they secured their national freedom not by general evolution but through one of the great cataclysms in the history of the world; and they were not fully prepared to assume the duties that independence so suddenly imposed upon them. Years of training and educational work and peace may be necessary to stabilize the political and economic life of these areas.

Other Developments in 1928

The decision to reconsider the whole question of German reparations resulted in the appointment of a Committee of Experts to meet in Paris in February, 1929. It is generally expected that the Committee will reach conclusions of fundamental importance for the future treatment of the reparations problem. An attempt will be made, it seems, to determine Germany's ability to pay—a task which the Dawes Committee could not undertake on account of the unsettled economic conditions in Germany, which made it impossible to foresee what Germany's economic future might be. The work of the Committee will be watched with keen interest on both sides of the Atlantic Ocean because of the intimate, although unofficial, connection between reparations and inter-ally debts.

Among other important developments in Europe in 1928 may be mentioned the political changes in France, solidifying the régime of Premier Poincaré; the stabilization of the French franc, which marks the end of the post-war inflation in Europe; the reorganization of the Bank of England in accordance with the Currency and Bank Notes Act; the energetic reorganization of British industries; the development of German foreign trade, which in 1928 for the first time since the war reached the 1913 figure; and the completion of the Fascist system of government. These events will be considered in connection with the respective countries.

In South America, the boundary dispute between Bolivia and Paraguay, and the revolution in Nicaragua threatened for a time the peace of that continent. By resort to peaceful arbitration, however, the danger of war between Bolivia and

Paraguay was averted, while the conditions in Nicaragua were stabilized by the general election held last year. In Mexico, the assassination of President-elect Obregon on July 17, 1928, although followed by rather violent outbreaks against the Roman Catholic Church, did not to any extent undermine the stability of the government. Portes Gil, a civilian, a lawyer by profession, was elected by the Mexican Congress to occupy the office of the President until February 5, 1930. The revolution that broke out early in 1929, however, indicates that Mexico has not yet reached the point where the constitution and civil authorities are universally respected.

On the whole, this survey of world developments in 1928 indicates, and the analysis of conditions in the individual countries will show even more clearly, that the past year was a period of transition during which many cures to national problems were discovered and applied or decisions to apply them were made. The present year may see some of the results of the treatment. So far as the Anti-War Treaty is concerned, it is to be hoped, of course, that no necessity will arise to test its effectiveness before its meaning and purpose are properly understood by the citizens of the signatory powers, and before the public opinion in these countries becomes aligned on the side of the moral principle enunciated by it.

In regard to other developments—the Chinese unification; the reforms in Turkey; the negotiations for peace between Russia and her neighbors; the settlement of reparations—the year 1929 will furnish at least a partial test for the soundness of the methods employed by the different countries in dealing with the problems facing their national life.

Great Britain

Final returns for industry and trade in Great Britain do not indicate any improvement in the position of the basic industries—coal, iron and steel, engineering, cotton and shipbuilding—and would be quite discouraging if account were not taken of the fact that the year 1928 was actually a year of readjustment and transition. The difficulties of British staple industries are both internal and external. Great Britain is a free market, in which British companies compete

among themselves and in addition have to face the competition of foreign producers. In foreign markets, this twofold competition is no less keen. Two remedies suggest themselves: limitation of uneconomic competition among domestic enterprises and limitation of foreign competition by means of a protective tariff. The advantages of the former remedy are evident, and it has already been rather extensively applied in certain basic industries; the latter, however, presents an intricate economic and socio-political problem.

It is difficult to see how a protective tariff can benefit industries which export a large proportion of their output, unless strong monopolies are developed to maintain prices at home and "dump" the export surplus in foreign markets—a policy of which the various cartels have been frequently accused. In addition, because of the interdependence of the various industries—for example, the iron and steel industry and engineering industries—the imposition of a protective duty on the products of one industry would increase the costs of production of the industries which consume the products of the protected industry and would thus weaken their ability to compete in foreign markets. Of course, the argument advanced by the proponents of tariff protection, that the staple industries need protection as a temporary measure to allow them a short breathing space in which to set their affairs in order, has its force; but it is problematic to what extent the protection so extended would be used to improve the efficiency of the individual enterprises rather than to maintain the inefficient concerns.

In discussions of the possibility of improving the position of the staple industries by means of tariff protection, the prosperous condition of the industries protected under the Safeguarding of Industries Act is frequently pointed out as an argument in favor of the protective policy. The protected industries, however, are almost entirely in the "luxury" class and are supplying a growing domestic market. Among the articles protected under the Act are motor cars, motorcycles, tires, cinema films, clocks, watches, musical instruments, plate glass, silk, rayon and lace. While there is no doubt that protection has been a factor in keeping out the

products of foreign countries, it is not the only, or even the main, explanation of the flourishing state of these industries. More fundamental is the fact that these industries are of relatively recent origin, are equipped with up-to-date plants and organized along efficient or rational lines. They do not suffer from the familiar ailments of the basic industries: excessive production capacity and diminished consumption capacity due to war causes; obsolete plant; unsound financial position; and inefficient organization resulting in uneconomic competition. It is felt, therefore, that the position of the basic industries could be improved by private efforts to eliminate, by means of cooperative action, the principal obstacles which stand in the way of Great Britain's industrial recovery. The past year has witnessed a number of important developments in coordinating the British industrial system.

Reorganization of the Coal Industry

The underlying difficulties of the British coal industry are found in the world-wide economic and political changes following the World War, which affected the demand for coal. The solution of these difficulties does not lie in the hands of the British coal owners. The more concrete and tangible hindrances to prosperity lie in the excessive competition among domestic producers in the home market and in the keen competition of domestic exporters, among themselves and with foreign producers, for foreign markets. In 1924 there were 1,400 colliery undertakings in Great Britain owning about 2,500 mines. Many of these employed less than fifty men, while a few gave employment to more than 3,000 persons. The costs of production varied from 12 shillings or $2.92 per ton to 30 shillings or $7.29 per ton. While the number of establishments is great, a large proportion of the output is concentrated in the collieries employing a large number of workers. Thus in 1923, over 84% of the output was produced by 323 establishments, each employing more than 1,000 persons; over 98% by 715 establishments employing over 100 persons each; and less than 2% of the output by 685 collieries employing less than 100 persons each.[1]

[1] "Report of the Royal Commission on the Coal Industry (1925)," Vol. I, London, 1926, pp. 45–47.

In addition to this large number of coal mines, the establishment of unified control of prices, output and distribution is rendered difficult by the scattered nature of the British coal fields and the multiplicity of the markets they supply. The essential requirement for the establishment of a national body for the control of the British coal industry is the formation of district organizations for the regulation of output, prices and distribution of coal in the principal coal-producing regions.

During 1928, the possibility of nation-wide cooperation was brought nearer by the formation of the Central Collieries Commercial Association, commonly known as the Five Counties Scheme, which controls from 90% to 95% of the output of the Midland coal area. This Association resembles a German cartel more closely than any other organization in Great Britain. The scheme provides for a subsidy on exports of coal of 4 shillings or $0.97 a ton, which is paid out of a central pool to which all members of the Association pay three pence per ton of coal raised and 3 shillings or $0.73 per ton on production in excess of the allotted production quota. Prices are not directly controlled; the output is fixed and the coal owners are left to get the highest prices they can. The scheme is workable only in the five counties in the Midland area, because the Association can pay the export subsidy by charging higher prices on the home market —this region being the center of coal supply for many domestic consumers. In South Wales and on the North-East Coast, where the bulk of the coal goes to foreign markets, the central organization of coal owners—the South Wales Coal Marketing Association—does not attempt to grant an export subsidy, but has contented itself with maintaining minimum prices. The executive committee of this Association, however, plans to change the present system by fixing the output of each member of the Association and thus adjusting supply to demand. The new scheme may include a system of fines for excess production and bonuses for output below the allotted quota.[1] Both of these schemes differ from the arrangement in the Scottish coal fields, where the less efficient mines are paid to close down. As a method of in-

[1] *The Economist*, London, December 1, 1928, pp. 993–994.

creasing the economy of operation the latter plan is most likely to yield positive results. The next move in the process of reorganizing the British coal industry is the formation of a central national coal association which would coordinate the activities of the different district organizations.

The practical operation of these schemes will be closely watched during the present year. They indicate that the British coal industry is striking at the root of the problem, and constitute an encouraging sign in an otherwise discouraging situation. During 1928 the output of coal was 241,202,000 tons, a decline of 14,000,000 tons, or 6%, from 1927. Exports of coal amounted to 50,055,000 tons, a decline of 2% in tonnage and 16% in value, to £39,061,644, or $189,840,000, as compared with 1927.

The Position of the Iron and Steel Industry

The most notable development in the British iron and steel industry in 1928 is the extension of the rationalization program of the industry started at the end of 1927 by the formation of Vickers-Armstrong, Limited, to take over armament work, heavy steel and shipbuilding of Vickers, Ltd., and Armstrong Whitworth Company, two of the leading combines in the British iron and steel industry. Armstrong-Whitworth Company was thus in a position to concentrate on the production of locomotives, marine and internal combustion engines, small tools and road rollers, the building of merchant ships and the construction of civil engineering and hydro-electric work. The agreement made in December, 1928, by Vickers, Vickers-Armstrong, Ltd., and Cammell Laird and Co., Ltd., another world-famous firm, provides first for an amalgamation of all their steel interests, including armor plate and gun forgings, but excluding guns, gun mountings, armored cars and tanks. These interests have been taken over by a new company, the English Steel Corporation. The second part of the agreement affects Vickers and Cammell Laird only, and provides for the amalgamation of the rolling-stock interests of the two companies through the Metropolitan Carriage, Wagon and Finance Company, an existing subsidiary of Vickers, Inc. The amalgamation of these interests takes

place by means of an exchange of shares. While this combine is not nearly so large as some of the German and American trusts, it is an important step in the reorganization of the industry and will facilitate the cooperation among the British iron and steel producers. An interesting feature of this combine is that it constitutes a departure from the former tendency towards the formation of "vertical" trusts.

Iron and Steel Exports Encouraging

Last year's figures of production and exports of iron and steel are decidedly more encouraging than those for the coal industry. The output of pig iron in 1928 amounted to 6,611,300 tons, or 9% less than in 1927, while the production of steel was 8,525,000 tons, or 6% less than in the preceding year. In comparing the two years, however, account should be taken of the fact that the output in 1927 was somewhat abnormal because of the accumulation of orders due to the coal strike in 1926. The volume of exports of iron and steel increased to 4,261,000 tons, or about 2%, as compared with 1927, while imports decreased by 34%, to 2,896,000 tons. The value of exports, however, declined from £69,383,416 or $337,203,000 in 1927, to £66,801,570 or $324,656,000 in 1928. Imports also declined from £34,032,026 or $165,396,000 in 1927 to £24,158,492 or $117,410,000 last year. In 1928, finished products accounted for 65.9%, semi-finished products for 23%, and crude iron and steel for 11.1%, of the total iron and steel exports. In 1925, crude iron and steel represented 15.6% of the total. It appears that in export trade the British iron and steel industry is becoming increasingly dependent on the finished products. The following table shows the changes in the quantity of exports of some important classes of finished goods in thousand tons:[1]

Commodity	1913	1924	1925	1927	1928
Galvanized sheets	762	650	713	773	718
Tinned plates	494	555	511	472	532
Pipes, cast	235	84	94	123	115
Tubes, wrought	165	168	192	260	276
Railway material	774	370	421	729	610
Wire and wire manufactures	116	128	118	112	132

[1] *Board of Trade Journal*, London, January 17, 1929, pp. 65–71.

The decline in exports of galvanized sheets from 1927 to 1928 is due mainly to smaller shipments to India (275,000 tons in 1928; 293,000 tons in 1927) and to Australia (74,000 tons in 1928; and 122,000 tons in 1927). Exports of tinplates to Italy and China more than doubled, while those to Japan increased 63% from 1927 to 1928. India was also mainly responsible for the decline in exports of railway material, while Argentine, South Africa and British West Africa were much larger buyers in 1928 than in the preceding year.

Increase in Machinery Exports

Exports of machinery in 1928 amounted to 566,200 tons, as compared with 512,200 tons in the preceding year. The value of these exports increased from £49,920,843 or $242,615,000 in 1927 to £53,749,131 or $261,221,000 in 1928. Imports of machinery declined in tonnage from 95,700 tons in 1927 to 92,700 tons last year, but their value rose from £15,919,046 or $77,367,000 to £16,731,445 or $81,315,000. The following table shows the quantity of exports of seven leading classes of machinery in tons:[1]

Machinery	1913	1924	1927	1928
Agricultural[2]	73,498	19,600	19,300	21,800
Boilers and boiler house plant[3]	..	53,400	52,200	58,700
Electrical	26,860	31,400	40,900	41,300
Machine tools[4]	16,537	12,000	14,500	14,600
Prime movers, not electrical	94,564	50,700	50,100	51,200
Sewing machines and parts	33,259	21,700	26,600	31,900
Textile machinery	178,074	103,600	119,300	125,200

In April, 1927, an import duty of 33⅓% was imposed on tires and has radically changed the competitive position in the British market in 1928. Imports of tires declined from over £3,000,000 or $14,580,000 in 1927 to less than £1,000,000 or $4,860,000 in 1928. The French Michelin, the Italian

[1] *Idem.* Committee on Industry and Trade, "Survey of Metal Industries," London, 1928, pp. 165, 180, 185, 188, 190, 195, 298.

[2] Pre-war and post-war figures are not strictly comparable. Agricultural tractors are included in 1913 exports but not in post-war years.

[3] Figures available only for post-war years.

[4] Pre-war and post-war figures are not strictly comparable.

Pirelli, and the leading American tire companies now have factories in Great Britain. The imposition of the duty, however, does not seem to have strengthened the export position of the British producers. The value of tire exports declined from £3,742,000 or $18,186,000 in 1927 to £3,427,000 or $16,655,000 in 1928. The decline in the price of rubber, however, perhaps accounts fully for the decline in value.

The Depression in the Textile Industry

The leading British export industry, the textile industry, has experienced in 1928 one of its worst years since 1920. The value of exports of cotton yarns and manufactures declined from £148,794,942 or $723,143,000 in 1927 to £145,304,242 or $706,178,000 in 1928. The Lancashire section of the industry, spinning American cotton, suffered large losses because of heavy overhead charges and high production costs. The average dividend of 310 cotton companies on ordinary share capital was 2.10% in 1928 as compared with 2.72% in 1927. No dividend was declared by 231 of these 310 companies; the remaining 79 companies paid their share holders £785,574 or $3,818,000, which equals 1.46% on the total capital of £53,752,205 or $261,236,000 of the 310 companies. Particulars obtained regarding the financial position of 208 other companies that do not issue balance sheets show that 65 of these companies made profits of £808,333 or $3,928,000, and 143 companies suffered losses amounting to £1,238,704 or $6,020,000.[1]

Rationalization of the Textile Industry

The need for a drastic reorganization of the cotton industry has been evident for some years past, and the announcement at the beginning of this year of the formation of a merger of more than 100 spinning mills, to be known as the Lancashire Cotton Corporation, Limited, indicates that the industry has accepted the concentration method as a solution of some of its difficulties. The new corporation expects to acquire by the end of this year about 7,500,000 spindles or approximately 20% of the total spindles in Great Britain

[1] *The Economist*, January 19, 1929, p. 101.

spinning American cotton. After the negotiations, which started in March, 1928, were completed, it was revealed, to the great surprise of the business world, that the Bank of England had played an important part in the formation of the amalgamation, particularly in obtaining the required financial assistance. Furthermore, the Bank has agreed to meet all the corporation's temporary needs. Thus, the inexorable march of events has forced Manchester—the very center of the school of economic Liberalism and Individualism—to accept the ideas of an alien world.

The Chemical Industry

For the British chemical industry, the year 1928 was a period of sound, constructive work. After the sweeping developments which revolutionized the structure of the industry in 1926 and resulted in the formation of the Imperial Chemical Industries, Limited, there have been no spectacular changes. During the past year, the most important development was the formation of the Finance Corporation of Great Britain and America by the Imperial Chemical Industries and the Chase Securities Corporation, its purpose being according to Lord Melchett "to bring the great financial and capital strength of America to the use of industrial purposes in this country (Great Britain), the Empire, and the World." The unique feature of the new company is that it links up a manufacturing concern and a banking institution.

The process of industrial concentration was further advanced through the formation by Imperial Chemical Industries of the Scottish Agricultural Industries, Limited, a merger of six well-known Scottish fertilizer manufacturers. Other companies engaged in the manufacture of various chemical products were also absorbed. In the opinion of a British observer, "it would seem as though eventually the chemical industry in Great Britain will be nothing more or less than Imperial Chemical Industries."[1]

Production figures for the chemical industry are not available, but statistics of foreign trade indicate that during 1928 British chemical products have found increasing favor in

[1] *The Commercial*, of the *Manchester Guardian*, "Annual Review," January 31, 1929, p. 107.

foreign markets. The value of exports of chemicals, drugs, dyes and colors increased from £24,415,124 or $118,658,000 in 1927 to £26,435,234 or $128,475,000 in 1928, while imports declined from £15,502,422 or $75,342,000 in 1927 to £15,367,-796 or $74,687,000 in 1928.[1]

The large extension works of the Imperial Chemical Industries at Billingham were one of the factors during 1928 which enabled the electrical industry to escape the effects of the depression prevailing in the staple industries. The demand for electrical products was supported also by the rayon and paper industries because of extension schemes carried out by several large firms. The production of electricity in Great Britain increased about 8% in 1928. This should be considered as a notable accomplishment in view of the unsatisfactory condition of the British basic industries.

The output of rayon has continued to expand, and according to an estimate Great Britain was the second largest producer of rayon in 1928, with an output of 52,000,000 pounds.[2] This increase in production, however, was accompanied by a considerable decline in prices, particularly towards the end of the year, and it is significant that this price decline occurred as a result of deliberate official action on the part of leading rayon producers. While it is difficult to estimate to what extent this price cutting was due to the state of the market or to policy, it should increase the demand for rayon and benefit both the producers and their customers. Last year was characterized by the formation of about twelve new rayon companies, but this does not signify a change in the situation, for the bulk of the output remains under the control of a few large companies.[3]

Overseas Trade

The aggregate value of imports of merchandise in 1928 was £1,196,940,000 or $5,817,128,400, a decrease of £21,401,-000 or $104,009,000, or 1.8% from the preceding year. Reductions of £6,572,000 or $31,940,000 in imports of coal and £9,874,000 or $47,988,000 in imports of iron and steel and

[1] *Board of Trade Journal, op. cit.*, p. 67.
[2] *Textile World*, New York, February 2, 1929, p. 158.
[3] *The Commercial, op. cit.*, pp. 95–96.

manufactures thereof show how strongly the effects of the coal stoppage were felt in 1927. Exports of imported merchandise were valued at £120,352,000 or $584,911,000, or 2.2% less than in 1927. Retained imports of merchandise in 1928 amounted to £1,076,588,000 or $5,232,218,000, a decrease of £18,800,000, $91,368,000 from the preceding year.

Exports of British produce and manufactures in 1928 amounted to £723,427,000 or $3,578,855,000, an increase of £14,346,000 or $69,722,000 over 1927. Exports of manufactured products, which accounted for 80% of the total, were valued at £578,629,000 or $2,812,137,000, an increase of £14,715,000 or $71,515,000, as compared with 1927. The largest increase in exports occurred in the group of "vehicles" which rose from £35,414,000 or $172,112,000 in value in 1927 to £46,965,000 or $228,250,000 in 1928. To this increase, £11,045,000 or $53,679,000 was contributed by ships and boats, and £1,023,000 or $4,972,000 by railway rolling stock.

The excess of imports over exports of merchandise in 1928 was £353,160,000 or $1,628,878,000 as compared with £386,307,000 or $1,877,452,000 in the preceding year. Exports of coin and bullion in 1928 were greater than imports by £11,704,000 or $56,881,000. Exports of coin and bullion, however, include £18,000,000 or $87,480,000 in gold shipped to the Bank of France. Since this shipment was not completed in satisfaction of a current financial or trading transaction, it is proper to exclude it from consideration. Thus, the excess of imports over exports of merchandise, coin and bullion in 1928 was £359,456,000 or $1,746,956,000, a decrease of £30,223,000 or $146,884,000 from the preceding year.[1]

In 1928, however, the excess of invisible exports over imports, as estimated by the Board of Trade, amounted to £508,000,000 or $2,468,880,000, as compared with £504,000,000 or $2,449,440,000 in 1927, and £484,000,000 or $2,352,240,000 in 1926. Thus the net surplus available for investment abroad in 1928 was £149,000,000 or $724,140,000. The following table shows the various items in British foreign trade during the last three years in millions of dollars:[2]

[1] *Board of Trade Journal, op. cit.*, pp. 68–69.

[2] *Board of Trade Journal*, February 28, 1929, pp. 279–280.

Item	1926	1927	1928
Excess of imports of merchandise and bullion	$2,308	$1,895	$1,745
Estimated excess of government receipts from overseas[1]	$19	$4.9	$63
Estimated net national shipping income[2]	583	680	632
Estimated net income from overseas investments	1,385	1,385	1,385
Estimated net receipts from short interest and commissions	292	306	316
Estimated net receipts from other sources	73	73	73
Total[3]	$2,357	$2,450	$2,469
Estimated total credit balance on items specified above	43.7	544	724

For 1928 the sum of £149,000,000 or $724,140,000 represents part of the amount available in Great Britain for investment abroad. New capital raised in London by foreign borrowers in 1928 is estimated at £158,000,000[4] or $767,880,000. This is $43,740,000 more than the estimated surplus on trade account. Trade estimates, however, make no allowance for new money available for investment abroad by amortization payments on existing foreign loans. For 1927 these payments were estimated at £34,000,000 or $165,240,000. Furthermore, a proportion of new capital issues for foreign account are subscribed by foreign investors. British purchases of foreign securities and foreign purchases of existing British securities should also be taken into account.

Unemployment, Wages and Cost of Living

While the employment situation in 1928 was worse than in 1927, which was an exceptionally good post-war year, it was better than in any other year since 1920 with the exception of 1924. The following table shows the average percentage of insured persons unemployed in Great Britain and Northern Ireland from 1921 to 1928:

Year	Per Cent	Year	Per Cent
1921	17.0[5]	1925	11.3
1922	14.3	1926	12.5[5]
1923	11.7	1927	9.7
1924	10.3	1928	10.9

[1] Including some items on loan accounts.

[2] Including disbursements by foreign ships in British ports.

[3] The totals are not exact sums of individual items on account of rounding the figures in millions.

[4] *The Statist*, March 2, 1929, p. 345.

[5] Exclusive of persons in the coal-mining industry disqualified for unemployment benefit by reason of trade disputes.

The decline in employment occurred almost entirely in these industries: coal mining; shipbuilding and ship repairing; the cotton, woolen and worsted, and linen textile industries; and the boot and shoe industry. These industries employed in July, 1928, a total of 2,330,640 insured workers or about one-fifth of the total number of insured workers. If these industries were excluded, the percentage of unemployed insured workers for the year would be 8.9, as compared with 8.4 in 1927. The total number of unemployed on December 31, 1928, was 1,565,000, as compared with 1,368,000 a year ago.

Rates of wages remained generally steady. Preliminary figures show that during the year the weekly full-time rates of wages of 1,608,000 workers were reduced by £163,050 or $792,000, while there was an increase of £21,150 or $102,789 in the rates of 212,000 people. Of the net decrease of £141,900 or $690,000, the coal-mining, the building and the transport industries accounted for over 96%. The effect of this reduction on the general level of wages was relatively insignificant. The increase in the weekly full-time rates of wages in Great Britain from July, 1914 to the end of 1928 was between 70% and 75%. During the same period the cost of maintaining the pre-war standard of living of working class families increased 67%.[1]

Industrial Relations

During the last two years, fewer working days have been lost through industrial disputes in Great Britain than at any time during the last forty years. The following table shows the number of disputes, the number of workers involved and the number of days lost during the last ten years.

Year	Number of Disputes	Number of Workers Involved	Number of Days Lost
1919	1,352	2,591,000	34,970,000
1920	1,607	1,932,000	26,570,000
1921	763	1,801,000	85,870,000
1922	576	552,000	19,850,000
1923	628	405,000	10,670,000
1924	710	613,000	8,420,000
1925	603	441,000	7,950,000
1926	323	2,734,000	162,230,000
1927	308	108,000	1,170,000
1928	302	124,000	1,410,000

[1] *The Ministry of Labour Gazette*, London, January, 1929, pp. 1–5.

A great deal of credit for the maintenance of industrial peace is generally given to the group of industrialists around Lord Melchett, who inaugurated a series of conferences with the representatives of labor, which culminated in the proposal for the establishment of a National Industrial Council composed equally of representatives of employers and trade unionists. The function of the Council would be to encourage the habit of joint consultation on matters of common interest and to provide a medium for the settlement of industrial disputes, by creating Joint Conciliation Boards, composed of employers and trade unionists, whose services could be invoked in disputes. This proposal was accepted by the Trade Unions Congress last September, but it has not yet been adopted by the Federation of British Industries and the National Confederation of Employers' Organizations. The opposition to this proposal by some employers is based on the ground that the Trade Unions Congress is not simply a labor organization, but a political body as well, in view of its connection with the Labor Party. It is also pointed out that the Congress does not represent all industrial workers in Great Britain and that the present conciliatory attitude of organized labor is due not so much to a change of policy but to financial weakness of the trade unions and loss of membership during the last three years. While, undoubtedly, it is true that the struggles of 1926 have considerably impaired the strength of organized labor, it also seems to be true that a marked change in the attitude of the rank and file is noticeable. Statistics of production and trade during the last two years show the grave consequences of the 1926 strike, and it is hoped that a satisfactory method will be found to avoid a repetition of such mistakes in the future.

GERMANY

The economic position of Germany is a matter of world-wide interest. At the present time, it is being debated by a Committee of Experts, composed of representatives of the former Allied countries and with two members unofficially representing the United States. The meetings of the Committee are held in secret sessions following the precedent established by the Dawes Committee. The task of this Com-

mittee of Experts is to determine the final amount of reparations that Germany will have to pay her creditors. In view of the unsettled economic conditions of Germany in 1924, the Dawes Committee could not attempt to settle the final amount and the number of years over which that amount was to be paid. Under the provisions of the Dawes Plan, the annuity of 2,500,000,000 gold marks or $595,000,000, which becomes payable in the fifth annuity year, 1928–1929, is regarded as standard, but it can be increased, from 1929–1930 on, by the application of the index of prosperity; that is, if in the future, Germany's paying capacity should increase, the standard annuity would be increased also by an amount which would not impede the country's economic progress but would enable her creditors to have a reasonable share in her increased prosperity.

Has the economic recovery of Germany proceeded far enough to justify the attempt to determine Germany's capacity to pay, and thus to eliminate the uncertainty resulting from the flexible provisions of the Dawes Plan? The Report of the Agent General for Reparation Payments, published on December 22, 1928, contains a comprehensive review of the progress towards economic stabilization which has been made in Germany since 1924. On the basis of a detailed analysis of the whole field of Germany's economic life, the Agent General concludes that "Fundamentally, confidence has been restored, and Germany has been re-established as a going concern on a relatively high level of economic activity."[1] Further, the Agent General feels that a final settlement of the problem, by mutual agreement, would be in the best interests of the creditor Powers and of Germany alike.

While nobody in Germany denies that substantial economic progress has been made since 1924, there is grave doubt in the minds of German financial and business leaders concerning Germany's ability to meet the full amount of the standard annuity of 2,500,000,000 reichsmarks or $595,000,000 without impeding the country's economic progress. The emphasis in Germany is placed on the rôle played by foreign loans, and it is asserted that, so far, reparations payments

[1] Report of the Agent General for Reparation Payments, Berlin, December 22, 1928, p. 166.

have been made, not out of surplus production, but out of borrowed funds. And in its 1928 report, the Reichsbank raises the question: "How long can this borrowing process continue and how long can the economic structure of Germany function under credit conditions which have grown increasingly worse during the course of the year?"[1] The Reichsbank points out that the continued high interest rates in Germany exert an unfavorable influence on the entire economic life of the country, and are the principal cause of the difficult position of German agriculture. Increased production and consumption, rising wages, growing bank and savings deposits are all attributed to the influx of foreign loans. The Agent General, on the other hand, although realizing "that foreign credits as a whole have greatly accelerated the process of German reconstruction," believes, on the basis of figures showing the growth of trade, extension and renovation of plant, "that the new values created in Germany during the same period have aggregated several times the amount of the foreign debt incurred."[2]

The Committee of Experts, sitting now in Paris, will have to consider the whole complex of questions which arise in connection with the German debt to the Allies, and it is hoped that a satisfactory agreement will be reached. Elimination of this problem from the field of international politics would contribute immeasurably to the maintenance of the feeling of mutual friendship which has been in evidence during the past few years.

Industrial Production

With the exception of iron and steel, production figures of German industries for 1928, on the whole, compare favorably with those of 1927, which was an exceptionally good year.[3] Production of coal in 1928 amounted to 150,875,800 tons, as compared with 153,500,000 tons in the preceding year, while production of lignite rose to 166,224,200 tons in 1928 from

[1] *Frankfurter Zeitung*, Frankfort-on-the-Main, February 4, 1929.

[2] Report of the Agent General, *op. cit.*, p. 109.

[3] The decline in industrial activity, however, is particularly noticeable in the figures for the second half of 1928, as compared with the first half of the same year or with the second half of 1927. See, report of Mr. Franz von Mendelssohn, pp. 108–123 of this volume.

150,500,000 tons in the preceding year. Last year the competition of foreign, mainly British, coal was keenly felt by Germany in both the domestic and foreign markets. In 1928, the value of German coal imports was 148,200,000 reichsmarks or $35,272,000, as compared with 112,300,000 reichsmarks or $26,727,000 in the preceding year; while the value of exports, including deliveries on reparations account, declined from 605,800,000 reichsmarks or $144,180,000 in 1927 to 472,400,000 reichsmarks or $112,431,000 in 1928. The lignite industry was able to increase its output mainly as a result of the sustained consumption of lignite by the chemical industry.

Owing to the stoppage of work in the Ruhr iron and steel industry in November, the output of pig iron declined from 13,100,000 tons in 1927 to 11,800,000 tons in 1928, while during the same period raw steel production decreased from 16,310,682 tons to 14,517,165 tons. This setback to production was not, however, accompanied by declining exports during 1928 since the value of exports of iron and steel products was 1,510,900,000 reichsmarks or $359,594,000, as compared with 1,348,800,000 reichsmarks or $321,014,000 in 1927.[1]

In addition to its domestic difficulties, the iron and steel industry was unfavorably affected by the strike of the Swedish iron workers. The production of iron ore in Sweden declined from 9,700,000 tons in 1927 to only 4,300,000 tons in 1928, and Germany was forced to import the necessary iron ore from Spain and North Africa.[2] If the effects of all these disturbances are discounted, the results of the past year can be taken only as an indication of the real strength of the German iron and steel industry.

It was fortunate that the iron dispute was settled before the dependent finishing industries had exhausted their supplies of raw materials. The machinery industry experienced a good year. The value of machinery exports, other than electrical, was 873,400,000 reichsmarks or $207,869,000 in 1928, as compared with 697,100,000 reichsmarks or $165,910,000

[1] *Frankfurter Zeitung*, January 27, 1929, p. 3.

[2] A.E.G. Marktnachrichten (Division of Raw Materials), Berlin, February 1, 1929, p. 3.

in the preceding year, while the value of imports increased from 126,300,000 reichsmarks or $30,059,000 in 1927 to 139,800,000 reichsmarks or $33,272,000 in 1928. Exports of electrical machinery and apparatus also showed a satisfactory expansion, increasing from 398,700,000 reichsmarks or $94,891,000 in 1927 to 488,700,000 reichsmarks or $116,311,000 in 1928; during the same period the value of imports rose from 33,400,000 reichsmarks or $7,949,000 to 45,700,000 reichsmarks or $10,877,000. Equally favorable is the development of chemical exports, which increased in value by 10%, to 1,315,000,000 reichsmarks or $312,970,000. The rayon industry in Germany has considerably expanded its production and exports. Production in 1928 is estimated at 43,000,000 pounds, an increase of 12,000,000 pounds over 1927.[1] The value of exports in 1928, according to official figures, was 92,200,000 reichsmarks or $21,944,000 and that of imports, 116,800,000 reichsmarks or $27,798,000. The corresponding figures for 1927 are 68,200,000 reichsmarks or $16,232,000, and 131,700,000 reichsmarks or $31,345,000.[2] Exports of silk and rayon fabrics (Gewebe) increased from 205,800,000 reichsmarks or $48,980,000 in 1927 to 228,600,000 reichsmarks or $54,407,000 in 1928.

Foreign Trade

Although the above citation of figures is monotonous, they indicate in a striking manner the improvement in the export position of Germany's principal industries. The net result of the increase in exports, which was accompanied by considerably smaller imports of foodstuffs, was to reduce the "adverse balance of trade" to little more than half that of 1927, and to less than half if deliveries in kind on reparations account are included. The table which follows shows the development of foreign trade during the last four years in thousands of dollars.[3]

These official figures, which are corrected for probable errors, are significant in that they show that the various estimates of the probable excess of imports over exports

[1] *Textile World, op. cit.*, p. 158.

[2] These figures do not include rayon fabrics (Gewebe), because the value of exports of silk and rayon fabrics is not reported separately.

[3] *Frankfurter Zeitung*, January 27, 1929.

since 1924, amounting to as much as 13,000,000,000 reichsmarks or $3,094,000,000, have been greatly exaggerated. They show that from 1925 to 1928 the import surplus amounted to about 5,500,000,000 reichsmarks or $1,309,000,000.

Item	1925	1926	1927	1928
Imports	$2,795,072	$2,308,957	$3,284,709	$3,247,209
Paid for exports	2,125,459	2,363,316	2,469,416	2,804,997
Excess of imports(−) or exports (+)	−669,613	+54,359	−815,293	−442,204
Deliveries in kind	123,855	150,130	137,469	156,675
Excess of imports (−) or exports (+) including deliveries in kind	−545,758	+204,490	−677,824	−285,528

The value of imports and exports, including deliveries on reparations account, during the last two years was as follows:[1]

Item	1927		1928	
	Imports	Exports	Imports	Exports
Live stock	$42,174,000	$6,926,000	$34,581,000	$4,474,400
Foodstuffs and beverages	1,035,395,000	78,730,000	998,410,000	150,083,000
Raw materials and half-finished goods	1,701,224,000	620,656,000	1,724,667,000	643,457,000
Manufactures	587,051,000	1,837,217,000	606,448,000	2,070,600,000
Total	$3,365,844,000	$2,569,472,000	$3,342,686,000	$2,868,614,000

These figures, which are not officially corrected for errors and which overstate the value of imports and understate that of exports, show that the import surplus in 1928 was 1,991,900,000 reichsmarks or $474,072,000, as compared with 3,346,100,000 reichsmarks or $796,372,000 in 1927. The significance of this improvement lies in the fact that it was not caused by any disturbance in the economic life of Germany's competitors.

The Problem of Capital Supply

The work of reconstructing the German economic system, which began in 1924, turned largely on the problem of credit. It was necessary to rebuild the entire credit structure of the country. The improvement that has taken place during the last four years has been enormous, and on the whole, emer-

[1] *Frankfurter Zeitung*, January 27, 1929.

gency measures have been replaced with ordinary methods of credit control.

According to official figures, the volume of credit in Germany since 1924 has increased by nearly 40,000,000,000 reichsmarks or $9,520,000,000 nominal amount, almost evenly divided between long-term and short-term credits. Of this total, long-term foreign loans are responsible for 6,700,000,000 reichsmarks or $1,594,000,000. No official figures of short-term credits are published, but on the assumption that the proportions for long-term credits apply to the total, the Agent General for Reparations estimates that about 30% of the new credit was obtained in foreign markets and 70% in the domestic market. Since this percentage, however, does not take into account foreign purchases of new or outstanding issues in the domestic market, the share of foreign credit in the total of $9,520,000,000 is somewhat larger than the percentage given.[1] But at any rate, the new credit obtained in the domestic market was more than twice as large as the amount borrowed abroad.

The growth of savings deposits and life insurance indicate the scope of capital formation in Germany. The average amount of deposits in German savings offices (Sparkassen) in 1925 was 1,474,000,000 reichsmarks or $350,812,000; in 1926, 2,434,000,000 reichsmarks or $579,292,000; in 1927, 4,073,000,000 reichsmarks or $969,374,000; and at the end of October, 1928, 6,546,000,000 reichsmarks or $1,557,948,000.[2] This figure does not include savings deposits placed with the large commercial banks,[3] which pay 5% interest as compared with 4½% paid by the savings offices. The total amount of insurance with about sixty life insurance companies on October 31, 1928, was 11,050,500,000 reichsmarks or $2,630,019,000, as compared with 8,910,000,000 reichsmarks or $2,120,580,000 at the end of 1927, an increase of about 25%.

During the last five years, there has also been a steady growth in the total credits and deposits of private banking institutions. Deposits (Gläubiger) of six private banks,

[1] Report of the Agent General, *op. cit.*, p. 95.

[2] *Ibid.*, p. 117.

[3] Members of the Berlin Bankers' Association (Stempelvereinigung) began to accept savings deposits at 5% in November, 1927. *Idem.*

which represent about three-quarters of the private banking strength of the country, amounted to 8,923,000,000 reichsmarks or $2,123,674,000 on October 31, 1928, as compared with 6,872,000,000 reichsmarks or $1,635,536,000 a year earlier, and 1,058,000,000 reichsmarks or $251,804,000 on January 1, 1924. Loans and advances of these banks rose from 609,000,000 reichsmarks or $144,942,000 at the beginning of 1924 to 5,042,000,000 reichsmarks or $1,200,000,000 on October 31, 1927, and to 6,207,000,000 reichsmarks or $1,477,266,000 a year later. Of course, a substantial proportion of the expansion of deposits was based upon deposits received from abroad.

During the last three years, new capital issues have been offered in the domestic market at the rate of about 4,300,000,000 reichsmarks or $1,023,400,000 a year. The volume of loans throughout this period, however, has been greater than the market could absorb, mainly as a result of the large borrowings by the Reich, the states and communes. The largest single item in the list of new issues in 1928, as in previous years, consisted of mortgage bonds issued by real estate credit institutions, which accounted for about one-third of the total. These bonds (Pfandbriefe) bear an interest rate of 8% on the nominal amount, but since they are always issued below par their yield is considerably higher than that rate.

The high cost of money is the chief difficulty of German business—both industry and agriculture. Since the dividend returns of all stocks quoted on the Berlin exchange do not average more than 4% at the current market prices and yield less than 7% of par,[1] there is obviously little incentive for investors to put their money in productive enterprises.

Employment, Wages, Cost of Living and Prices

The increase in the number of unemployed workers receiving unemployment relief to 1,800,000 at the end of 1928, as compared with 1,400,000 a year earlier, is frequently interpreted as an indication of pronounced decline in business activity. If, however, the increase in the working population, which is estimated at over 400,000 annually, is taken

[1] U. S. Department of Commerce, *Commerce Reports*, February 18, 1929, p. 401.

into account, it is clear that the number of persons actually employed in Germany is about the same as a year ago. Of course, this does not mean that the employment situation is not worse than a year ago, but that the unemployment figure can not be used as an index of business activity.

Wages of industrial labor have, on the whole, continued their upward trend. Average weekly wages of skilled workers increased from 47.58 reichsmarks or $11.32 in 1927 (average) to 52.15 reichsmarks or $12.41 on November 1, 1928. The corresponding figures for unskilled workers are 35.63 reichsmarks or $8.48 and 40.21 reichsmarks or $9.57. The increase for skilled workers was 7.8%, and for unskilled, 10.6%. During the same period, according to the index of the Reich Statistical office, the cost of living in Germany increased 1.3%, so that "real" wages of skilled workers rose 6.5% and those of unskilled, 9%.[1]

Wholesale prices of industrial finished goods continued to increase during the first half of the year, but remained relatively stable from June, 1928 to January, 1929, while prices of industrial raw materials showed a slight decline in the latter part of 1928. Agricultural prices moved irregularly but remained generally lower than in 1927. According to calculations of the Institute für Konjunkturforschung, prices of goods, specifically of industrial raw materials, whose production and distribution are controlled by cartels or syndicates, have been more stable since 1925 than have prices of goods subject to free competition, and have increased during 1928 while other prices showed a decline.[2]

The Condition of Agriculture

The 1928 yield of bread cereals was 22% greater than in the preceding year. The yield of all other crops, with the exception of sugar beets, was also larger than in 1927. In addition, the quality of crops showed considerable improvement over that of 1926 and 1927. The benefit from this large harvest, the best since the war, will be large for the nation as a whole, but in view of lower prices of farm products, it will not materially help the farmers. Prices of

[1] Report of the Agent General, *op. cit.*, pp. 160–163.

[2] *Frankfurter Zeitung*, December 30, 1928, p. 4.

grains have been subject to double pressure during the year: the large crops at home and abundant harvests in other countries.

The principal difficulty of German agriculture seems to lie in the excessive interest charges it has to pay for borrowed funds. The minimum rates for the best class of agricultural loans are about 9%, as compared with about half that rate before the war. Thus, although the total amount of farm indebtedness at the present time is not so large as before the war—10,000,000,000 reichsmarks or $2,380,000,000, as compared with 16,000,000,000 reichsmarks or $3,828,000,000—the burden of high interest charges has rendered the position of many agricultural enterprises exceedingly precarious.[1] On their present debt, German farmers have to pay interest of about 900,000,000 reichsmarks or $214,200,000, as compared with 700,000,000 reichsmarks or $166,600,000 paid before the war on a debt which exceeded the present debt by about six billion reichsmarks.

As yet no comprehensive program of farm relief has been developed in Germany. To be effective, such a program should not concern itself merely with the problem of credit, but should take into account the entire problem of agricultural production and marketing. Germany can not hope to become independent of foreign countries for the necessary supplies of bread cereals, and will be forced to concentrate on the production of dairy products, meat, poultry and table vegetables, which can be sold at remunerative prices in a thickly populated industrial country. In 1928, the value of imports of these products was 1,137,600,000 reichsmarks or $276,749,000—about one-fourth of the total imports of foodstuffs and beverages. This indicates the extent to which the import demand could be relieved by stimulating domestic production of cheese, butter, eggs, meat and vegetables.

Public Finances

The total revenues of the Reich in 1927–1928 amounted to 8,961,000,000 reichsmarks or $2,132,718,000, as compared with 7,690,000,000 reichsmarks or $1,830,220,000, and 7,334,000,000 reichsmarks or $1,745,492,000 in 1926–1927 and

[1] Report of the Agent General, *op. cit.*, June 7, 1928, pp. 88–89.

1925–1926, respectively. This steady increase in revenues has been obtained not by means of heavier taxation; on the contrary, there have been important tax reductions during the last few years. The income tax on salaries and wages has been reduced four times during the last five years; the turnover tax, five times; the luxury tax has been abolished; the sugar tax reduced 50%; the tax on still wine has been abolished; the taxes on bills of exchange and on the amalgamation of companies have been reduced 50%; the tax on foreign exchange operations has been abolished; and the taxes on stock exchange transactions have been reduced by varying amounts. On the other hand, the tax on spirits has been increased by 18%; the tax on beer by 33⅓%; and taxes on tobacco and the lower priced cigarettes by varying amounts.[1]

The public debt which the Reich had incurred during and after the war, up to April 1, 1924, was practically eliminated by the inflation of the currency. The only debts that remained were those which were contracted in foreign currencies and rentenmarks. These amounted to 2,406,000,000 reichsmarks or $572,628,000. During the period of four and one-half years, from April 1, 1924 to September 30, 1928, the public debt of the Reich has increased to 7,969,000,000 reichsmarks or $1,896,622,000. On the other hand, outstanding obligations have been reduced by 1,234,000,000 reichsmarks or $293,692,000, leaving a net increase of 5,560,000,000 reichsmarks or $1,323,280,000. The indebtedness of the states and communes is estimated at about four billion reichsmarks or $950,000,000.[2] On March 21, 1928, the indebtedness of the states was 1,685,100,000 reichsmarks or $401,054,000.[3]

On the whole, this review of the economic position of Germany in 1928 indicates that, although Germany has made considerable progress in many lines of economic activity, the situation can scarcely be considered normal. The scarcity of capital, high interest rates, heavy taxation, including "Soziale Lasten" or social taxes, agricultural depression, unemployment—all these are elements which

[1] *Ibid.*, December 22, 1928, pp. 76–77.

[2] *Ibid.*, pp. 87–93.

[3] *Wirtschaft und Statistik*, Berlin, March 1, 1929, p. 186.

normally appear in a period of economic disequilibrium. In addition, the question of reparations—the actual amount to be paid and the manner in which the payments are to be made—constitutes a most serious problem. Its final solution is necessary in order to eliminate the feeling of uncertainty which is felt at the present time among German economic circles.

France

Since the depression of 1920–1921, which was engendered by world-trade crisis, France has enjoyed a period of uninterrupted industrial and commercial prosperity. Until the advent of the Poincaré Government at the end of July, 1926, this prolonged trade boom was accompanied by a steady depreciation of the franc and by fiscal difficulties of such magnitude that the credit of the state was impaired not only abroad but within the country itself. The peculiar political system of France—the multiplicity of parties and leaders and the necessity for political bargaining resulting from the inability of any single party to secure a majority in parliament—made the adoption of a definite economic policy exceedingly difficult. This political uncertainty undermined the confidence of the people in the credit of the State, and was responsible for the general withdrawal of the public from the market for the short-term National Defense Bonds, which were the main source of working capital for the French Treasury. The total value of these bonds held by the public in 1925 declined from 54,880,000,000 francs or $2,145,808,000 to 45,730,000,000 francs or $1,788,043,000. This decline occurred in a year when the French budget had a deficit of about five billion francs or $195,500,000, and the Treasury was forced to increase its indebtedness to the Bank of France; loans rose from 22,000,000,000 francs or $860,200,000, to 38,500,000,000 francs or $1,505,350,000 and the note issue from 45,000,000,000 francs or $1,759,500,000 to 58,000,000,000 francs or $2,267,800,000. The value of the franc declined during the year from 5.5 cents in December, 1924 to 3.5 cents in December, 1925.[1]

[1] Federal Reserve Bulletin, February, 1926, p. 146.

The Poincaré National Government took office on July 23, 1926, when the franc was quoted at 47.07 to the dollar, its lowest point, and immediately devoted its attention principally to the financial reconstruction of the state. The National Government remained in power uninterruptedly until November 11, 1928. During these two years and ten months, the budget was stabilized; an autonomous sinking fund was established and incorporated in the Constitution; the value of the franc was fixed at 25.19 francs to the dollar at the end of 1926 and was maintained at that rate until it was finally re-established on a gold basis at 25.52 francs to the dollar.

The gold holdings of the Bank of France increased to 33,709,295,000 francs or $1,318,033,000 in January 11, 1929, giving a metallic reserve of 41.27%, as compared with the legal minimum of 35%. The yield from taxation in 1928 was 42,890,000,000 francs or $1,676,999,000, amounting to 3,268,000,000 francs or $127,779,000 more than the budgetary estimate. This figure does not include the income of the sinking fund, which was 6,829,000,000 francs or $267,014,000. During 1928, the cost of government to the French taxpayers was about fifty billion francs or $1,955,000,000.[1]

The Fall of the Union Nationale

After the National Union Cabinet had completed its work of reconstruction, it seems that its record did not carry great weight with some political parties in France. The opposition to the Poincaré Cabinet arose on account of two provisions introduced in the budget, one dealing with religious orders, and the other with military and defense appropriations. Under the first provision of the finance bill, certain properties which formerly belonged to the religious orders were to be sold; the proceeds were to be used for the training of missionaries, and the missionary orders were to be allowed to establish their headquarters in France. The second provisions called for increased appropriations for military, naval and air services, and included about one billion francs or almost forty million dollars for the new Ministry of Air. The total appropriation for the three services amounted to about 6,800,000,000 francs or $265,880,000.

[1] See pp. 151–153 of this volume.

At the Congress of the Radical-Socialist party at Angers on November 5, 1928, the left wing of the party, led by M. Caillaux, forced a resolution through the Congress demanding the resignation of the party's representatives from the Poincaré Cabinet. The resolution read as follows: "This Congress is unanimously of the opinion that execution of the party platform can not be assured by the National Union Government. Only a union of the Left parties is capable of the task."[1] The adoption of this resolution was followed by the withdrawal of the party's four representatives in the Cabinet, and this, in turn, resulted in the fall of the Government.

The new Poincaré Cabinet was formed on November 11, 1928, and contained not a single representative of the Radical-Socialist party, which commands 111 votes in the French Chamber. Thus the Cabinet is not nearly so strong as was the Union Nationale. Of the total of 612 votes in the Chamber of Deputies, M. Poincaré may count on about 320 to support him regularly, and on 250 to oppose him, with the rest of the votes doubtful. Compared with a total of 427 votes supporting the old Cabinet, this represents an important loss of parliamentary strength. The fact, however, that the new Cabinet is more homogeneous than the one preceding it, may prove to be a distinct advantage in that the necessity for political bargaining to satisfy the demands of widely different political groups will be considerably reduced.

The budget was passed by both Chambers on December 30. It provides for expenditures during 1929 of 45,366,000,000 francs or $1,773,811,000, and revenues of 45,431,000,000 francs or $1,776,352,000, leaving a surplus of 64,587,000 francs or $2,525,000. The passage of the budget was a significant accomplishment for the new Government.

Economic and Social Program of the Government

In a parliamentary debate in January, M. Loucheur, Minister of Labor, outlined the economic and social program of the new Government. He stressed the necessity of rationalizing production along modern lines and advocated "The suppression of useless efforts, the reduction of the number of

[1] *Current History Magazine*, December, 1928, p. 499.

standard types and models, the closing of factories working under bad conditions."[1] M. Loucheur stressed the fact that the cooperation of capital and labor can not be obtained merely by the latter's participation in profits, because this would enable the workers to take a part in the management of industry, and because the proportion of profits distributed to capital is already too small. The Minister expressed his disapproval of the system of factory committees. These had been tried in Germany, but were not successful except as sanitary and safety committees. He advocated the issue of special shares to employees and announced that the Government intended to amend the existing law in such a way as to enable trade unions to become shareholders. He also indicated that the Government might extend the present trade-union law to render obligatory the negotiations between employers and employees in all disputes.

M. Poincaré, in a speech on January 11, stressed the necessity of settling the question of reparations and warned the Chamber that any serious political crisis occurring while the Committee of Experts is meeting might jeopardize the conclusion of a settlement. This settlement, M. Poincaré pointed out, is necessary, for unless Germany's debt is fixed it can not be mobilized. Furthermore, unless France knows how much she will receive from Germany, she hesitates to make a final agreement with Great Britain and the United States concerning her debts to these two countries. That the Chamber was in a receptive mood to listen to the warnings of the Premier and that it accepted the economic and social program of the Government as outlined by M. Loucheur is indicated by the vote of confidence on January 11, which gave the government a majority of seventy-four votes.

Industrial Production

Practically all French industries operated under satisfactory conditions during 1928. The iron and steel industry established new records for the year, mainly due to increased domestic demand. The output of pig iron amounted to 10,097,000 tons as compared with 9,326,000 in 1927; the output

[1] *The Statist*, London, January 26, 1929, p. 159.

of steel increased from 8,306,000 in 1927 to 9,387,000 in 1928. The prosperity of the iron and steel industry is to no small extent due to its excellent organization. The iron ore mines are controlled by a few large concerns that are also the largest producers of pig iron and steel. These large concerns —de Wendel, Schneider, Marine et Homecourt, Aciéries de Longwy, Pont-a-Musson—have common interests and follow a policy of cooperation in the domestic and foreign markets. The Comité des Forges is the central organization of the iron and steel industry. It handles all social, labor and fiscal matters of the industry and cooperates with the representatives of the mining, metallurgical, engineering, electrical and other allied industries. The industry is not faced with a trade union problem, partly because of the large number of foreign workers and partly because of the scattered nature of the country districts.

The output of coal during 1928 was 52,429,000 tons, as compared with 52,846,000 in 1927. The number of workers employed in the coal industry declined from 333,000 in 1927 to 297,034 in December, 1928. This reflects an improvement in the equipment of the pits, the rates of wages having remained steady or showed an increase. The output of metallurgical coke in 1928 reached the record figure of 4,400,000 tons, as compared with 4,068,000 in 1927. The Alsatian potash mines also reported a record production of 2,623,000 tons of crude salts in 1928, or 300,000 tons more than the previous record production in 1927.

The machinery industry was fully occupied during the year, but its progress was impeded by shortage of skilled labor. Imports of machine tools during 1928 increased by 40%, while exports remained stationary. Exports of agricultural implements increased by 27%, while imports declined by 68% owing to increased manufacturing by American companies in France and to large stocks carried over from 1927. The electrification of the country is proceeding at a rapid rate. Fifty-two per cent of 38,000 communes are now supplied with electricity; and the present program provides for electrification of all communities in five years. The building industry will be greatly stimulated by the program to build 200,000 low-priced dwellings with govern-

mental aid.[1] In this connection it officially announced that an increase in building prices will not be countenanced. In view of the shortage of labor, however, it is difficult to see how a rise in the cost of construction labor can be avoided.

The French cotton industry, the largest in the world after the British and American industries, has not yet recovered from the post-war depression, and the large increase in exports in recent years is due to the desire of the industry to find a market abroad for a production which is far in excess of the domestic requirements, and in order to avoid unemployment. The woolen, linen and silk industries, on the other hand, have enjoyed a period of unbroken prosperity during the last few years. The silk industry does not seem to have been in the least affected by the enormous development of the French rayon industry.

Foreign Trade

The results of French foreign trade in 1928 show a large excess of imports over exports. The former amounted to 53,448,000,000 francs or $2,089,800,000, and the latter to 51,347,000,000 francs or $2,007,670,000, leaving an import surplus of 2,101,000,000 francs or $82,149,000, as compared with an export surplus of 2,372,000,000 francs, or $92,745,000 in 1927. In January, 1929, the excess of imports amounted to 1,471,000,000 francs or $57,516,000, while during the first two months of this year, imports exceeded exports by 2,521,000,000 francs or $98,571,000. The excess of imports during the first two months of 1929 is greater than that for the entire year 1928. Should the same trend continue during the remaining months of 1929, the year would show an import surplus of about 15,000,000,000 francs or $586,500,000.[2]

French manufacturers have lost the export premium which they possessed during the period of monetary instability. The fact that the growing excess of imports is due not simply to relatively large purchases abroad but also to considerably lower exports of French goods indicates that the French exporter is not holding his own in foreign markets.

[1] *Commerce Reports*, January 21, 1929, pp. 126–128, and February 18, 1929, pp. 399–400; *The Economist*, February 9, 1929, pp. 287–288.

[2] *L'Economiste Francais*, Paris, April 6, 1929, pp. 417–419.

While before 1914, the value of French imports was normally 20% or 25% higher than that of exports, in January, 1929, imports were 40% higher than exports. Imports of manufactured goods were 258,750,000 francs or $10,117,000 higher than in January, 1928, while exports of French manufacturers were 211,000,000 francs or $8,250,000 lower. In the same month, French sales to the United States were 30% lower; to Germany 20% and to Great Britain 10% lower than in January, 1929, while the United States was able to increase her sales to France by over 33%; Germany by over 30% and Great Britain by almost 10%.[1]

The Position of Agriculture

The position of agriculture is the only really unfavorable element in the French economic life. The drift of farm population to the cities is the cause for serious concern as it threatens to destroy the balance between industry and agriculture which has been the cornerstone of the French economic structure. The area under wheat declined from 16,250,000 acres in 1913 to 12,768,800 acres in 1928, a decrease of about 20%. It seems that wheat culture has ceased to be profitable except on first-class soil. The farmers complain that while prices of farm products are declining the price of chemical fertilizers, production costs and taxation are steadily increasing. The Government has created in each county an agricultural office which is in charge of five elected nominees of agricultural interests and is directed by a trained agricultural official. They teach the farmers better methods of production and marketing. The local organizations have been subsidized by the Government with irredeemable loans, carrying a low rate of interest. The amount of these loans outstanding at the present time is 700,000,000 francs or $27,370,000. In order to foster sheep-breeding, the new finance bill provides for a tax of 0.10% ad valorem on all wool and sheep-skins entering France.[2]

[1] *The Economist*, March 23, 1929, p. 628. For an analysis of French foreign trade, see pp. 134–139, 153–155 of this volume.

[2] *The Economist*, January 12, 1929, p. 60. For an analysis of the position of French agriculture see pp. 129–131, 133, 134, 150, 154.

Italy

The process of making the Fascist party an integral part of the Italian Government was further advanced by the passage of the bill on December 10, 1928, giving a constitutional status to the Fascist Grand Council. According to law, the President of the Grand Council is the Head of the Government, Prime Minister and Secretary of State. The Council has important constitutional powers. All projects of law dealing with the question of succession to the throne, attributes and prerogatives of the Crown, composition and functions of the Grand Council, the Senate and the Chamber of Deputies, attributes and prerogatives of the Head of the Government, authority of the executive power to issue judicial decrees, syndical and cooperative organization, the relationship between the State and the Holy See, or international treaties involving changes in national or colonial territory, must be first submitted for examination to the Grand Council, which thus becomes the initiator of all constitutional legislation. In addition to this function, the Grand Council will make up the ballot for the new Chamber of Deputies to be elected in April, 1929. This ballot of 400 names will be prepared from the names presented by federations or confederations of employers, employees and professional classes and by cultural, educational and charitable bodies, such as the Fascist Culture Institutes, the Dante Alighieri Society, the Italian Touring Club, and the Italian National Committee for the Olympic Games.[1] The confederations of employers and workers will have 200 representatives in the new Corporative Chamber. The organizations to be represented in the Chamber have been selected by a committee composed of five senators and five deputies in the Chamber which has been dissolved, and which Premier Mussolini has called "The Constituent Assembly of Fascism."[2] The Grand Council, however, is not obliged to accept the names submitted to it by the various occupational groups; it may at its discretion make its own selections.[3] The year 1929

[1] The Association of Italian Corporations, "Business and Financial Report," Rome, January 1, 1929, p. 4.

[2] *Ibid.*, February 1, 1929, p. 1.

[3] *Current History*, New York City, February, 1929, pp. 865–866.

will see the first practical experiment in vocational representation made by a great nation.

Industrial Activity

Italian industry has not yet adjusted itself to the conditions created by the stabilization of the currency in December, 1927. Wage reductions after the stabilization of the lira were not followed by a lowering of living costs, which remain approximately the same as before stabilization. The result was a low standard of living among the laboring classes. Unemployment, after declining during the first half of the year 1928, increased during the second half, although it did not reach the high level of a year ago. Agriculture and the building industry accounted for most of the increase. At the end of December, the number of totally unemployed was 363,500 and of partially unemployed, 27,200, as compared with 414,283 and 107,964, respectively, at the end of December, 1927. The inauguration of the public-works program is expected to relieve the unemployment situation. Improvement in industrial activity during the year is shown by the greater amount of electric power generated—10,000 million kwh., an increase of 13% over 1927.[1]

The production of pig iron in 1928 is estimated at 396,000 metric tons, as compared with 494,500 tons in the preceding year. The output of steel ingots and castings, however, was 1,756,000 tons in 1928 and 1,594,000 tons in 1927.[2] On December 1, 1928, the cotton spinning mills were working at 95.6% of capacity; the weaving sheds, 91.2%; the jute mills, 95.8%; the silk mills, 91.7%; and the wool combers at 92.5%. These figures show a marked improvement as compared with those for the first half of this year.[3] Production of rayon, however, was somewhat disappointing. The 1928 output is estimated at 55,000,000 pounds, practically the same as in the preceding year, while exports of rayon showed a decline of 8%—the first decline in the history of the in-

[1] The Association of Italian Corporations, *op. cit.*, February 1, 1929, p. 4.

[2] *Commerce Reports*, January 21, 1929, p. 162.

[3] See National Industrial Conference Board, "A Picture of World Economic Conditions," New York, 1928, p. 86.

dustry.[1] Since about 66% of the rayon production is exported,[2] any decline in the industry's ability to increase its sales aboard would seriously handicap its future expansion.

Foreign Trade

The excess of imports over exports in 1928 amounted to 7,506,500,000 lire or $394,842,000, an increase of 2,763,700,000 lire or $145,371,000 over the preceding year. The value of imports in 1928 was 21,993,500,000 lire or $1,156,858,000, and that of exports, 14,487,000,000 lire or $762,016,000; the corresponding figures for 1927 are 20,374,800,000 lire or $1,071,714,000 and 15,631,900,000 lire or $822,238,000. Thus in 1928 there was both an increase in the value of imports and a decrease in the value of exports. The increase in imports was due to a considerable extent, to the increased imports of raw materials and half-finished manufactures—cotton, jute, wool, dried cocoons, copper, cellulose, pig iron and steel. After the revalution of the lire in 1927, Italian industrialists drew on their stocks of raw materials without replenishing them,[3] and their greater purchases during the past year indicate that they have regained confidence in the economic and financial stability of the country.

The decline in the value of exports is due largely to lower prices and not to a smaller volume of shipments. The following table shows in metric tons the quantity of exports of principal groups of commodities during the first eleven months of 1927 and 1928.[4]

The large excess of imports has naturally excited con-

Item	1927	1928	Difference
Animals, foodstuffs and tobacco	1,578,630	1,403,080	−175,500
Oil seeds, oils and fats	149,842	157,622	+7,780
Textile fibres and their products	237,290	220,515	−16,775
Ores, metals and their products	369,476	631,862	+262,386
Stones, earths, non-metallic ores, building materials, hardware	1,133,630	1,060,513	−73,117
Wood and material for carving, plaiting inlaying	101,339	122,018	+20,679
Chemicals, medicinals, tans, dyes	169,437	203,643	+34,206
Sundry merchandise	209,514	217,165	+7,651

[1] *Commerce Reports*, February 11, 1929, p. 336.
[2] *The Journal of Commerce*, "The New Italy," December 28, 1928, p. 17.
[3] *The Economist*, January 12, 1929, p. 60.
[4] The Association of Italian Corporations, *op. cit.*, February 1, 1929, p. 2.

siderable pressure on the reserve of foreign credits and bills of the Bank of Italy. From January to December, 1928, the Bank's holdings of foreign credits and bills declined by 1,625,400,000 lire or $85,496,000, to 5,944,200,000 lire or $312,665,000.[1] This loss of reserves may account for the increase of the Bank's discount rate at the beginning of this year from 5½% to 6%. During the present year, it is reasonable to look forward to an increase in Italian exports and to a return flow of foreign credits and bills.

The Position of Agriculture

The Italian Government is particularly concerned with the improvement of agriculture, which is the principal industry of the country. The movement of population from the farms to the cities was strongly in evidence last year, and the Government has adopted a rigid "back to the land policy." In order to increase the area suitable for agricultural production, the House of Deputies has passed a bill for integral land reclamation. The law makes provision not only for draining all the malarious areas of Italy, but also for regulation of torrents and rivers, for electrification, for the construction of villages and farm houses and for roads. The cost to the Treasury is estimated at 8,400,000,000 lire or $441,840,000. It is hoped that the realization of this ambitious program will materially and permanently increase the standard of living of the farm population and of the nation as a whole.

The crop yields in 1928 were not very satisfactory on account of continued drought during the growing season. The following table shows the production in tons of principal crops in 1927 and 1928, with the average for 1923–1929:[2]

Crop	Average 1923-1929	1927	1928
Wheat	5,727,700	5,329,100	6,221,500
Maize	2,592,600	2,219,600	1,650,700
Rice	627,600	696,100	631,500
Grapes	6,883,700	5,795,800	7,496,600
Potatoes	2,033,500	1,945,300	1,489,800
Hemp	92,500	83,000	85,700

[1] Instituto Centrale di Statistica, *Bolletino Mensile di Statistica*, Rome, December 21, 1928, p. 1120; *The Economist*, January 12, 1929, p. 60.

[2] *The Economist*, "Commercial History and Review of 1928," February 9, 1929, p. 16.

To encourage wheat growing the Government in September, 1928, raised the duty on wheat from 75 gold lire or $3.95 per metric ton to 110 gold lire or $5.79. From August 1, 1927, to June 30, 1928, wheat imports cost Italy about three billion lire or $158,000,000, accounting for almost one-half of the country's trade deficit.[1] While the increase in wheat duty will no doubt stimulate extension and improvement in the culture of wheat, it is by no means certain what will be its effect on the cost of living.

Prices and Cost of Living

On the whole, the level of wholesale prices during 1928 was characterized by encouraging stability. Prices of vegetable and animal foods and of minerals and metals accounted for the increase that occurred during the year. Prices of chemical products, textiles, building materials, plant products and miscellaneous goods declined. The table on page 46 shows Bachi's index numbers of wholesale prices during the last three years (1913 = 100):[2]

After the rapid decline in the cost of living in the last half of 1927, living costs remained remarkably constant during the past year. The highest point was reached at the beginning of May, when the index number stood at 93.36 (1927 = 100), and the lowest point in September, at 91.84.

Treasury Situation

The account kept by the Treasury with the Bank of Italy, for fiscal operations, at the end of February, 1929, showed a credit of 1,430,000,000 lire or $75,218,000 in favor of the Treasury. The cash balance reached 325,000,000 lire or $17,095,000, with a total of 1,755,000,000 lire or $92,313,000 of cash items.

The total Italian internal debt at the end of February, 1929, amounted to 87,138,000,000 lire or $4,583,000,000, showing a small increase over the preceding month. Paper circulation on the same date was 16,197,000,000 lire or $851,962,000, or a decrease of 392,000,000 lire or $20,619,000 over the preceding month.

[1] The Association of Italian Corporations, *op. cit.*, October 1, 1928, p. 1.
[2] Instituto Centrale, *op. cit.*, p. 1092.

BACHI'S INDEX NUMBERS OF WHOLESALE PRICES

Item	1927 Monthly Average	1928										
		Jan.	Feb.	March	April	May	June	July	August	Sept.	Oct.	Nov.
Vegetable foods	538.1	507.6	510.7	521.7	527.8	549.4	545.2	526.0	527.3	529.2	533.5	526.1
Animal foods	468.8	451.5	443.5	445.9	442.8	430.5	432.7	432.6	443.2	455.2	476.5	478.0
Chemical products	436.2	389.0	384.5	384.6	378.3	370.2	368.0	365.6	371.0	368.4	370.5	384.3
Textiles	518.6	483.7	490.9	505.2	508.5	509.4	504.8	488.4	481.2	472.1	480.0	477.2
Minerals and metals	472.8	415.0	409.0	407.8	407.2	405.5	410.0	410.1	411.3	412.7	415.4	423.3
Building materials	563.0	499.1	496.1	495.6	485.3	483.1	484.4	495.7	475.7	472.6	472.6	472.2
Plant products	503.8	514.6	511.6	506.1	516.1	512.4	454.4	413.1	433.4	452.6	446.0	458.1
Miscellaneous	497.7	494.3	490.4	480.5	484.2	477.3	476.6	477.9	479.7	478.4	480.5	480.7
General index	495.3	463.2	461.3	463.9	464.4	464.9	461.7	453.1	456.2	457.8	463.3	465.6

Belgium

Like France, Belgium is a country which has shown remarkable economic progress since the conclusion of peace. Industrially and financially the country is in an excellent position. The growth of industrial production that has been in evidence during the last few years has continued uninterruptedly in 1928. Prices and the cost of living are gradually adjusting themselves to the monetary stabilization rate of October, 1926. The financial position of the Government is sound; the budget is stabilized; the National Bank of Belgium is in a very strong position, with a gold reserve of 58.76%;[1] and the Belgian franc is firmly stabilized. Unemployment is practically non-existent. Foreign trade is developing very satisfactorily.

In politics, Belgium is more homogeneous than France, although not a single political party is strong enough in parliament to organize its own government. Out of 187 representatives in the Lower Chamber, the Catholic party has 78; the Socialist party, 78; the Liberal party, 23; the Frontist (Flemish autonomists), 6; and the Communist party, 2. In the Upper Chamber, the Catholic party has 71 representatives; the Socialist party, 59; and the Liberal party, 23, the other two parties not being represented.[2] Compared with France, where there are ten political parties, and with Germany, where there are eleven, the situation in Belgium is more favorable to constructive work, although the conflict of ideas between the two leading parties—the Catholic and the Socialist—is exceedingly sharp.

Industrial Production

The output of coal during 1928 remained practically the same as in the preceding year, but considerably above the pre-war figure. The 1928 output of pig iron and steel established a new record. The following table shows, in thousands of metric tons, the output of coal, pig-iron and steel during the last three years and in 1913:

[1] On January 3, 1929.

[2] Election of April 4, 1924, for a term of four years.

Year	Coal	Pig iron	Steel
1913	22,842	2,485	2,467
1926	25,320	3,399	3,339
1927	27,574	3,751	3,705
1928	27,543	3,905	3,820

Other important industries of Belgium—the glass industry, the textile industry, the cement industry, the chemical industry and the engineering industry—have been well occupied during the year, and in some of them the output was limited by the shortage of labor.

Foreign Trade

Belgium is a country of only 11,754 square miles, with 7,400,000 inhabitants, of which 78% live in urban communities of 2,000 persons or more. Because of this narrow domestic market, Belgium is naturally forced to export a large proportion of its production. About 75% of her iron and steel output and 90% of the production of plate and sheet glass are sold in foreign markets. Belgium also exports a large share of her production of zinc, copper, chemicals, piece goods, rolling stock and cement. On the other hand, Belgium imports from foreign countries large quantities of wool, cotton, iron, zinc and copper ores, mineral and vegetable oils, wood, rubber, as well as a large proportion of essential foodstuffs.

Imports and exports during the last three years were as follows[1]:

	1926	1927	1928
Imports	$748,000,000	$811,204,000	$877,479,000
Exports	633,000,000	740,064,000	838,031,000
Excess of imports	$115,000,000	$71,140,000	$39,448,000

During the last three years, the value of imports rose by $130,000,000, and that of exports by $205,000,000, resulting in a decrease in the import excess of $75,000,000. Before the War, the ratio of exports to imports was about 75%. In the first few years after the War, the ratio declined to as low as 50%. In 1926 it rose to 85%, and increased further in 1927 to 91%. In 1928 the value of exports was 95.5% of

[1] League of Nations, "International Statistical Yearbook, 1927," p. 128; *The Economist*, February 9, 1928, p. 19.

that of imports. In spite of the growth of trade in recent years, Belgium has not regained the place it held among the exporting nations before 1914. Belgium ranks twelfth now while it occupied seventh place before the war. The following table shows the changes in the direction of Belgium foreign trade since 1913:

Country	Share in Belgian Exports 1913	1928[1]
Germany	25.31%	14.46%
France	20.51	13.21
Great Britain	13.77	17.49
Netherlands	8.65	11.93
United States	2.86	8.06
Argentine	2.45	3.45
Switzerland	1.44	2.69
Italy	2.04	2.49
Belgian Congo	0.72	1.80

[1] First eleven months. *The Statist*, January 26, 1929, p. 130.

These nine countries take about 75% of Belgian exports. Particularly striking is the decline in the French and German shares, and the increase in the proportions of Belgian exports taken by Great Britain and the United States.

Government Finance

The national debt of Belgium amounts to 54,045,000,000 francs or $1,502,451,000, a decrease of 3,119,000,000 francs or $86,708,000 since October, 1926, when the franc was stabilized at 2.78 cents per franc. The foreign debt was reduced by 1,595,000,000 francs or $44,341,000, and stands now at 28,322,000,000 francs or $787,352,000. The budget bill for 1929 provides for a revenue of 11,484,000,000 francs or $319,255,000, and an expenditure of 11,454,000,000 francs or $318,421,000, leaving an estimated surplus of thirty million francs or $834,000. The chief items in the budget during the three years from 1927 to 1929, inclusive, are as follows:[1]

Item	Expenditure (in million francs)		
	1927	1928	1929
Public debt	$80,620,000	$81,315,000	$81,315,000
Pensions	18,070,000	20,850,000	26,410,000
Administration	63,940,000	79,786,000	98,690,000

[1] *Ibid.*, December 22, 1928, pp. 1132–1133.

The increase in the administrative expenses is due largely to the rise in the cost of living, which necessitated increases in the salaries of civil servants. The index number of retail prices (April, 1914 = 100) increased from 812 in December, 1927, to 852 in December, 1928. The index number of wholesale prices rose from 838 in November, 1927, to 847 a year later.[1]

Sweden

After the settlement of labor disputes in Sweden's principal exporting industries—iron ore, wood pulp and paper—the volume of production and trade was unusually large, and by the end of the year, Sweden had practically made up the losses suffered during the strikes and lockouts. The effects of the stoppage are felt in the decreasing purchasing power of domestic consumers and are reflected also in lower exports and larger imports than a year ago. The import surplus, however, which stood at 190,000,000 kronor or $50,920,000, at the beginning of September, was reduced during the fourth quarter of the year to 143,000,000 kronor or $38,324,000.

Industrial Production

Although the volume of production in 1928 was lower than a year ago, it remained higher than in any other year since 1923. The general index number of production (1923–24 = 100) for ten industrial groups in 1928 was 110, as compared with 115 for 1927, 109 for 1926, and 106 for 1925. For the fourth quarter of 1928, the index number was 129, as compared with 117 in 1927 and 107 in 1926. During the last three quarters of 1928, the production index was 120, or five points above that for the corresponding period of 1927.[2]

The iron ore industry and the paper and pulp industry felt most keenly the effects of labor disputes. The iron ore production index declined from 164 in 1927 to 71 in 1928. Exports of iron ore in 1928 amounted to 5,000,000 tons, as compared with 10,000,000 tons in 1927. On the other hand,

[1] Royaume de Belgique, "Revue du Travail," Brussels, December 31 1928, pp. 1601–1609.

[2] *Svensk Finanstidning*, Stockholm, February 2, 1929, pp. 69, 75.

the saw mill industry was able to recover the losses suffered during the disputes and increased its production as compared with 1927. The same is true of the iron and steel and the engineering industries. The output of iron and steel in 1928 was 14% greater than a year ago, while the expansion of the engineering industry, which is difficult to measure quantitatively, is reflected in the growth of exports from 201,000,000 kronor or $53,868,000 in 1927 to 259,000,000 kronor or $69,412,000 in 1928.

Steel imports in 1928 were 595,100 tons, as compared with 530,900 tons in 1927. The corresponding figures for rolled iron are 413,000 tons and 338,800 tons. The output of pig iron declined from 417,800 tons in 1927 to 393,100 in 1928. This decline is due partly to the stoppage of work and partly to the introduction of the electrical and Siemens-Martin smelting processes, which, to an increasing extent, use scrap instead of pig iron.

Foreign Trade

The value of exports during 1928 was 1,567,000,000 kronor or $419,956,000, and that of imports was 1,710,000,000 kronor or $458,280,000, leaving an import surplus of 143,000,000 kronor or $38,324,000, as compared with an export surplus of 36,000,000 kronor or $9,648,000, in 1927. The following table shows the movement of Swedish foreign trade since 1924:[1]

	1924	1925	1926	1927	1928
Imports	$381,766	$387,635	$399,266	$422,100	$458,367
Exports	337,948	364,426	380,426	431,855	419,929
Excess of imports	$43,818	$23,209	$18,840	$9,755	$38,378

The total value of Swedish foreign trade in 1928 was higher than in any other year with the exception of 1919 and 1920, which can not be considered as normal. There is every reason to expect that the improvement in foreign trade, which was somewhat impeded in 1928 by labor disputes, will continue during the present year. The agreement between employers and employees made last December is valid for

[1] *Ibid.*, p. 73.

two years, and the industry will be able to function without the danger of labor conflicts.

The Netherlands

Although agriculture—particularly dairying, poultry and vegetable culture—fishing, transport and commerce are still the basis of the Dutch economic life, manufacturing industries have shown remarkable growth in recent years. With a rapidly growing population—the annual excess of births over deaths being 107,000—and a small area with strictly limited possibilities for agricultural expansion, the country is forced to develop its old industries to the utmost and to create new ones to absorb the increasing supply of labor. Among the new industries may be mentioned the rayon, artificial fertilizer, cement and electrical industries. The old industries—coal mining, cotton, wool, glass, diamond cutting, printing, ship building and paper—have in general extended their activities, notable exceptions being the diamond cutting and the clothing industries.

As a result of this development, manufactured commodities have assumed a most important place in the country's foreign trade. The value of the exports of manufactures during the first eleven months of 1928 was 731,370,000 guilders or $294,011,000, as compared with 628,961,000 guilders or $252,842,000 in the corresponding period of 1927. During the entire year 1928, the total value of Dutch exports was 1,986,000,000 guilders or $798,372,000, and that of imports, 2,684,000,000 guilders or $1,078,968,000, leaving an import surplus of 698,800,000 guilders or $280,918,000. Comparative figures for the last three years are as follows:[1]

	1926	1927	1928
Imports	$981,644,000	$1,028,678,000	$1,078,968,000
Exports	703,178,000	763,679,000	798,372,000
Excess of imports	$278,425,000	$260,978,000	$280,596,000

During the first eleven months of 1928, imports of gold and silver coins and bullion amounted to 41,470,000 guilders or $16,671,000, and exports were valued at 7,198,000 guilders

[1] *The Economist*, February 9, 1929, p. 18.

or $2,894,000. During the corresponding period of 1927, imports were valued at 16,430,000 guilders or $6,605,000, and exports at 42,535,000 guilders or $17,099,000.[1]

Employment, Prices and the Cost of Living

The employment situation during 1928 has been more favorable than during any of the last four years. Wholesale prices declined during the third quarter of the year, but the index number for the year 1928 was slightly higher than that for 1927, or 149 as compared with 148. Wholesale prices of foodstuffs were higher in 1928 than in any of the last six years. The following table shows the index number of wholesale prices from 1922 to 1928 (1913 = 100):[2]

Year	General Index	Foodstuffs only
1922	160	160
1923	151	143
1924	156	156
1925	155	155
1926	145	144
1927	148	153
1928	149	157

The cost of credit was higher throughout 1928 than in 1927. High interest rates in Germany and in New York during the latter part of the year have resulted in the withdrawal of considerable funds from the Dutch market for investment abroad. The Nederlandsche Bank, however, kept its discount rate throughout the year at 4½%. Private discount rates varied between 3.84% in March and 4.39% in November, 1928. Issues of new capital in 1928 were 669,000,000 guilders or $268,938,000, as compared with 502,000,000 guilders or $201,864,000 in 1927. Issues on foreign account in 1928 amounted to 309,000,000 guilders or $124,218,000, or 46% of the total, as compared with 340,000,000 guilders or $136,680,000, or 68% of the total, in 1927.[3]

DENMARK

The general economic situation in Denmark at the beginning of 1929 seems to be favorable. Abundant farm crops

[1] Amsterdamsche Bank, "Financial and Economic Review," January, 1929, p. 13.
[2] *The Economist*, February 9, 1929, p. 18.
[3] *Idem.*

and favorable prices for agricultural exports have strengthened the position of agriculture. As compared with 1927, which was a poor crop year, the value of cereal crops in 1928 is about 100,000,000 crowns or $26,800,000 greater, while the yield of beets and turnips is about 20% better. For butter and bacon, the prices in 1928 were on the average higher than in the preceding year, while for eggs the level of prices during the two years remained practically the same.[1]

Foreign Trade

Exports of agricultural produce in 1928 were valued at about 1,261,000,000 crowns or $337,948,000 or about 71,000,000 crowns or $19,028,000 more than in 1927. This increase is due partly to larger exports of butter and bacon and partly to the increase in prices of export goods. The latter increased from 136 to 139, whereas the index for home market goods declined from 166 to 163. The index of wholesale prices remained unchanged at 153.[2]

In 1928, imports were valued at 1,735,000,000 crowns, or $464,980,000 an increase of 75,000,000 crowns or $20,100,000 while exports increased from 1,552,000,000 crowns or $415,936,000 in 1927 to 1,653,000,000 crowns or $443,000,000 in 1928. The excess of imports over exports during 1928 was about 82,000,000 crowns or $21,976,000, as compared with 108,000,000 crowns or $28,944,000 in 1927.[3] The gross earnings of the merchant marine in foreign trade in 1928 will presumably amount to about 185,000,000 crowns or $49,580,000 and will be more than sufficient to offset the excess of imports on merchandise account.

A number of industries still remain in a depressed condition resulting in considerable unemployment. At the end of 1928, however, the number of unemployed was about 10,000 lower than a year ago, the corresponding figures being 76,000 and 88,700. While industrial exports play a minor part in Danish foreign trade, there seems to be an indication

[1] *The Economist*, January 26, 1929, p. 161; Den Danske Landmandsbank, *Monthly Review*, Copenhagen, December, 1928, p. 1.

[2] *Idem.*

[3] Commerce Reports, *op. cit.*, February 11, 1929, p. 335.

that they are assuming growing importance. In 1928, Danish exports of manufacturing commodities amounted to 300,000,000 crowns or $80,000,000, or about 25,000,000 crowns or more than $6,000,000 over 1927.

SWITZERLAND

Business activity in Switzerland during 1928 has been greater than during any one of the past six years, owing largely to the improvement in the metallurgical and mechanical, as well as in the watch-making industries. Switzerland also derives considerable income from tourist expenditures and the persistence of fine weather in 1928 has had a favorable effect on the tourist traffic, resulting in higher earnings and profits of all transport enterprises. The improvement in the financial position of the federal government and of the federal railway reflects this general prosperity.

Foreign Trade

In 1928 Switzerland imported 2,745 million francs or $529,785,000 worth of goods, as compared with 2,564 million francs or $494,852,000 in 1927, while Swiss exports increased from 2,023 million francs or $390,439,000 in 1927 to 2,134 million francs or $411,862,000 in 1928. The excess of imports over exports rose from 541 million francs or $104,413,000 in 1927 to 610 million francs or $117,730,000 in 1928. Swiss foreign trade with the principal countries during the last two years was as follows:[1]

	Imports		Exports	
	1927	1928	1927	1928
	(In thousands of dollars)			
Germany	104,548	120,419	76,794	74,731
France	91,616	94,730	26,093	30,220
Great Britain	36,538	43,692	59,738	59,057
United States	42,529	47,065	40,462	37,693

Owing to the greater business activity, the employment situation in 1928 was considerably better than a year ago. The number of unemployed in December, 1928 was 11,993 as compared with 13,701 in December, 1927; and 17,900 in December, 1926. The cost of living remained remarkably

[1] Schweizerische National bank, *Monatsbericht*, Zurich, January 19, 1929, pp. 32–35.

stable throughout the year, the monthly average being 161 for 1928, as compared with 160 for the preceding year, July 1914 taken as 100.

AUSTRIA

Perhaps Austria has been more than any other country affected by the economic and political upheaval of 1914–1918. Austria has an area of 32,368 square miles and a population of 6,535,000 or 202 per square mile. About 23% of the total area, or 4,770,000 acres is arable land; 5,650,000 acres are permanent meadows and pastures, while 7,820,000 acres are woods and forests. Austria has abundant supplies of lignite deposits but their caloric value is very low and has to import great quantities of coal. Her principal industries are iron and steel, paper and textiles.

Industrial Production and Employment

On the whole, the output of Austrian principal industries in 1928 was about the same as in the preceding year, with a slight tendency to increase. The output of iron ore in 1928 amounted to 1,912,900 tons, as compared with 1,584,700 tons in 1927. The output of coal increased from 175,600 tons to 201,600 tons, while the output of lignite during the same period rose from 3,064,000 tons to 3,209,500 tons. There has been some improvement also in the machine and metal industries, but final statistics are not yet available. The activity of the textile mills was on the whole considerably lower than in 1927. They operated at 77.3% of their full capacity, as compared with 83.4% in 1927. On the other hand, the output of paper industries has been higher in 1928 than in the last two years, as may be seen from the following table:[1]

	Paper	Pulp	Wood-fibre	Paste-board
1926	177,770	182,670	95,950	53,650 tons
1927	211,050	192,610	94,400	56,190 tons
1928	230,460	207,010	104,110	55,600 tons

Although the number of unemployed, according to official statistics, amounted to 155,000 at the end of November, as

[1] Wiener Bank-Verein, *Monthly Report*, Vienna, March, 1929, pp. 17–18.

compared with 160,000 a year ago, the situation is by no means improved, since the number of old-age pensioners has increased. In 1928 a reduction of unemployment may be expected because in that year the influence of the low birth rate during the war will be felt. Since unemployment relief constitutes a heavy social burden upon the economic life of the country, any improvement in the situation would also be reflected in better conditions of industry and trade.

Foreign Trade

According to preliminary figures of foreign trade, Austrian exports in 1928 amounted to 2,219,300,000 schillings as compared with 2,099,100,000 schillings in 1927. Imports in 1928 were valued at 3,250,800,000 schillings as compared with 3,190,700,000 schillings. The following table shows the development of Austrian foreign trade during the past two years in thousands of dollars:[1]

IMPORTS	1928	1927
Live-stock	$37,412	$38,918
Food-stuffs and beverages	104,061	110,998
Mineral fuel	31,798	31,629
Other raw materials & semi-fin. goods	96,098	94,761
Finished goods	178,239	158,245
Precious metals	9,779	14,380
Total	$457,387	$448,931
EXPORTS		
Live-stock	3,081	4,502
Food-stuffs and beverages	6,754	5,037
Raw materials & semi-finished goods	70,139	67,114
Finished goods	226,471	209,924
Precious metals	5,811	8,766
Total	$312,256	$295,343
EXCESS OF IMPORTS	$145,131	$153,588

During 1928 the value of exports rose by 7% and imports by 3%, resulting in a decrease of 5% in the excess of imports over exports. Efforts are being made in Austria to increase the production of food-stuffs, chiefly eggs and potatoes. In 1928 the value of imports of food-stuffs declined by 61,500,000 schillings or $8,653,000 and further improvement may be expected.

[1] *Ibid.*, February, 1929, p. 10.

Budget for 1929

The budget for 1929 provides for revenues of 1,777,800,000 schillings or $250,136,000 and expenditures of 1,742,500,000 schillings or $245,170,000, leaving a surplus of 35,300,000 schillings or $4,966,000. No reduction in taxes is proposed, although industry and commerce complain that the burden of taxation is too heavy. The budget provides for productive capital expenditures of 218,000,000 schillings or $30,673,000 in anticipation of the new loan of $100,000,000. The total cost of social services in the yearly budget is estimated at 290,600,000 schillings or $40,887,000, the principal items being the cost of hospitals and nursing and employment insurance and old-age pensions. The expenditure on all these items shows considerable increase as compared with 1927 and represents a serious charge on business. The total indebtedness of Austria as of December 31, 1928, without taking into account the new loan, was 2,363,600,000 schillings or $332,558,500, showing a reduction of 178,000,000 schillings or $25,044,600, as compared with a year ago.[1] The per capita debt is 362 schillings or $51.00.

Czechoslovakia

Among the so-called Succession States, which came into existence as a result of the Treaty of Versailles, Czechoslovakia, although ethnologically the least homogeneous, has shown the greatest economic power and political stability. Before the War, Czechoslovakia was the industrial center of the Austro-Hungarian Empire, and her industries had an enormous domestic market protected by generous tariffs. After the War, the Austrian territory was divided among six different countries in addition to Czechoslovakia, and seven tariff walls were erected on the former territory of the Empire. Yet Czechoslovakia has surmounted these difficulties, and her export trade has grown larger.

In 1928, Czechoslovakia exported goods valued at 21,229,200,000 crowns or $628,384,000, while the value of imports was 19,196,052,000 crowns or $568,203,000, leaving an export surplus of 2,033,148,000 crowns or $60,181,000. The

[1] *The International Investor*, New York, December, 1928, pp. 5–7.

following table shows the development of Czechoslovak foreign trade during the last three years:[1]

	1926	1927	1928
Exports	$528,554,000	$595,723,000	$628,384,000
Imports	452,189,000	530,938,000	568,203,000
Excess of exports	$76,365,000	$64,785,000	$60,181,000

In 1928, exports of finished manufactures amounted to 14,563,719,000 crowns or $431,086,000, as compared with 13,250,961,000 crowns or $392,228,000 in 1927. Exports of raw materials declined slightly, from 3,954,000,000 crowns or $117,038,000 in 1927 to 3,663,000,000 crowns or $108,425,000 in 1928, while exports of foodstuffs and beverages increased to 2,900,000,000 crowns or $85,840,000 in 1928 from 2,870,000,000 crowns or $84,952,000 in 1927. Imports of finished manufactures and raw materials also increased, the former from 4,900,000,000 crowns or $145,040,000 to to 5,818,000,000 crowns or $172,213,000, and the latter from 8,540,000,000 crowns or $252,784,000 to 9,142,000,000 crowns or $270,603,000. The principal increases in exports occurred in leather and leather goods, case metals and manufactures, sugar, iron and iron ware, glass and glass ware, machinery and apparatus, paper and paper goods, and wool, yarn and manufactures. The only decreases in exports were recorded in cotton yarn and manufactures, fruit, vegetables and plants, timber, and flax, hemp, jute and yarn and manufactures thereof. The greatest increases in imports occurred in machinery and apparatus and instruments.[2]

Industrial Production

Industrial activity in 1928 established a new record and the total production was 10% higher than before the War.[3] Unemployment is noticeable only in the cotton and linen industries. The coal output in 1928 was 15,916,000 tons and that of lignite, 17,721,000 tons. The corresponding

[1] Czechoslovak National Bank, *Bulletin 27*, Prague, January, 1929, p. 79.

[2] *Ibid.*, pp. 80–81.

[3] *Commerce Reports*, January 21, 1929, p. 140.

figures for 1927 are 14,550,000 tons and 17,084,000 tons. The total consumption of coal and lignite in 1928 was 26,340,150 tons, as compared with 24,600,000 tons in 1927, and 22,600,000 in 1926, indicating greater industrial activity.[1] Steel production for 1928 is estimated at 1,950,000 tons, a 30% increase over 1927 and nearly a 70% increase over 1913. Textile manufacturing is in the least satisfactory position. During 1928, cotton spinning and weaving declined steadily, and was 25% below 1927 at the end of last year.[2]

Wholesale prices during 1928 fluctuated between 996 on August 1 and 955 on December 1, and declined further to 953 on January 1, 1929. The cost of living for wage earners' families of five members in Prague was, on the whole, lower than a year ago.

The currency remained stable. The National Board of Czechoslovakia kept its discount rate at 5% throughout the year. The budget shows a surplus of nine million crowns or $266,400, with expenditures about 9,500,000,000 crowns or $281,200,000.

Russia

The central problem of the Soviet Government is how to reconcile the interests of the peasants, who represent an enormous majority of the people, with the program of socialization; how to make the peasant pay the cost of building up an industrial structure without causing him to revolt. If the rule of the proletariat is to be maintained, Russia must develop its manufacturing industries. The Soviet Government is doing this by means of prohibitive tariffs, subsidies to industry, and by controlling the sale of manufactured commodities so as to secure for them a profitable price. Of course, the cost of this experiment must be borne by the peasants. They pay taxes with which the Government gives subsidies to industry; they must accept low prices for their products in terms of high-priced manufactured goods and they can not buy their supplies abroad because of protective tariffs. Furthermore, they know that

[1] Czechoslovak National Bank, *op. cit.*, p. 70.

[2] *Commerce Reports*, January 21, 1929, p. 140.

the Government's ambition is to "socialize" agriculture, to eliminate the independent farmer who runs his farm for profit, and to reduce the peasants to the level of farm laborers, the purpose of this plan being to harmonize their views on economic life with those of industrial workers. In 1929, the Government will impose a tax of 30% on the income of the wealthy peasants, or Kulaks, and will restrict their freedom of action. It is difficult to foresee what the result of this experiment will be. The cooperation of the peasants is essential for the prosperity of Russia, and without it no government can hope to exist. The news of famine, bread riots, and open revolts indicate that the danger of the Russian social experiment does not lie outside the country, but is due to the enormous difference between the mental outlook of industrial workers and the masses of independent peasants, who believe in the virtues of private ownership.

Industrial Production

The output of coal during 1927–1928 was 34,198,000 tons; of oil, 11,500,000 tons; pig iron, 3,282,000 tons; Martin steel, 4,143,000 tons; rolled goods, 3,349,000 tons. The output of all these products increased as compared with 1926–1927, but with the exception of coal and oil, remained below the 1913 figure, as may be seen from the following table showing the output in tons:[1]

Commodity	1913	1926–1927	1927–1928
Coal	29,055,000	30,930,500	34,198,000
Oil	9,194,000	10,129,500	11,500,000
Pig iron	4,206,000	2,963,253	3,282,000
Steel	4,247,000	3,586,249	4,143,000
Rolled goods	3,509,000	2,730,547	3,349,000

The output of electrical manufactures in 1927–1928 is valued at $97,774,000, as compared with $41,168,000 in 1913; the output of agricultural machinery in 1927–1928 was $67,927,200, as compared with $30,876,000 in 1913.[1] The output of cotton yarn, cotton and wool cloth in 1927–1928 exceeded that of 1913.

[1] Amtorg Trading Corporation. Figures are stated in pre-war prices.

Foreign Trade

The total value of foreign trade in 1927–1928 was $884,700,000. Imports exceeded exports by $87,550,000. The following table gives the value of imports and exports in the last two fiscal years and in 1913:

	1913[1]	1926–1927[2]	1927–1928
Imports	$700,000,000	$367,036,000	$486,000,000
Exports	775,000,000	396,830,000	398,000,000
Total	$1,475,000,000	$764,866,000	$884,000,000

[1] League of Nations, "International Statistical Yearbook, 1927."

[2] U. S. Department of Commerce, "Commerce Yearbook, 1928," p. 554.

Russian foreign trade in the last two fiscal years by principal groups was as follows in thousands of dollars:[1]

Item	1926–1927		1927–1928	
	Imports	Exports	Imports	Exports
Foodstuffs	15,576	169,292	34,998	101,801
Raw and half-manufactured materials	196,380	174,721	228,017	213,343
Livestock	1,349	1,637	2,300	1,655
Manufactured goods	107,707	3,373	156,700	10,404
	321,012	349,023	422,015	327,203

The value of Russian foreign trade in 1927–1928 was almost $600,000,000 less than in 1913 when no account is taken of the increase in prices which occurred during that period. Last fiscal year, imports of industrial equipment increased to 255,800,000 rubles or $131,635,000 from 152,800,000 rubles or $78,631,000 in 1926–1927. Imports of agricultural machinery in 1927–1928 amounted to 21,700,000 rubles or $11,167,000.[2]

State Finances

The budget receipts in 1927–1928 amounted to 6,326,800,000 rubles or $3,255,771,000, while state expenditures were 6,216,600,000 rubles or $3,199,062,000. The State spent 713,800,000 rubles or $367,321,000 on the financing of industry; 135,000,000 rubles or $69,471,000 on electri-

[1] *The Economist*, March 30, 1929, p. 687.

[2] The Manchester Guardian, "The Commercial," January 31, 1929, p. 53.

fication; 147,800,000 rubles or $76,058,000 on the financing of trade and cooperatives; and only 194,000,000 rubles or $99,832,000 on the financing of agriculture. The 1928–1929 budget provides for expenditures of 7,731,523,000 rubles or $3,978,642,000. Of this amount, 949,209,000 rubles or $488,463,000 will be spent on the financing of industry, and 334,150,000 rubles or $171,954,000 on agriculture.[1] The amount of money in circulation on October 1, 1928, was 1,971,000,000 rubles or $1,014,277,000, as compared with 1,628,000,000 rubles or $837,769,000 on October 1, 1927.[2]

Canada

The year 1928 may be considered the most prosperous year in the history of the Dominion of Canada. The iron and steel industry and railway equipment establishments have been fully occupied during the year. The same is true of the farm implement industry, the motor industry and cotton mills. The railways had a record year and showed a marked increase in net earnings. The building industry was prosperous. The mining industry continued to develop during the year and is becoming an important factor in the country's economic life. Foreign trade increased by about $250,000,000, imports and exports sharing almost equally in the increase.

The Position of Agriculture

Agriculture still remains the foundation of the Dominion's economic structure. The area planted to crops has increased by 2,000,000 acres from 1924 to 1928. The wheat harvest in 1924 amounted to 262,000,000 bushels; the 1928 output was well in excess of 500,000,000 bushels, establishing a new record for Canada. The yield of barley was about 135,000,000 bushels, also a new record. The production of other crops was very satisfactory. The decline in prices, however, deprived the farmers of any benefit from these record crops and reduced their value to less than that realized in 1927.

[1] The General Representative Abroad of the U.S.S.R., "Economic Statistics for U.S.S.R.," No. 18, Berlin, December, 1928, Table 1, January, 1929, pp. 8–9.

[2] "The Commercial," *op. cit.*, p. 53.

The values of the principal field crops for the last two years are shown in the following table.[1]

Crop	1927	1928
Grain crops	$797,536,600	$733,845,000
Potatoes	54,341,000	45,227,000
Hay, clover, etc.	206,781,000	189,026,000
Root and fodder	75,534,000	82,945,000

As a result of lower prices, the purchasing power of the agricultural population declined from $1,134,192,600 in 1927 to $1,051,043,000 in 1928.[2]

Industrial Production

The output of pig iron and steel in 1928 was greatly stimulated by the great building activity, the high level of manufacturing, particularly of automobiles and agricultural implements, and by the important mining and power developments. The production of pig iron in 1928 was 1,038,535 long tons, an increase of 46% over 1927. The output of steel ingots and direct steel castings amounted to 1,240,214 tons and was 37% greater than in 1927. The output of copper increased from 140,187,000 pounds in 1927 to 191,944,000 pounds in 1928. The production of nickel in 1928 was 93,790,000 pounds, as compared with 66,799,000 pounds in 1927. The production of petroleum in Alberta amounted to 486,318 barrels, an increase of 46% over 1927.[3]

Foreign Trade

The value of Canadian foreign trade in 1928 was $2,596,448,000, an increase of $270,548,000 over 1927. Exports amounted to $1,374,130,000 and imports to $1,222,318,000, leaving an export surplus of merchandise of $151,350,000. Agricultural and vegetable products accounted for more than 50% of the export trade. The value of these exports in 1928 was $651,078,580, or more than $100,000,000 greater than in the preceding year. Wood and paper exports amounted to $289,125,744, an increase of over $8,000,000.

[1] *The Economist*, January 5, 1929, pp. 21–22; The Royal Bank of Canada, January, 1929.

[2] *Commerce Reports*, January 28, 1929, p. 201; February 4, 1929, p. 269; February 11, 1929, p. 332.

[3] *Commerce Reports*, January 28, 1929, p. 201; February 4, 1929, p. 269; February 11, 1929, p. 332.

Imports of iron and its products were the largest single item of import trade, amounting in 1928 to $322,960,000, or nearly $75,000,000 more than in the preceding year.

The best customer of Canada in 1928 was the British Empire, which purchased $545,454,000 worth of Canadian goods, or $45,000,000 more than in 1927. Canadian exports to the United States in 1928 increased by $18,000,000, to $492,541,000. The United States was the largest exporter to Canada. The Dominion's imports from the United States in 1928 amounted to $825,741,000, an increase of 16.8% or $115,000,000 over 1927. Thus Canada imported from the United States about $333,000,000 worth of goods more than it exported, but according to estimates the expenditures of American tourists in Canada are sufficiently large to reduce this figure by $300,000,000.

Mexico

The comparative quiet which has prevailed in the Mexican political life during the last eight years was disturbed by the rebellion against the government of Portes Gil. The effect of the revolution can not be predicted at the present time, but although the government has so far been victorious, the fact that such an outbreak is possible indicates that the military influence on political life is still marked and that the force of public opinion is correspondingly small. Mexico has no definitely organized political parties. The main difference between the government party and the opposition seems to lie in the question of the reelection of the President.[1]

The economic situation during 1928 failed to show any improvement. The production of petroleum declined from 64,119,884 barrels in 1927 to 50,150,641 barrels in 1928. During the same period, petroleum exports declined from 48,421,034 barrels to 33,262,066 barrels. The following table gives the production and exports of petroleum from Mexico during the last six years in thousands of barrels:[2]

[1] Council on Foreign Relations, "A Political Handbook of the World," 1928, p. 127.

[2] American Petroleum Institute, "Facts and Figures," 1928, pp. 22–23; *Commerce Reports*, February 4, 1929, p. 276.

	1923	1924	1925	1926	1927	1928
Production	149,585	139,678	115,514	90,420	64,120	50,151
Exports	135,576	129,700	96,516	80,719	48,421	33,262

In spite of the disappointing tax returns, because of lower production, the revenues of the Government in 1928 were higher than the estimate of 290,000,000 pesos or $136,880,000. The 1929 budget provides for revenues of 270,000,000 pesos or $127,440,000. The sum to be paid for the service on the foreign debt has been fixed at 32,500,000 pesos[1] or $15,340,000 annually. The total debt of Mexico included in the Lamont-de la Huerta agreement as of December 31, 1925, amounted to $778,377,000.[2] For the economic improvement of the country, the Government plans to spend within the next five years 82,000,000 pesos or $38,704,000 on highway construction, 40,000,000 pesos or $18,880,000 on port improvements, and a smaller sum on land reclamation.

Argentina

The economic conditions in Argentina during 1928 have been very satisfactory. This year's wheat crop is estimated to be 8,000,000 tons and of unusually good quality. At least 6,000,000 tons of wheat will be available for export, as compared with about 5,500,000 tons exported last year. The linseed crop is estimated at 2,500,000 tons, of which about 2,250,000 tons may be exported, or 350,000 tons more than in 1928. The yield of wheat and linseed per hectare (2½ acres) has been very high this year, from 20 to 40 quintals, as compared with 10 to 16 quintals in former years. In view of this high yield per hectare, the farmer will be better off this year, in spite of lower prices, than he has been at any time during the past four years.[3] Exports of agricultural products during the first eleven months of 1926, 1927 and 1928 were as follows:[4]

[1] *The Economist*, February 9, 1919, p. 30.
[2] "Commerce Yearbook," *op. cit.*, p. 436.
[3] *The Commercial*, *op. cit.*, January 31, 1929, p. 49.
[4] *The Economist*, February 9, 1929, p. 28.

	1926	1927	1928
Wheat (tons)	1,992,279	3,993,216	4,923,860
Maize (tons)	4,113,329	7,591,777	5,972,923
Linseed (tons)	1,662,652	1,799,837	1,850,691
Oats (tons)	525,600	580,988	295,004
Chilled beef (qtrs.)	4,395,154	5,543,563	4,965,084
Frozen beef (qtrs.)	2,124,438	2,382,533	986,533
Mutton and lamb (carcasses)	1,894,806	2,963,766	2,969,456
Wool (bales)	291,238	310,509	280,675
Cotton (bales)	109,088	44,503	80,689

The value of exports during the first eleven months of 1928 is estimated at 950,979,000 gold pesos or $917,505,000, or 2.7% more than in the corresponding period of 1927. The value of imports during the same period increased by 6%, being 825,584,000 gold pesos or $796,523,000 in the first eleven months of 1928. The principal increases occurred in imports of textiles, iron and steel, machinery and motor cars.

In 1928 Argentina imported from Great Britain £31,213,000 or $151,695,000 worth of goods, an increase of £4,221,000 or $20,514,000 over 1927, while Argentine exports to Great Britain remained practically the same in both years, £76,785,000 or $373,175,000 in 1928, and £76,496,000 or $371,771,000 in 1927. The value of Argentine imports from the United States increased from $163,500,000 in 1927 to $178,900,000 in 1928, while Argentine exports to the United States increased from $97,200,000 to $99,500,000.[1]

Brazil

Since the revolution of 1924, Brazil has made notable progress towards economic and financial stability. At the end of 1926, the Stabilization of Currency Bill was passed, and the conditions during the last two years have been more normal than at any other time since 1912. The exchange value of the milreis from January, 1927, to January, 1929, fluctuated between $0.1168 per milreis and $0.1199 per milreis.[2] The gold reserve of the Caixa de Estabilizacao amounts to £20,500,000 or $99,630,000. The Bank of Brazil has £10,000,000 or $48,600,000 in gold, so that the total gold reserve represents 36.5% of the currency in circulation.[3]

[1] *The Economist*, February 16, 1929, p. 330; *Commerce Reports*, February 25, 1929, p. 462. See pp. 232–239 of this volume.

[2] "Commerce Yearbook," *op. cit.* p. 95; *Federal Reserve Bulletin*, February, 1929 p. 153.

[3] *The Commercial op. cit.* p. 48.

Foreign Trade

Brazilian exports during the first eleven months of 1928 amounted to $432,064,000 and imports to $396,455,000, leaving an excess of exports of $35,609,000. It is estimated that the export surplus in 1928 has been $38,880,000, as compared with a surplus of $26,020,000 in 1927.[1] In 1928 Brazil imported from Great Britain $78,007,000 worth of goods, as compared with $70,007,000 in 1927. Brazilian exports to Great Britain were valued at $22,826,000 in 1928 and $21,800,000 in 1927. The value of Brazilian trade with Great Britain and the United States during the last two years was as follows:[2]

Country	Exports		Imports	
	1927	1928	1927	1928
Great Britain	$70,017,000	$78,007,000	$21,800,000	$22,826,000
United States	88,700,000	100,100,000	203,000,000	220,700,000

In 1928 Brazil imported from Great Britain 1,751,403 tons of coal, as compared with 1,415,286 tons in 1927 and with 553,299 tons in 1926. Brazilian imports of coal from the United States declined from 374,700 tons in 1927 to 154,281 tons in 1928. American sales of automobiles and vehicles to Brazil increased from $5,350,157 in 1927 to $7,560,719 in 1928. Brazilian imports of crude petroleum from the United States increased from $6,780,569 in 1927 to $8,410,-412 in 1928. The increase in American imports from Brazil is accounted for by the higher price of coffee during 1928. While the volume of coffee exports to the United States was smaller in 1928 than in 1927, the value increased from $164,773,439 to $189,838,532 last year.[3]

The Brazilian cotton and weaving industry is in a difficult position, and the Government decided at the beginning of this year to increase the import duty on all cotton goods and yarns. The rates have been increased by 70% and will affect about 90% of all textiles imported from the United

[1] *Commerce Reports*, February 11, 1929, p. 332, and February 18, 1929, p. 396.

[2] *The Economist*, February 16, 1929, p. 330; *Commerce Reports*, February 25, 1929, p. 462. British figures do not include re-exports, which are included in American figures.

[3] U. S. Department of Commerce, "Monthly Summary of Foreign Commerce of the United States," Part I, December, 1928, pp. 25, 40, 52.

States. The coffee producers and distributors had a profitable year. In spite of increasing world production, the Coffee Defense Institute has successfully maintained coffee prices throughout the year. The 1929–1930 coffee crop was estimated at 20,000,000 bags. The lack of rain, however, puts the more recent estimate at 30% below that figure.

Chile

With the exception of the coal and lumber industries, there has been marked improvement in every branch of Chilean economic life in 1926. Prices of all farm products other than wheat, were higher and production of all crops was greater than a year ago. The output of nitrate was 1,500,000 tons larger than that in 1927. Bank deposits increased by 280,000,000 pesos or $34,076,000 during the year. Savings deposits also increased, but foreign money deposits declined by 75,000,000 pesos or $9,128,000. The Government has a surplus of nearly 40,000,000 pesos or $4,868,000 during the year.

The production of nitrate in 1928 was 3,163,800 tons, while exports during the year amounted to 2,798,900 tons. The development of the nitrate industry during the last three years is shown in the following table:[1]

	1926	1927	1928
Production	2,016,900 tons	1,609,500 tons	3,163,800 tons
Exports	1,613,900 tons	2,375,500 tons	2,798,900 tons
Stocks (Dec. 31)	1,834,000 tons	1,528,000 tons	2,133,000 tons

Production of copper during the first eleven months of the year was 252,700 tons as compared with 195,500 tons in the corresponding period of 1927.

Foreign Trade

From January to November, 1928, inclusive, Chile exported $212,856,336 worth of goods. During the same period the value of imports was $128,351,300. The value of exports for the entire year 1927 was $203,943,000 and that of im-

[1] Banco Central de Chile, *Monthly Bulletin*, January, 1929, p. 3.

ports, $129,510,000.[1] In 1928 Chilean exports to the United States rose to $40,400,000 from $37,900,000 in 1927. British exports to Chile declined from £5,183,000 or $25,189,000 in 1927 to £5,129,000 or $24,129,000 in 1928, while during the same period British imports from Chile rose from £17,462,000 or $36,265,000 to £9,185,000 or $44,639,000.[2]

Public Finance

The exchange value of the Chilean peso ($0.12166) was maintained at par throughout the year. The expenditures of the Government during the year amounted to 982,700,000 pesos or $119,595,000, and revenues to 1,021,200,000 pesos or $124,280,000, leaving a surplus of 38,500,000 pesos or $4,685,000. The budget for ordinary expenditures for 1929 provides for expenditures of 1,071,000,000 pesos or $130,341,000 and revenues of 1,103,000,000 pesos or $134,235,000. The extraordinary expenditures—public works, irrigation, roads, etc.—are estimated at 225,000,000 pesos or $27,383,000, and are to be paid by means of bond issues. The Government's program of public works involves a total expenditure of 1,575,000,000 pesos or $191,678,000. Its completion will result in material and permanent benefit to the country as a whole.[3]

COLOMBIA

According to the Banco de la Republica, the most serious problem of the Colombian economic and social life is the question of foreign borrowings. While the Bank realizes that foreign loans are essential for a continuation of the work on highway construction, port improvements, railroads, river navigation, etc., it stresses the fact that these loans tend to increase the cost of the projects for which they are borrowed. Furthermore, they are reflected in higher prices, a higher cost of living, and in a speculative orgy engendered by this large inflow of funds. The effect on national industries, particularly on agriculture, has also been serious through the

[1] *Ibid.*, p. 3; "Commerce Yearbook," *op. cit.*, p. 141.

[2] *Commerce Reports*, February 25, 1929, p. 462; *The Economist*, February 16 1929, p. 330. (Not including re-exports for Great Britain.)

[3] Banco Central de Chile, *op. cit.*, December, 1928, p. 1; *Commerce Reports* February 11, 1929, pp. 326–327; *The Economist* February 9, 1929 p. 30.

scarcity and high price of labor caused by the diversion of laborers from these industries to work on the various construction projects.[1]

The Colombian Government borrowed $70,318,000 in 1928, as compared with $53,200,000 in 1927 and $28,320,250 in 1926. The total amount of public loans at the end of December, 1928, was $224,031,997; of this amount, nearly $190,000,000 were issued in the United States. The principal borrowers were the various Departamentos (provinces). At the initiative of the Government, the parliament has passed a bill establishing a Grand Council for Communications (el Gran Consejo de Vias de Communication) which will direct and supervise the construction of public works. The members of the Council will be Colombian and American citizens.[2]

Foreign Trade

The value of Colombian exports in 1928 was 116,602,747 pesos or $113,489,000, while imports amounted to 126,229,150 pesos or $122,859,000. Exports to the United States were valued at $94,600,000 and imports from the United States at $58,600,000. As compared with 1927, exports to America increased by $6,800,000 and imports from America by $9,900,000. Coffee exports in 1928 amounted to 2,795,000 bags of 62½ kilos each, an increase of 266,000 bags over 1927.[3] Exports of coffee to the United States increased from $65,585,000 in 1927 to $69,592,000 in 1928; exports of crude petroleum increased from $13,559,000 in 1927 to $17,210,000 last year.[4]

Public Finance

On the basis of the figure for the first eleven months, the total revenue of the Government in 1928 will amount to 73,500,000 pesos or $71,538,000, as compared with 63,267,000 pesos or $61,578,000 in 1927 and 55,649,000 pesos or $54,163,000 in 1925. The position of the Banco de la Republica is

[1] Banco de la Republica, *Revista del Banco de la Republica*, Bogota, January 20, 1929, p. 1.

[2] *Ibid.*, p. 4; *Commerce Reports*, February 4, 1929, p. 273.

[3] *Idem.*

[4] "Monthly Summary of Foreign Commerce," *op. cit.*, pp. 52, 62.

unusually strong. At the end of December, 1928, the gold reserve amounted to 64,658,199 pesos or $62,932,000, as compared with 44,221,150 pesos or $43,049,000 on December 31, 1927, an increase of 46%.[1] During the same period, the amount of notes in circulation increased 21%, to 56,182,504 pesos or $54,682,000. The exchange value of the pesos remained steady throughout the year, fluctuating slightly above or below par of 97.33 cents per peso.

Australia

Australian business during 1928 felt the effects of the unusually rapid industrial and trade expansion caused by a succession of favorable seasons and an enormous wheat crop in 1927. The money market was strained by too many capital issues. Poor wheat prospects, due to continued drought, tended to accentuate the financial stringency. The system of compulsory arbitration and wage fixing failed to function. Serious labor disputes occurred with monotonous regularity, disarranging business, increasing unemployment and lowering the purchasing power of the people. The British Economic Mission, which went to Australia last year at the request of the Commonwealth Government, stated that the complex system of industrial arbitration set up by state authority has tended to divide employers and employees into opposing camps. The Commission felt that government interference in industrial disputes should be reduced to a minimum, settlement of difficulties being left to the parties concerned. The Commission also expressed the view that governmental expenditures on development programs have not always been judicious, and that in a number of cases this work could have been left to greater advantage in the hands of private enterprise.

The area of Australia is slightly larger than that of the United States and the estimated population is 6,200,000. The central problem of the country is social rather than economic. What will be the policy of the country concerning the development of its natural resources? It is a question of governmental versus private initiative and control. The

[1] Banco de la Republica, *op. cit.*, pp. 5, 35.

hand of the Government is at the present time felt in every sphere of national life. Australian industrialists are quite outspoken in their criticism of the Government's policy of industrial regulation, which places heavy burdens on industry and increases the costs of production, thus greatly reducing the exporting ability of Australian producers.[1] The imposition of the protective tariff has by no means been accepted with unanimous approval. Tariff increases, wage increases and price increases represent a vicious circle. The business depression of 1927 and the absence of any notable improvement in 1928 suggest the necessity of reconsidering the whole policy of the Commonwealth and State governments in regard to industry and trade.[2]

The Position of Agriculture

The 1927–1928 harvest of wheat yielded 116,743,600 bushels, as compared with 160,587,000 bushels in 1926–1927. This season's crop is estimated at about 160,000,000 bushels from an area of 14,000,000 acres, an increase of 1,750,000 acres above 1927–1928. The wool clip in 1927–1928 amounted to 2,670,000 bales or only 42,000 bales less than in the preceding year. The 1928–1929 clip is estimated at 2,800,000 bales. The production of butter in 1927–1928 was 280,770,000 pounds, an increase of about 28,000,000 pounds over 1926–1927. Wool, wheat, flour and butter are the principal items in Australian export trade. Exports of wool alone represented in value in 1927–1928 practically 50% of the total exports.[3]

Foreign Trade

During the last fiscal year, ended June 30, 1928, Australia exported £141,595,160 or $688,152,000 worth of goods, while her imports amounted to £148,116,550 or $719,846,000. The following table shows the value of Australian foreign trade during the last three fiscal years and in 1913:[4]

[1] See, National Metal Trades Association, *Bulletin*, February 8, 1929.
[2] *The Commercial, op. cit.*, p. 43.
[3] *The Economist*, February 9, 1929, p. 25.
[4] *Idem.*

Year	Imports	Exports
1913	$387,583,000	$381,859,000
1925–26	736,962,000	722,012,000
1926–27	800,660,000	703,609,000
1927–28	719,846,000	688,152,000

During the first quarter of the present fiscal year, imports amounted to £47,408,614 or $230,406,000 and exports to £37,252,815 or $181,049,000, as compared with £55,778,384 or $271,083,000 and £43,347,152 or $210,667,000, respectively, for the first quarter of 1927–1928.[1]

During the calendar year 1928 Australia imported from the United States $141,300,000 worth of goods, as compared with $159,100,000 in 1927. During the same period, Australian exports to the United States declined from $38,600,000 to $31,700,000.[2] British imports from Australia in 1927 amounted to £52,814,000 or $256,676,000 and exports to £61,232,000 or $297,588,000. The corresponding figures for 1928 were £54,519,000 or $264,962,000 and £55,770,000 or $271,042,000.[3]

Public Finance

The total public debt of Australia on June 30, 1928, was £1,077,623,615 or $5,237,251,000, a per capita debt of $836, as compared with a per capita debt of $266 for the United States; $458.2 for France; $914.3 for Great Britain and $250 for Canada. During the last fiscal year, the Commonwealth raised six loans: three in London, totalling $106,920,000; two in New York, totalling $87,879,770; and one conversion and redemption loan in Australia of $174,960,000. The revenue of the Commonwealth Government in 1927–1928 was £76,670,222 or $372,617,000; ordinary expenditures were £82,120,459 or $399,105,000; and loan expenditures £33,210,588 or $161,403,000.

JAPAN

The year 1928 was a period of readjustment and gradual recovery from the financial disaster of 1927. The new Bank-

[1] *The Board of Trade Journal*, January 17, 1929, p. 85.
[2] *Commerce Reports*, February 25, 1929, p. 462.
[3] *The Economist*, February 16, 1929, p. 330.

ing Law provides that a bank must be a joint stock company with a minimum capital of 1,000,000 yen or $458,000 in all places except in Tokyo and Osaka, where the minimum capital is fixed at 2,000,000 yen or $916,000. The Law stipulates that, save in exceptional cases, no bank shall undertake operations not related to banking. Bank auditors are to make annual inspections. The Government encourages bank mergers. During 1928 there were 194 mergers of banks; 47 banks were ordered to close; 36 banks discontinued business; 23 banks transferred their accounts to other institutions; and 13 banks were dissolved.[1]

Money was plentiful throughout the year, and short loans were offered at rates as low as 1.1%, the lowest on record. Many industrial concerns took advantage of this abundance of funds, and the Industrial Bank of Japan estimates that of about 1,000,000,000 yen or $485,000,000 of industrial debentures issued in 1928, nearly 800,000,000 yen or $366,400,000 were refunding issues. Interest rates were in many cases reduced from 7½% and 8% to 6% and 6½%.[2]

Foreign Trade

During 1928, the excess of merchandise imports over exports was 221,169,000 yen or $101,295,000, as compared with 185,235,000 yen or $84,838,000 in 1927. The total value of foreign trade in 1928, not including specie and bullion, was 4,164,547,000 yen or $1,907,363,000, as compared with 4,169,421,000 yen or $1,909,595,000 in 1927. The principal declines in exports occurred in cotton textiles, cotton yarns, raw silk and silk textiles, while the principal increases occurred in starch, sugar, paper and hosiery goods.[3]

Japan's trade with China improved considerably during 1928. The value of imports from China increased from 360,080,000 yen or $164,917,000 in 1927 to 376,331,000 yen or $172,360,000 last year, while the value of exports rose from 491,983,000 yen or $225,328,000 in 1927 to 536,184,000 yen or $245,572,000.[4] Unsettled political conditions be-

[1] U. S. Department of Commerce, "Foreign Financial News," Special Circular No. 320, p. 2.

[2] *Ibid.*, p. 1.

[3] Mitsubish Goshi Kaisha, *Monthly Circular* No. 63, January, 1929, p. 5.

[4] *Ibid.*, pp. 9–11. See pp. 240–253 of this volume.

tween the two countries are seriously interfering with the normal movement of trade. Japan's imports from the United States increased from $257,600,000 in 1927 to $288,100,000 in 1928, while exports to the United States declined from $402,100,000 in 1927 to $384,300,000 in 1928.[1] During the same period, imports from Great Britain declined from £15,246,000 or $74,096,000 to £14,692,000 or $71,403,000, while exports increased from £8,165,000 or $39,682,000 to £8,737,000 or $42,462,000.[2]

Public Finance

On November 30, 1928, the national debt of Japan amounted to 5,766,385,986 yen or $2,641,005,000, representing an increase of 404,375,000 or $185,204,000 during the year. The foreign debt was reduced by about 7,000,000 yen or $3,206,000, while the domestic debt rose by 411,500,000 yen or $188,467,000.[3] The budget for 1929–1930 provides for an expenditure of 1,752,816,000 yen or $802,790,000 and estimated revenues of 1,580,138,000 yen or $723,703,000. The note circulation of the Bank of Japan on December 29, 1928, was 1,773,499,000 yen or $812,263,000, as compared with 1,682,390,000 yen or $770,535,000 a year ago. The holdings of coin and bullion amounted to 1,113,052,000 yen or $509,778,000 at the end of 1928 and to 1,112,492,000 yen or $509,521,000 at the end of 1927. The Government continues to maintain the embargo on gold shipments, in spite of the demands for its abolition on the part of the bankers and the National Economic Committee.[4]

The index number of wholesale prices (1913 = 100) increased from 169 in 1927 to 170.1 in 1928. The increase in prices was caused mainly by the decline of the Japanese exchange rate and by the curtailment of production of cotton yarn, cement, bleaching powder, paper, etc., and by other measures for maintaining prices. In addition, currency inflation and large government expenditures tended to decrease the purchasing power of the yen.

[1] *Commerce Reports*, February 25, 1929, p. 462.

[2] *The Economist*, February 16, 1929, p. 330.

[3] "Foreign Financial News," *op. cit.*, p. 3.

[4] *Monthly Circular*, *op. cit.*, p. 29; *The Economist*, February 9, 1929, p. 32.

The outlook for 1929 is uncertain. A stable exchange is essential if Japan is to recover from the effects of past crises. The removal of the gold embargo is impossible, however, according to the Japanese Minister of Finance, so long as the relations between Japan and China remain in a critical state. Until the gold question is settled, the money market can not be stabilized; the exchange value of the yen will continue to fluctuate, and the price level will remain unstable.

China

The political solidification of China under the Government of the Nationalist party—provided it proves to be of a permanent character—is merely the first step on the long and arduous road to economic and social recovery. Now that the war is over, 1,500,000 soldiers are waiting to be disbanded. They can not be absorbed into industry, and the only solution seems to be for the Government to start an extensive program of public works, road, railway and canal building. For this it needs capital, which must come from abroad. In order to secure loans abroad, the Government must rehabilitate the finances of the country by means of a drastic monetary reform, banking reform and the establishment of a sound fiscal system. A group of American economists have been invited to come to China and act as its Financial Advisers. This commission will draft plans for Chinese finances and for stabilizing currency.

The principal difficulty in the way of financial recovery is the inability of the Central Government to levy and collect taxes throughout the vast regions over which it claims control. Lack of transportation and communication facilities tends to divide China into a number of military provinces, where military chieftains assess and collect their own taxes and seem to be unwilling to surrender this right to the Central Government. And yet without a real budget and an adequate fiscal policy, all China's efforts to reorganize its monetary and financial structure must fail.

Public Finance

The Chinese Minister of Finance made several significant proposals at the Disbandment Conference with a view to

increasing the fiscal power of the Central Government. The Minister proposed (1) that the military expenditure be limited to $192,000,000, or 41% of the budget; (2) that all national taxes be collected by the agents of the Finance Ministry; (3) that all financial officers be appointed by the Ministry of Finance; (4) that all provincial and railway subsidies to different armies be granted only by the National Treasury; and (5) that the Disbandment Conference definitely apportion the military allowances to the various armies and determine in detail the procedure to be followed by the Ministry of Finance in paying those allowances.[1] The Conference has accepted these proposals in principle, but their practical execution will depend on the degree of cooperation the Central Government can obtain from provincial authorities.

Chinese maritime customs during 1928 amounted to 82,332,000 Haikwan taels or $57,912,000, an increase of 13,597,000 taels or $9,564,000 over 1927 and 4,210,000 taels or $2,961,000 over 1926. During January, 1929, the maritime customs collections at Shanghai alone amounted to 4,027,000 taels or $2,833,000, as compared with 1,844,000 taels or $1,297,000 in January, 1928, and 33,659,000 taels or $23,676,000 during the entire year 1928. The increase in January collections was due to heavy imports, which were stimulated by the imposition of the new and higher tariff schedule effective on February 1, 1929.[2]

During 1928 China imported from the United States $165,200,000 worth of goods, as compared with $109,000,000 in 1927, while the value of Chinese exports to the United States decreased from $169,200,000 in 1927 to $156,600,000 in 1928.[3] British exports to China increased from £9,690,000 or $47,093,000 in 1927 to £15,718,000 or $76,389,000, while British imports from China declined from £12,123,000 or $58,918,000 in 1927 to £11,978,000 or $58,213,000 in 1928.[4]

The prospects for 1929 are decidedly favorable. Of course,

[1] U. S. Department of Commerce, "Foreign Finance News," No. 59, February 6, 1929; No. 60, February 20, 1929.

[2] *Ibid.*, No. 58, January 26, 1929; *Commerce Reports*, February 18, 1929, p. 397.

[3] Including Hong-Kong and Kwantung, *Commerce Reports*, February 25, 1929, p. 462.

[4] *The Economist*, February 16, 1929, p. 330.

this favorable outlook is based entirely on the theory that the Central Government has not only the will but also the power to enforce the reforms it contemplates.

United States

Industrial and commercial activity in the United States during 1928 was slightly higher than in 1927. But except for a few months towards the end of the year, the expansion of activity has not exceeded the normal rate of growth of general business. The total volume of trade increased by only 0.9%, and total productive activity by 2.4%. The increase in activity was due mainly to the automobile, building, and iron and steel industries. Most of the other basic industries have not exhibited a great or sustained degree of expansion, or have actually operated at lower levels than a year ago, as may be seen from the following table showing the increase or decrease of activity in 1928 as compared with 1927:[1]

Business Factor	Increase	Decrease
Total volume of trade	0.9%	..
Total productive activity	2.4	..
Industrial production	3.7	..
Manufactures	5.7	..
Locomotives	..	48%
Iron and steel	16.1	..
Automobiles	38.6	..
Rubber tires	18.0	..
Textiles	..	4.5
Wool mill activity	..	5.0
Cotton consumption	..	11.0
Non-ferrous metals	3.8	..
Lead	..	6.2
Copper	7.0	..
Zinc	1.0	..
Minerals	..	1.5
Bituminous coal	..	5.0
Anthracite coal	..	5.0
Petroleum	1.0	..
Crude	..	0.8
Refining	11.0	..
Gasoline	14.0	..
Building contracts	6.0	..
Building permits	..	3.0
Cement	2.0	..
Face brick	..	3.0
Lumber	..	6.0

[1] National Industrial Conference Board, *The Conference Board Bulletin*, January 15, 1929, pp. 198–202.

Retail trade, as measured by the volume of business transacted by mail-order houses, department stores, and ten-cent chain stores, was higher in 1928 than in any other year. The volume of wholesale trade, on the other hand, declined by 1% as compared with 1927 and was considerably below normal and below the average for 1923–1925.

Employment, Wages and Cost of Living

According to the figures of the National Industrial Conference Board, employment during 1928 remained steady. The index number of employment (1920 = 100) fluctuated between 79.1 in January and 83.3 in December. The table shows the monthly figures for money and "real" earnings, employment and hours of work in twenty-five manufacturing industries, and the cost of living in the United States. The

AVERAGE MONEY AND "REAL" EARNINGS, EMPLOYMENT AND HOURS OF WORK IN MANUFACTURING INDUSTRY, AND COST OF LIVING, UNITED STATES, 1928

(Source: National Industrial Conference Board)

Month	Average Earnings		Index Number of Earnings (Base July, 1914=100)		Index Number of Employment (Base June, 1920=100)	Average Hours of Work per Wage Earner	Cost of Living (Base July, 1914=100)	"Real Earnings," (Base July, 1914=100)	
	Hourly	Weekly	Average Hourly	Average Weekly				Hourly	Weekly
January	$.568	$27.22	232	217	79.1	47.9	163.1	142	133
February	.567	27.35	231	218	80.8	48.0	161.5	143	135
March	.570	27.59	233	220	81.2	48.2	161.1	145	137
April	.570	27.19	233	217	80.7	47.4	160.8	145	135
May	.567	27.23	231	217	81.2	47.8	161.5	143	134
June	.570	27.30	233	218	81.1	47.7	160.9	145	135
July	.568	27.09	232	216	..	47.5	161.1	144	134
August	.570	27.35	233	218	82.1	47.9	163.4	144	135
September	.574	27.76	234	221	83.0	48.2	163.4	143	135
October	.576	27.76	235	221	82.9	48.0	162.9	144	136
November	.573	27.42	234	219	81.9	47.8	162.6	144	135
December	.572	27.73	233	221	83.3	48.5	162.1	..	..

great decline in employment, practically 20% since 1920, can not be taken as a measure of unemployment, because large numbers of workers released from manufacturing industries, because of increased mechanization of industrial processes, have been absorbed in other occupations for which no ac-

curate employment figures are available. Earnings remained steady, with a tendency to increase towards the end of the year. The cost of living declined in the fourth quarter of the year from 163.4 in September to 162.1 in December, declining still further in January, 1929, to 160.9. In 1928, the cost of living continued the gradual downward trend which has been in evidence during the last few years.

Prices

Commodity prices were remarkably stable during the year. Wholesale prices of all commodities in 1928 averaged slightly higher than in 1927, chiefly because of higher prices of farm products, foodstuffs, metals and metal products and hides and leather. The following table gives the index numbers of wholesale and retail prices from 1923 to 1928 (1923–1925 monthly average = 100).[1] The stability of prices is

Prices	1923	1924	1925	1926	1927	1928
Wholesale, all commodities	99.9	97.4	102.8	99.3	94.7	97.0
Farm products, to producers	97.8	97.1	106.5	98.6	94.9	100.7
Retail food	97.6	97.6	104.9	107.6	103.6	102.9

an encouraging sign, since it indicates the absence of commodity speculation and accumulation of inventories.

Industrial Production

Production of anthracite and bituminous coal was 5% lower in 1928 than in 1927. Output of iron ore was also lower. The production of steel, however, reached almost 50,000,000 tons for the first time in the history of the United States. The output of copper from the mines was higher than in any other year since 1918, while the output from smelters established a new record. The accompanying table

	1913	1925	1926	1927	1928
Bituminous coal	38,870	43,338	47,781	43,147	41,063
Anthracite	7,627	5,151	7,036	6,675	6,395
Pig iron	2,560	3,034	3,256	3,019	3,153
Steel ingots	2,523	3,678	3,911	3,617	4,154
Copper					
Mine	51,487	70,176	72,709	69,165	75,762
Smelter	51,020	78,944	82,014	80,721	88,341

[1] *Idem.*

shows the average monthly output of coal, pig iron, steel ingots and copper during the last four years and in 1913.[1] The automobile and building industries were the chief consumers of steel in 1928, the former accounting for 18% and the latter for 16.5% of the total. The railroads for the first time dropped to third place as consumers of steel, because of the continued depression in the railway equipment industry. The position of the textile industry was not satisfactory. The average monthly consumption of cotton in 1928 was 547,974 bales, as compared with 617,085 bales in 1927. The average monthly number of active spindles declined from 32,547,000 in 1927 to 29,968,000 in 1928. Woolmill activity in 1928 was about 5% less than in 1927.[2]

The Position of Agriculture

Although the yield of principal crops in 1928 was higher than in 1927, the total value of crops declined from $8,523,000,000 in 1927 to $8,456,000,000 in 1928. The following table shows the final estimates of the production of principal crops during the last four years in thousands of bushels:[3]

Crop	1925	1926	1927	1928
Wheat	676,429	831,040	799,274	902,749
Corn	2,916,961	2,692,217	2,763,093	2,839,959
Oats	1,487,550	1,246,848	1,182,594	1,449,531
Barley	213,863	184,905	265,882	356,868
Potatoes	323,465	354,328	402,741	462,943

The value of the wheat crop in 1928 was more than ten per cent lower than a year ago, while the enormous potato crop yielded about 36% less to the farmers than in 1927. Favorable prices of meat animals, dairy and poultry products, and cotton and cotton seed, however, were more than sufficient to offset the decline in the value of some of the principal crops, and the purchasing power of the farmers in 1928 was probably larger than a year ago.

[1] "Survey of Current Business," *op. cit.*, pp. 34–36, 44. Coal production in thousands of short tons; pig iron and steel in thousands of long tons; copper in short tons.

[2] *Ibid.*, pp. 30–31; *The Conference Board Bulletin*, *op. cit.*, p. 200.

[3] "Survey of Current Business," *op. cit.*, p. 86.

Foreign Trade

The value of American foreign trade in 1928 was $9,220,000,000. Exports of merchandise amounted to $5,129,000,000, leaving an excess of exports over imports of $1,039,000,000. In 1926 the surplus of exports was $378,000,000; and in 1927, $681,000,000. In 1928 the United States was a gold exporting country, the excess of gold exports over imports amounting to $392,000,000. The following table shows the value of exports and imports of merchandise during the last eight years.

EXPORTS AND IMPORTS OF MERCHANDISE, UNITED STATES, 1921 TO 1928

(Source: U. S. Department of Commerce)

(In millions of dollars)

Period	Exports		Imports	Per Cent Imports Are of Exports
	Total	Domestic		
1921	4,485	4,379	2,509	55.9
1922	3,832	3,765	3,113	81.2
1923	4,167	4,091	3,792	91.0
1924	4,591	4,498	3,610	78.6
1925	4,910	4,819	4,227	86.1
1926	4,809	4,712	4,431	92.1
1927	4,865	4,758	4,184	86.0
1928	5,129	5,030	4,091	79.8

FOREIGN TRADE OF THE UNITED STATES, BY GROUPS OF COMMODITIES, AVERAGE OF 1921–1925, 1926 TO 1928

(Source: U. S. Department of Commerce)

(In millions of dollars)

Year	Exports (Domestic)					
	Total	Crude Materials	Crude Foodstuffs	Manufactured Foodstuffs	Semi-manufactures	Finished Manufactures
1921–1925	4,310	1,187	420	601	537	1,566
1926	4,712	1,261	335	503	656	1,957
1927	4,758	1,193	421	463	700	1,981
1928	5,030	1,293	293	467	717	2,209
	Imports					
1921–1925	3,450	1,290	383	448	609	720
1926	4,431	1,793	540	418	804	876
1927	4,184	1,601	505	451	750	878
1928	4,091	1,467	550	405	763	907

The value of exports of finished manufactures in 1928 was 14% greater than in 1927 and 75% greater than in 1922.

Exports of automotive products, $500,200,000, accounted for two-fifths, and machinery, $497,200,000, for one-fifth of the total increase in the value of exports of finished manufactures. Exports of crude materials were about $100,000,000 higher than in 1927, but the entire increase was accounted for by higher value of raw cotton exports, which rose from $826,300,000 in 1927 to $920,000,000 in 1928. The volume of cotton exports was 6½% smaller, but the average price was 19% higher than in 1927. The decrease in the value of crude material imports was due largely to lower average prices of rubber and silk, and also to smaller quantities of leaf tobacco, cotton, wool and fur imports. Rubber prices in 1928 averaged 25 cents a pound, as compared with 36 cents in 1927 and 55 cents in 1926. The average import price per pound of raw silk declined from $5.27 in 1927 to $4.87 in 1928. Thus, although the quantity of both rubber and raw silk imports in 1928 was about 2% higher than in 1927, the value of rubber imports declined from $339,900,000 in 1927 to $244,900,000 in 1928, and that of raw silk from $390,400,000 to $368,000,000. The increase of $29,000,000 in imports of finished manufactures was accounted for largely by greater imports of burlap, newsprint and refined oils.[1]

Financial Conditions

The value of foreign issues publicly offered in the United States in 1928 was the second largest in the history of foreign financing, being $167,000,000 less than the record amount of $1,593,000,000 issued in 1927. The accompanying table shows the amount of foreign securities issued in the United States from 1914 to 1928. The volume of foreign financing was very large in the first quarter of 1928; in the second quarter, it was the highest in American history; but in the third and fourth quarters it declined sharply because of the great increase in money rates in New York, caused by the high level of prices and sales on the stock market and the increase in the volume of brokers' loans.[2]

[1] *Commerce Reports*, February 11, 1929, pp. 323–326.
[2] *Commerce Reports*, January 21, 1929, pp. 133–135.

FOREIGN SECURITIES PUBLICLY OFFERED IN THE UNITED STATES, JANUARY 1, 1914, TO JUNE 30, 1928

(Source: U. S. Department of Commerce)

Year	Number of Issues	Nominal Capital	Estimated Refunding to Americans	Net Nominal Capital
1914	19	$37,722,750	..	$37,722,750
1915	87	833,494,614	$19,500,000	813,994,614
1916	104	1,131,080,264	7,750,000	1,123,330,264
1917	64	718,147,450	32,000,000	686,147,450
1918	30	29,715,000	1,600,000	68,115,000
1919	81	813,244,700	250,000,000	562,324,400
1920	105	636,191,357	51,000,000	585,191,357
1921	109	675,112,963	44,105,083	631,007,880
1922	136	828,399,284	146,121,300	682,277,984
1923	73	495,662,100	82,000,000	413,662,100
1924	129	1,219,541,687	291,047,945	928,493,742
1925	156	1,329,920,750	244,540,000	1,085,380,750
1926	214	1,318,554,850	183,895,200	1,134,659,650
1927	264	1,592,795,760	216,882,700	1,375,713,060
1928	58	1,425,789,180	236,910,413	1,188,878,767
Total	1,629	$13,085 372,709	$1,807,352,641	$11,316,899,768

The present value of foreign government debts to the United States at 5%, exclusive of Germany, is estimated at $6,731,000,000. Germany's debt to the United States for army of occupation costs and American claims at 5% is estimated at $297,000,000. The total long-term creditor position of the United States at the end of 1928 thus exceeds twenty billion dollars. Europe is the principal long-term debtor, governmental debts amounting to 38% of the total. By adding to this the proportion of private indebtedness, Europe's debts to the United States amount to 52% of the total or about $10,700,000,000. The largest proportion of private American investments has been placed in Germany; but American citizens have invested their funds in virtually every other European country and particularly in France, Italy, Belgium, Great Britain and the Scandinavian countries. Next to Europe, Latin America is the most important debtor, accounting for 25% of the total indebtedness. Canadian share is 17% of the total, the rest represents mainly investments in the Far East. This tremendous expansion of American private investments in practically every part of the world indicates the interest which American citizens have in foreign countries and emphasizes the need for international understanding and good will.

The Stock Exchange figures of brokers' loans increased by about two billion dollars during 1928, amounting to $6,439,000,000 at the end of the year. Average prices of securities during the year rose by about 26%. Stock sales in 1928 amounted to 916,000,000 shares, as compared with 577,000,000 shares in 1927. Sales of bonds, on the other hand, measured at par value, decreased by about 18%. The total of capital flotation in American markets is estimated at $9,427,000,000 in 1928, as compared with $9,804,000,000 in 1927. Stock financing in 1928 represented 34% of the total, as compared with 17% in 1927. A marked shift during the year from the financing of business on the basis of securities carrying fixed charges to financing on the basis of stocks is evident.

PART II

SPECIAL REPORTS RECEIVED BY NATIONAL INDUSTRIAL CONFERENCE BOARD, INC., FROM ITS FOREIGN CORRESPONDENTS, BY APRIL, 1929

ECONOMIC CONDITIONS IN GREAT BRITAIN IN 1928

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

GENERALLY speaking, there has not been very much difference between 1928 and 1927 from the point of view of trading. Depression has continued in several of our staple industries, such as iron and steel, coal and shipbuilding, on the other hand, the motor car, electrical, artificial silk and gramaphone industries have continued in an exceedingly flourishing condition.

Overseas conditions have become more settled and it is a particularly hopeful sign as regards our trade in the Far East that China at last seems to be more or less on the road to stability. In addition, the countries of Western Europe are realizing more and more that standards of living must be materially and permanently depressed unless business relations can be effectively maintained within Europe and between Europe and other parts of the world.

The high tariff policies that have been adopted by some countries continue to be a great handicap on many of our industries—notably, the iron and steel industry—and there is a growing feeling in this country that our free market is not appreciated by these countries. Political pressure is being put on the Government to increase our tariffs. Certain markets, lost as a result of post-war conditions have not yet been regained, but, on the other hand, other markets such as the South American, have continued to develop favorably during the past year.

As I write, the final figures for the year are not to hand, but it is a sign of a slight improvement that for the first nine months of the year the country's adverse trade balance has fallen by over £31 million, exports having increased and imports fallen, as compared with the first nine months of 1927.

There has in the past been a continued agitation for a greater development of inter-imperial trade. The Empire Marketing Board has done much to interest the public in Great Britain in the many and varied products which are produced in the Empire. It seems that the propaganda work is bearing fruit, as, although our total imports for the first nine months of the year decreased by £21 million, those from countries within the Empire actually increased by approximately £5 million. At the same time, exports from this country to Empire countries increased from £239 million to £241 million.

Canada has considerably increased the volume of trade with this country, but the tariff policy that has been adopted by Australia has seriously affected our trade with that country. The iron and steel trade has been particularly hard hit by this policy.

Imports from the United States dropped to £130 million, as compared with £149 million in 1927, while our exports increased from £32 million to £34 million. Our imports from Germany exceed our exports and show a small but steady increase. The majority of German imports are of a finished nature, however, whereas the exports from this country have been more in the nature of raw and semi-manufactured products.

Unemployment

The unemployment figure is still about 1,200,000, and continues to cause grave concern to industrialists and politicians alike. It appears that the increase in unemployment is chiefly in the older and basic industries, whose welfare depends to a great extent on success in the overseas markets. There has been, to some extent, a compensating increase in industries primarily engaged in supplying the needs of the home market. The motor industry is a typical example, as there exists a tremendous potential domestic demand which has shown not the slightest sign of having approached saturation point.

This continued depression in the basic industries of the country has certainly been the means of more firmly estab-

lishing certain economic beliefs that had been put forward more or less tentatively. Hitherto, in this country, the tendency in amalgamations has been towards the formation of "vertical" combines—that is to say, an amalgamation of those firms producing fuel and raw material, those specializing in intermediate products and those producing the finished article. "Horizontal" combines, including organizations for the marketing as well as the production of goods have hitherto obtained more on the Continent. Now, however, one hears increasingly in this country of large-scale amalgamations, price-fixing associations and schemes for the collective regulation of output.

Certainly, in these days of keen competition and increasing mechanization of industry, a good case can be made out for the concentration of output in the most efficient plants, the provision of large capital resources in order to obtain the most up-to-date plant, the regulating of production in accordance with what the market will bear and perhaps the fixing of different prices for different sections of the market in accordance with this principle.

Many leading industrialists are dubious about the effects such large-scale amalgamations will have on the consumer and on the wage earner. Unless these interests are fairly dealt with, trusts and amalgamations will fail. Again, the desire for standardization of material and products may be carried too far. A reasonable measure of standardization is helpful in industry, but there is always the possibility that if this is carried to excess, manufacturing will tend to run into a uniform mold and the consumer will be condemned to monotony. This we must guard against at all costs, as we, of all people, must have mobility and flexibility in connection with our products, in view of our exports to every country of the world.

One of the outstanding events in the steel world has been the amalgamation of the world-famous firms of Vicker-Armstrong and Cammell Laird, under the title of the English Steel Corporation. This may be the forerunner of other similar mergers. It is proposed to form three groups, one to deal with heavy engineering, another to combine the

various shipbuilding interests and a third to concentrate on the production of railway materials.

Safeguarding of Industries

The comparatively flourishing condition of those industries that have enjoyed a certain measure of protection under the Safeguarding of Industries Act has led to increasing demands for the measure to be extended to cover other industries, notably the iron and steel and the woolen textiles industries. In the latter industry, the support of the trades unions concerned has been secured, apparently in the hope that, in the event a protective duty is granted, any necessity for a revision of wages in a downward direction will be obviated.

On the face of it, the iron and steel industry appears to have a good case for some measure of safeguarding. The distribution of the iron and steel industries of the world has been changed and the relative position of this country to pre-war markets very much affected. Post-war conditions have even affected the British home market to a considerable extent. The rate of increase in production of steel in Great Britain has not kept pace with the increase in world production, being only 12% higher than that of 1913. Imports of iron and steel have increased by 33% in volume, while exports are only 85% of those of 1913.

Various causes have contributed towards this, but perhaps the chief one is the high fixed charges and burdens on the industry, which is competing for the world's markets with countries where the standard of living is not so high. Wage levels are still sufficiently high, as compared with continental countries, to render competition on a price basis very difficult indeed. Again, in spite of all the efforts of the League of Nations and the International Chamber of Commerce, there seems to be no general downward trend in the tariff policies of nations but, in one or two cases, rather the contrary trend is evident. In these circumstances, one can hardly be surprised at the desire on the part of the British iron and steel industry to exclude from the domestic market at least a considerable proportion of the three million tons of foreign

steel which was imported during 1928. The Government de-rating scheme, whereby the burden of rates will be partly removed from the shoulders of industry, will certainly contribute to an improvement in the position of the iron and steel industry, but it is claimed that, in addition, a measure of safeguarding is required if the industry is to return to normality.

There are, however, other aspects of the question to be considered, and quite apart from the effect of safeguarding on the industries that consume iron and steel in this country, there is always a possibility of safeguarding being made an instrument for "bolstering up" inefficiency. If with perfectly up-to-date plant and methods and perfectly efficient selling organizations, an industry can effectively demonstrate that without protection its position is hopeless from a competitive point of view, then safeguarding is justifiable.

The Coal Industry

The depressed state of the coal industry is one of the outstanding features of the industrial situation, and in spite of earnest attempts on the part of the Government in the shape of de-rating proposals, emigration schemes, industrial transference and even the official encouragement of charitable schemes, the distress in the coal field areas, and particularly in the South Wales district, has been unprecedented. Certainly, it can not be said that the industry has been content merely to rely on governmental assistance, when we consider the extension of such arrangements as the original Five Counties Scheme, and the whole-hearted attempts to "rationalize" the industry.

Recovery is bound to be a slow process until the effects of the uneconomic costs of production, which have been a legacy from the period of control, have disappeared. It is now realized that the coal strike was a great economic mistake and that the subsidy granted by the Government prior to the coal strike is not likely to be repeated.

The burdens of local rates and railway charges, in conjunction with uneconomic wages and particularly unsettled conditions, have resulted in the temporary reduction of the

demand for British coal. According to the estimate of the Mines Department, the losses of the industry for the twelve months ending June, 1928, were at the rate of about £1 million per month. Rather than continue to produce an unlimited amount of coal, which would only result in disposal at uneconomic prices, the industry is concentrating, at least temporarily, on limiting output and endeavoring to obtain an economic price for the coal that can be sold. As a result, certain districts are showing a small profit, while in most others the loss has been materially reduced. No shrinkage in the world consumption of coal has taken place, and a continuance of the present tranquillity in the labor market will quite probably bring about a substantial revival as soon as the effects of the different marketing schemes, and those of the de-rating proposals and railway transport relief, are felt.

At the same time, it must not be forgotten that costs are advancing abroad. Mining costs in Germany, as well as rail and canal rates, are on the up-grade; as a result, German exports have fallen to half the British tonnage. British exporters have re-established themselves in South America and in many of the continental markets, and the Canadian market is developing favorably.

Considerable progress has also been made during the year in connection with scientific and technical improvement, both in the mines and at the coke-ovens and by-product plants.

The work of the so-called Five Counties Scheme—or, as it has been known since April of last year, the Central Collieries Association—has continued. The Association now has control over the production and sale of one hundred million tons of annual output of coal, or about two-fifths of the total for Great Britain. The scheme has been followed by a similar arrangement in South Wales, while there is also an arrangement on a somewhat different plan in Scotland. Cooperation between firms in each coal field is necessarily a preliminary stage in this process of rationalization, but the necessity of coordination of efforts between different coal fields has not been overlooked and may be expected in the not too distant future.

The past year has to a great extent been a period of transi-

tion and rebuilding and there are sufficient indications to show that the work which has been put in is likely to be reflected in better results during 1929.

Labor Relations

A very satisfactory feature of the past year has been the tranquillity in the relations between employers and employed. There have been remarkably few instances of friction and dislocation. The relations between employers and employed in the cotton industry have been somewhat disturbed as a result of the proposals to reduce costs by lowering wages and lengthening the working week, but it seems to be generally conceded that if the trade is to recover its prosperity, other drastic steps towards reconstruction must be taken. There have been stoppages of a minor nature in this industry and also in the dyeing industry.

Wage differences affecting a million workers in the engineering and shipbuilding trades were settled at the conference table; and the railway unions showed their appreciation of the economic conditions existing in their industry by voluntarily accepting a reduction of 2½% in their wages. This is considered a very hopeful sign for the future. The differences between the wage rates paid in this country and on the Continent, even in many highly competitive exporting trades, are often considerable, and a situation of great difficulty has been created by the still higher wages paid in so-called "sheltered occupations" to employees of public utility companies, municipalities, local authorities, etc. It has been stated authoritatively that workers in sheltered industries are being paid £200 million more per annum than if they had been engaged in competitive trades, thus making the cost of production of goods, including those for home and export trade, higher by that amount. If there is to be any general revision of wage rates, this is one of the anomalies that should be dealt with.

The deliberations of the Melchett-Turner Conference have continued, and agreement was reached in July on the desirability of setting up a Joint Industrial Council for the continuous improvement of industrial reorganization and

industrial relations. The point has now been reached when the employers' associations have been officially invited to nominate representatives. Their attitude has not yet been definitely defined.

Transport Competition

The situation created by the increasing competition between rail and road transport seems likely to result in a certain amount of fusion between the competing interests. The object of the railway companies will probably be to enter into joint working arrangements with existing road transport interests. Arrangements have already been made with omnibus companies in various districts and also with municipalities. This will, of course, raise problems both in connection with the workers employed and the interests of the traveling public.

An interesting feature in the year has been the increasing interest displayed in the Junior Chamber of Commerce movement. Many of the larger towns and some smaller ones have formed Junior Chambers of their own, and everywhere the young men are taking a keen interest in industrial and commercial affairs. It is being realized more and more that in the reorganization gradually taking place, the young man must be given a chance to develop his sense of responsibility, and to take his right place with those of more mature experience.

While, on the surface, the results of 1928 do not seem to be particularly encouraging, there is an underlying feeling of optimism that the next few years will see a gradual improvement in the basic industries, which is absolutely imperative if the country is to recover lost ground in the markets of the world. It is only in this way that the present high standard of living can be maintained and those social amenities to which we have accustomed ourselves, continued. The gradual reorganization that is in evidence, and the better spirit being shown by labor should go far towards putting the country on the high road to prosperity once more.

BRITISH INDUSTRY, TRADE AND FINANCE IN 1928

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

THE second half of last year afforded little, if any, relief from the depression which made itself felt in earlier months, so that 1928 must be set down as having failed to justify the hopes entertained at its outset, and as having provided yet another period of low activity. Indices of production and statistics of unemployment tell this story in no uncertain terms. It may perhaps be thought remarkable that such conditions should obtain in a period marked by unusual freedom from industrial disputes, and by the achievement of a considerable advance towards more friendly relationships between employers and wage-earners. As against this condition, however, as well as the absence of major international disturbances, must be set the fact that the price level has declined during the year, while little if any progress has been achieved towards adjustment between the levels of wholesale and retail prices, wholesale prices and wages, and wage rates in the sheltered and unsheltered industries, respectively. Indeed, lack of harmony persists throughout the whole field of money values, and although the British wholesale price level is now below the American, it can not be said that the internal adjustments, which were a vital condition of a successful restoration of the gold standard, have by any means been completed. Indeed, in some respects the disparities would appear to be wider now than at the date of the return to gold.

One of the most serious features of last year's events was the rise in the level of unemployment. At the end of November the percentage of insured persons unemployed reached 12.2, a higher figure than had been recorded at any time since the end of the 1926 coal stoppage. Over the whole year, the average percentage was 10.9 as compared

with 9.7 in 1927. It is safe to say that in the latter part of the year the British national economy had to support one and one-half million idle workers. The increase over the year was by no means concentrated in a few trades, but was spread over almost the entire field covered by the returns. This, indeed, is perhaps the most unsatisfactory feature of the figures.

Depression in Basic Industries

The coal industry has remained in the very depths of depression, and the situation in the coal fields has called forth a great national effort of voluntary relief. This most necessary palliative, however, has not been accompanied by any marked improvement in the underlying conditions, and permanent reorganization of the industry on a profitable basis still seems far removed. Encouragement is to be derived, however, from steps taken towards large amalgamations of mining undertakings and towards the linking-up and greater efficiency of the district marketing schemes now in operation. Meanwhile, official returns show that substantial losses are still being sustained on the working of the mines in various areas. Some relief should be derived from the lower transport charges made possible by ante-dating of the Government's de-rating proposals, so far as these relate to railways. The removal of surplus labor from the coal fields to other areas, advocated by the Industrial Transference Board, is making but slow progress, mainly because it is difficult to find any district in the country in which there is a definable shortage of labor.

Conditions in the iron and steel industry and some of the associated industries have been scarcely less depressed. A high percentage of unemployment has existed in the iron and steel producing sections, and output has proceeded at a low level, though showing some recovery towards the end of the year.

Engineering has become somewhat more active, mainly under the influence of valuable overseas orders for machinery, locomotives and aircraft. The motor industry has maintained a fairly high degree of activity. The electrical trades, on the other hand, were not so well situated at the end of

1928 as a year earlier, though the prospects were greatly improved by the placing of orders in connection with regional electricity schemes. Shipbuilding, thanks to a strengthening in freights in the latter part of the year and to new contracts for a number of passenger vessels, recorded some recovery, and the black prospects of six months ago, when the work carried over from 1926 was almost all at the point of completion, have brightened considerably. Even so, unemployment in this industry remains at a very high level.

Conditions in the basic industries of iron and steel have become so difficult that a request has been made to the Prime Minister for an official inquiry into the situation, with a view to finding some means of relief from the prolonged depression. Although no definite reply has been made, it seems unlikely that the request will be conceded, since the Balfour Committee on Industry and Trade, appointed in 1924, has now completed its work and the results are expected to be published shortly. Meanwhile, internal reorganization of the industry is proceeding, and the tendency towards large-scale amalgamations is still strongly in evidence.

The record of the textile industries, taken together, is by no means satisfactory. Towards the end of the year a slight change for the better became apparent in the cotton industry, though the year as a whole has revealed little if any progress towards the regaining of overseas markets for cotton goods. The better relations with China and conditions in that country, however, have already borne some fruit, which may be expected to become more abundant as time goes on. Meanwhile, steps have been taken towards placing the industry on a more solid structural basis and towards surmounting the financial difficulties resulting largely from heavy over-capitalization during the post-war boom period. Plans for mill amalgamations and combination for purposes of export business have been materially advanced during the year. The wool industry, while not so deeply involved in structural difficulties as the cotton industry, has had by no means a successful year. Foreign competition has become particularly keen and has led to the application for a safeguarding duty on imports, the matter being now under consideration by a committee appointed

under the terms of the Safeguarding of Industries Act. By contrast with conditions in the two older textile industries and the depression in the linen trade, artificial silk has again enjoyed marked activity. Exports showed a substantial increase, but the year has been characterized by keen competition in prices, which have been materially reduced.

Turning to agriculture, the results of the 1928 season must be looked upon with mixed feelings. Generally speaking, the quality of the crops was good and the quantity satisfactory. On the other hand, the large yields in other countries brought about a further fall in prices, and the weather conditions, which were favorable to arable farming, were unfavorable to the pastoral side of the industry. During the year, both parts of the Government scheme designed to improve the credit facilities available to farmers were brought into operation. The second part of the Agricultural Credits Act, which instituted a system of agricultural charges on the principle of the American chattel mortgage, came into operation on October 1 and has since been utilized to some extent. The first part of the Act provided for the establishment of an Agricultural Mortgage Corporation for the provision of long-term credit facilities. This institution opened for business in January, 1929.

In view of the conditions already described, it is not surprising to find that the railways have suffered a heavy reduction in their receipts from carriage of goods, and that the position of the leading companies has been regarded with grave anxiety, relieved to some extent by a measure of recovery in the closing weeks of the year. The railways have now been accorded power to engage in road transport, and already steps have been taken to establish combined ownership or operation of railway and omnibus services.

Improved Conditions

From this brief survey of conditions in the different principal industries it will be seen that the story of the year 1928, judged by the immediate results, is by no means bright. It would be a mistake, however, to suppose that the record is one of unrelieved gloom. Beneath the surface, a great deal has been accomplished towards more efficient economic

organization and operation, and the structure and atmosphere of British industry have doubtless been rendered stronger and more healthy. Furthermore, the standard of living among those actually at work, particularly in some branches of employment, is in all probability higher than before the war; the total volume of trade continues to be enormous; the national revenue returns suggest that British economic resources are still of pre-eminent quality and abundance; and Great Britain remains, proportionately at any rate, the world's largest exporter of manufactured goods. It is necessary to restate these facts in order to ensure a proper balance in formulating a judgment as to this country's economic position in comparison with other parts of the world.

Last year's figures of overseas trade show a distinct improvement over those of 1927, so far as the balance of payments is concerned. Imports were £21 million lower, British exports £14 million higher, and re-exports £3 million lower; the net surplus of imports was £353 million as compared with £386 million in 1927. Comparing last year's figures with those for 1924, after allowing for the changes in values between the two periods, the record is not so gratifying, for according to these figures, imports have risen by 5.7% and British exports by only 4.6%, while re-exports have fallen by 12.0%. These figures illustrate again the disappointing character of business conditions last year; for while 1924 represented, in point of general trade activity, probably the best year experienced since the post-war slump, it can not be said that even that year was prosperous, judged by the old standards. Statistics of some of the principal groups of exports in the last two years are shown in the following table:

VALUES OF PRINCIPAL BRITISH EXPORTS

(In millions of pounds sterling)

	1927	1928
Coal	45.5	39.1
Iron and steel and manufactures	69.4	66.8
Machinery	49.9	53.7
Vehicles	35.4	47.0
Cotton yarns and manufactures	148.8	145.3
Woolen and worsted yarns and manufactures	56.8	56.9
Manufactures of other textile material (excluding silk)	27.1	29.5
Apparel	25.8	26.2
Chemicals, drugs, dyes and colors	23.4	25.4

The Government is pressing forward with its scheme of poor law and local rating reform, the plans being designed, to a large extent, to provide relief for industry and agriculture from the burden of local, as opposed to national, taxation. The intention is to complete the legislative steps in the scheme before the dissolution of the present Parliament, which in itself can not but inject a disturbing element into the conditions of trade during the current year.

The Monetary Situation

During 1928 the final step was taken away from the monetary expedients imposed by war-time exigencies. In accordance with the Currency and Bank Notes Act, which passed through Parliament in the early summer, the currency note issue was taken over by the Bank of England on November 22. The net combined fiduciary issue of currency and Bank of England notes immediately prior to the amalgamation was £249 million; and as the Act fixed the initial fiduciary issue at £260 million, the effect was to add £11 million to the reserve in the Banking Department. In comparing pre-amalgamation and post-amalgamation reserve figures, therefore, care must be taken to give due regard to this and other relevant facts. It is interesting to notice, however, that the present reserve in the Banking Department, following the recent outflow of gold, would have been considerably smaller but for this entirely gratuitous augmentation. The final consolidation of the note issues, which has been a consistent aim of official monetary policy ever since the interim report of the Cunliffe Committee was issued in 1918, leaves outstanding two principal differences between the pre-war and post-war monetary machines. The first is that gold coins, which circulated freely before the war, no longer pass from hand to hand, the active currency consisting entirely of paper and token coin. The second, and closely related, difference is that the Bank of England is no longer required to redeem its notes in gold coin, this obligation having been supplanted by the less rigorous, but equally effective, requirement that the Bank shall sell gold on demand in 400-ounce bars at a fixed price. Neither of these

two features of the present system seem likely to undergo modification in anything like the near future.

The first weekly Bank of England return issued to the public subsequent to the amalgamation of note issues revealed an important departure from previous practice. The statutory return was found to have undergone modification only slightly more extensive than was absolutely necessary as a result of taking over the currency note issue, but the statement issued to the public, which previously had been an exact copy of the statutory return, has since provided useful additional information. In the return of the Banking Department, the total of British home bank balances, hitherto undisclosed, is now shown separately as a part of "Other deposits," while "Other securities" are divided into "Discounts and advances" and "Securities." These items, as the records increase in length and as experience is gained in their utilization, will add materially to the value of the statement for both short and long-term purposes. For this reason, if for no other, the amalgamation of note issues may be regarded as a landmark in British monetary history. To many people, however, it stands as a token of neglected opportunity.

The year has been one of marked changes in the monetary outlook and relative steadiness of money rates. The gold stock at the Bank of England has varied widely. On January 4, the gold in the Issue Department stood at £151½ million. Imports from the United States and elsewhere, as well as the acquisition of a large share of the South African supplies, raised the figure steadily until £173 million was reached on July 18. After a period of relative stability until the middle of September, however, a heavy outflow took place, bringing the figure down to £153¾ million on December 26. Part of the outflow was due to weakness of sterling in terms of dollars, a usual feature of the exchange situation at that time of year, and a condition rendered stronger by the higher money rates ruling in New York. The greater part of the outflow, however, was due to the strength of the reichsmark, resulting from large-scale short-term borrowing by Germany in London and Paris. This again was the outcome mainly of the higher costs of borrowing in New York. Taking these

facts together, the outflow could not be regarded as entirely or even mainly due to inherent depreciation of sterling, and in this respect it would appear to have differed in nature from the preceding inflow. The operations in gold at the Bank of England during the year were on an unusually large scale. According to the Bank's daily bulletins, a total of £37 million was sold outright or set aside, while £35½ million were acquired by purchase or release from earmarking. These figures compared with £20½ million and £19½ million, respectively, in 1927 and with £17¾ million and £24 million in 1926. The slight increases in the gold stock during both 1927 and 1928 were mainly attributable to receipts from internal sources, presumably the inflow of small amounts of gold coin collected from the public by the banks.

The Bank of England has consistently pursued the policy of neutralizing the heavy gold movements of the year just closed. During the inflow it reduced its holding of securities; during the outflow it increased its earning assets. The result was to maintain the basis for credit at an even level, while at the same time the Bank rate was kept at 4½%, and money rates generally, partly by virtue of "pegging" arrangements, remained steady. Meanwhile, however, the volume of bank credit increased, purely as a result of deliberate reduction in the ratio of the cash holdings of the banks to their deposits. In December, 1927, the ratio for the ten London clearing banks was 11.6%; a year later it was 11.2%. Over the same period the deposits rose from £1,789 million to £1,843 million.

Rather paradoxically, at first sight, the expansion of credit was accompanied neither by a commensurate growth in the volume of trade nor by a rise in prices. Trade was little, if any, larger in volume, and prices fell. Probably a large part of the newly created bank credit represented no addition to the volume of money actively circulating, but fell into the category of idle money, as represented by time deposits. Probably, moreover, a larger proportion of active money was used in purely financial operations last year than in 1927. The stock market was characterized by great activity, though nothing approaching the boom conditions in New York was recorded. New issues were extraordinarily

heavy. The importance of this factor is confirmed by the annual statistics of bank clearings. The total of checks, bills, etc., paid in at the London Clearing House was 6.3% larger than in 1927. The "country clearing" at the London Clearing House, however, was only 2.2% larger, while the turnover at eleven provincial clearing houses actually declined by 2.1%. The increase in the gross total must therefore have been due almost certainly to financial activity.

Further evidence on this point is to be found in the detailed figures of new capital issues. The total amount of new money raised in the capital market in 1928 was £362½ million, as compared with £314¾ million in 1927 and a much lower figure in earlier years. Issues for overseas purposes amounted to £143½ million, only £5 million more than in 1927, so that the increase was concentrated on the home section. Taking home and overseas issues together, the amount raised by financial, land, investment and trust companies was £22½ million higher at £68¾ million, while miscellaneous commercial and industrial companies took £114¾ million, as compared with £60¾ million in 1927. A large part of the amount was raised for purposes of amalgamation or reflotation of existing businesses, and could not be regarded as contributing substantially to the sum total of the country's capital assets, while a further considerable portion was for highly speculative enterprises. Consequently, the figures may be regarded as a reflection of financial activity rather than of strenuous saving and industrial re-equipment.

The accompanying tables containing statistics relating to production, trade, banking and finance are designed to give fuller information on some of the points mentioned in this survey.

Statistics Relating to Production, Foreign Trade and Employment

Period	Index of Production[1] (1924 = 100)		Coal Output (million tons)		Pig-Iron				Steel Production (thousand tons)		Ship Building Tonnage Begun (thousand tons)		Net Imports (£ millions)		British Exports (£ millions)		Percentage of Insured Persons Unemployed	
					Production (thousand tons)		Furnaces in Blast											
	1927	1928	1927	1928	1927	1928	1927	1928	1927	1928	1927	1928	1927	1928	1927	1928	1927	1928
January	..	..	21.5	21.5	435	561	152	148	731	626	..	..	103.7	90.1	55.4	59.7	12.0	10.7
February	..	..	21.0	20.7	571	551	166	148	827	764	..	..	83.1	87.2	52.9	57.2	10.9	10.4
March	..	..	23.5	22.1	672	593	178	150	949	793	..	..	102.7	99.2	62.1	65.0	9.8	9.5
1st Quarter	**109.0**	**103.8**	**66.0**	**64.3**	**1,678**	**1,705**	..	..	**2,507**	**2,183**	**580**	**342**	**289.5**	**276.5**	**170.4**	**181.9**	..	..
April	..	..	20.1	18.2	680	563	189	149	850	644	..	..	88.8	85.8	52.6	55.3	9.4	9.5
May	..	..	21.8	19.7	720	592	184	148	885	753	..	..	84.0	87.6	63.3	58.6	8.7	9.8
June	..	..	19.7	19.0	651	564	176	141	747	709	..	..	88.7	87.9	56.0	59.5	8.8	10.7
2nd Quarter	**106.6**	**101.5**	**61.6**	**56.9**	**2,051**	**1,719**	..	..	**2,482**	**2,106**	**437**	**279**	**261.5**	**261.3**	**171.9**	**173.4**	..	..
July	..	..	19.9	18.1	646	538	174	131	687	667	..	..	83.7	87.0	56.1	60.9	9.2	11.6
August	..	..	20.1	18.4	596	519	165	130	643	648	..	..	81.3	88.9	59.4	62.2	9.3	11.6
September	..	..	21.0	18.8	592	504	160	131	777	719	..	..	93.4	80.8	60.6	56.6	9.3	11.4
3rd Quarter	**104.6**	**93.3**	**61.0**	**55.3**	**1,834**	**1,561**	..	..	**2,107**	**2,034**	**370**	**245**	**258.4**	**256.7**	**176.1**	**179.7**	..	..
October	..	..	20.7	21.1	596	544	162	136	699	756	..	..	95.6	93.8	61.2	64.3	9.5	11.8
November	..	..	21.1	20.7	576	544	155	135	699	762	..	..	96.8	96.0	70.6	63.8	9.9	12.2
December	..	..	20.8	19.5	559	540	149	132	605	683	..	..	95.1	92.4	58.8	60.4	9.8	11.2
4th Quarter	**106.3**	**102.8**	**62.6**	**61.3**	**1,731**	**1,628**	..	..	**2,003**	**2,201**	**377**	**432**	**287.6**	**282.2**	**190.6**	**188.5**	..	..

[1] London and Cambridge Economic Service.

(Averages of Weekly Figures. £ Millions)

Month	Bank of England								Notes in Circulation		Ten London Clearing Banks[2]							
	Gold Holdings[1]		Deposits		Securities		Reserve				Deposits		Cash		Percentage Cash to Deposits		Advances	
	1927	1928	1927	1928	1927	1928	1927	1928	1927	1928	1927	1928	1927	1928	1927	1928	1927	1928
January	151.4	154.8	129.9	128.9	114.9	108.3	33.2	38.7	365.7	371.5	1755	1784	201	201	11.5	11.3	923	937
February	150.4	157.3	118.5	111.4	103.5	87.5	33.2	42.1	363.1	365.0	1714	1734	196	192	11.4	11.1	928	933
March	150.6	157.9	122.5	113.1	107.6	88.6	33.2	42.8	365.4	357.3	1694	1709	193	190	11.4	11.1	936	945
April	153.1	158.5	119.9	116.4	102.3	91.2	35.3	42.9	376.8	373.2	1704	1728	197	191	11.5	11.1	938	950
May	153.9	161.9	113.8	113.8	94.2	85.2	37.4	46.3	373.8	371.7	1712	1725	196	192	11.5	11.1	939	952
June	152.2	169.0	120.1	123.0	102.9	87.6	35.0	53.3	378.1	374.1	1746	1768	204	197	11.7	11.2	941	946
July	151.4	174.9	115.5	127.3	100.2	87.0	33.4	58.3	378.3	376.2	1742	1786	198	197	11.4	11.0	945	949
August	151.9	174.6	115.9	115.6	99.7	75.4	34.4	58.3	377.4	375.6	1729	1768	196	195	11.3	11.1	944	948
September	151.1	175.6	118.4	117.5	102.1	75.0	34.6	60.8	374.2	372.8	1728	1769	197	197	11.4	11.1	945	946
October	151.3	166.9	121.9	113.1	104.6	78.3	34.9	52.6	373.9	370.1	1770	1790	200	196	11.3	10.9	943	955
November	151.2	162.3	115.9	116.9	98.7	84.3	35.0	49.6[3]	373.4	366.3	1754	1789	196	197	11.2	11.0	941	958
December	150.6	156.3	121.9	115.7	107.4	96.9	32.5	36.7[3]	379.5	379.7	1789	1843	207	207	11.6	11.2	409	961

[1] The figures include a small amount of silver coin in the Banking Department.

[2] The 1927 figures are adjusted to allow for amalgamations.

[3] The figure for November, 1928, is the average of the first three weeks. The amalgamation of the currency and Bank of England note issues on November 22, 1928, rendered subsequent reserve figures incomparable with those preceding.

Other Financial Statistics

Month	Bank Clearings (£ millions)				Daily Average Postal Receipts (£ thousands)		New Capital (£ millions)				Average Percentage Rates for 3-months' Treasury Bills		Wholesale Prices[1] (1913 = 100)		Cost of Living[2] (July, 1914 = 100)		Exchange, London on New York[3] ($ to £1)	
	London		Provincial				Home Purposes		Overseas Purposes									
	1927	1928	1927	1928	1927	1928	1927	1928	1927	1928	1927	1928	1927	1928	1927	1928	1927	1928
January	3,680.5	3,933.7	145.9	152.1	119.4	126.7	10.3	14.2	16.0	19.6	4 1/32	4 1/8	143.6	141.1	175	168	4.8528	4.8758
February	3,166.3	3,413.2	134.1	142.5	116.3	122.4	15.4	22.6	6.5	5.2	4 5/16	4 3/16	142.6	140.3	172	166	4.8505	4.8753
March	3,583.3	3,745.5	153.2	153.6	122.4	128.0	27.7	18.7	7.0	23.0	4 11/32	4 1/16	140.6	140.8	171	164	4.8544	4.8802
April	3,440.6	3,677.5	132.2	136.9	121.9	126.3	13.1	10.6	9.1	8.0	4 1/32	4	139.8	142.9	165	164	4.8570	4.8822
May	3,751.2	3,914.4	145.3	145.0	123.8	123.7	23.9	25.8	10.6	13.5	3 27/32	3 31/32	141.1	143.6	164	164	4.8571	4.8819
June	3,318.4	3,703.8	131.6	131.8	120.3	124.6	12.4	25.4	7.6	16.0	4 11/32	3 25/32	141.8	142.6	163	165	4.8565	4.8804
July	3,410.7	3,715.3	146.3	143.1	122.8	126.4	16.3	24.1	18.6	17.7	4 5/16	3 31/32	141.1	141.1	166	165	4.8553	4.8635
August	3,245.2	3,520.7	139.3	126.2	117.3	121.5	2.1	5.5	0.1	1.0	4 11/32	4 1/4	140.9	139.3	164	165	4.8608	4.8536
September	3,193.9	3,319.0	133.3	121.9	124.9	128.4	3.2	7.6	1.9	10.7	4 3/8	4 3/16	142.1	137.6	165	165	4.8638	4.8508
October	3,686.9	3,961.0	156.3	145.7	129.2	138.9	14.8	29.7	23.0	10.9	4 11/32	4 3/8	141.1	137.9	167	166	4.8701	4.8497
November	3,482.6	3,734.4	148.7	135.1	128.8	135.2	23.2	17.0	25.6	11.0	4 11/32	4 3/8	141.1	137.9	169	167	4.8744	4.8496
December	3,590.8	3,566.2	143.7	139.5	159.0	164.9	13.6	18.0	12.7	6.7	4 5/16	4 3/8	140.4	138.3	169	168	4.8829	4.8527

GERMAN ECONOMIC CONDITIONS IN THE SECOND HALF OF 1928[1]

Report of Mr. Franz von Mendelssohn, of Mendelssohn and Company, Bankers, Berlin

THE year 1927 was one of great economic activity in Germany. Although certain characteristics which are usually associated with such a condition were lacking, and although profits in general could not be called satisfactory except in a few special industries (which led to the coinage of the word "Mengenkonjunktur"),[2] still a strong revival in the production of goods and of sales could be clearly distinguished. This relatively favorable activity continued during the first few months of the year 1928. However, during the first half of the year signs of a considerable decline in activity became manifest. This decline did not show itself uniformly in all industries, since a strong tenaciousness made itself felt. The effect of the decline in activity, it seems, was first felt by producers goods, and later by consumers' goods, which were at first only slightly affected by changes in purchasing power.

The decline in economic activity continued in the second half year of the year. At this time, also, a crisis was avoided, so that in general an organic adjustment of economic affairs to the decreased business possibilities was possible. The decline, however, was clearly visible; signs of a new increase in activity which seemed evident in the fall were chiefly seasonal and did not alter the underlying trend. This may be seen in the index of production computed by the Institut für Konjunkturforschung. The index number declined from 129.2 in February to 118.8 in June, and continued to decline from 117.5 in July to 115.2 in December. In January, 92.3% of the total number of workers gainfully occupied, were employed, as compared with 91.0% in June; 90.4% in July and

[1] Translated by the National Industrial Conference Board.

[2] Great economic activity in terms of quantities.

87.2% in December. These figures do not include seasonal workers. The number of freight cars on the Federal Railways fell between July and December from 150,700 to 141,800 per working day. The seriousness of this phenomenon is shown particularly in the fact that the low point was not reached in December, but that economic activity continued to decline in the beginning of the new year.

Unemployment

Simultaneously with the decline in economic activity in the past year there was also a considerable and untimely increase in unemployment. While in 1927 the low point in unemployment was not reached until late in October, in 1928 it occurred in July. From August 1 until November 1, 1927, the number of chief recipients of unemployment relief and "crisis" relief fell from 620,000 to 450,000, and then increased to 1,400,000 on December 31. In 1928 the number of chief recipients on August 1 was 647,000, i. e. 27,000 higher than in the preceding year. It rose further to 764,000 on November 1 and to 2,185,000 at the end of December. Such an increase in unemployment can not be explained by seasonal causes, but without doubt indicates that full utilization of the national labor supply was not possible because of the weakened economic system. The increase in unemployment has been attributed, particularly by foreign commentators, to an annual addition of 400,000 persons to the German labor market. Although this figure is correct for the past year, the development of a nation's economic system can not be considered sound if it does not offer employment and earning opportunities to labor originating from the normal growth of population, as Germany did before the war, and thus forces a large part of the working population to become a charge on public charity. Moreover, in Germany, more so than in other countries, labor is the principal factor in the economic system. If Germany is to recover her true position in world economic life, all its available labor supply must be utilized in the work of reconstruction. The lack of opportunity for employment is due to the lack of capital and heavy costs imposed upon German industry.

If it were possible to lower production costs to the level of production costs in other countries, through improvement in production equipment, through lowering interest rates and taxes, it might be possible to effect larger sales in the domestic market and also in foreign markets if tariff duties were reduced in numerous important countries to which Germany exports. This would lead to increased production and consequently to employment of the present unemployed.

The decline in economic activity may also be noted in the growth of failures and receiverships. The number of failures in 1928 was 7,984, as compared with 5,668 in the preceding year; the number of receiverships 3,187, as compared with 1,418. Protested notes showed a corresponding increase. Between July and December, 1928, the monthly average rose from 275 to 296 per working day, the corresponding sum from 337,000 reichsmarks to 403,000 reichsmarks, as compared with 308,000 reichsmarks in December of the preceding year.

Industrial Activity

A brief review of the important individual industries confirms the impression of strongly declining economic activity. This is true first of all in the anthracite coal industry, the most important raw material left to Germany. Although German production of anthracite, despite the great difficulties encountered because of international competition, particularly the newly resumed competition with British coal, remained at a high level during the first half year of the year and reached a figure which was nearly as high as that of the preceding year, even in the first half of the year production declined from 13.4 million tons in January to 11.8 million tons in June. In the second half of the year production was considerably lower than in the corresponding period of 1927, 74 million tons and 77 million tons respectively. At the same time stocks in the Ruhr district rose from 2.4 million tons in July to 3.4 million tons in November, while during the corresponding period of the preceding year they declined from 1.8 million tons to 1.6 million tons.

On the whole, the position of the German anthracite industry must be considered difficult. The English com-

petitors have been in a position to lower their prices because of government subsidies and wage reductions. No matter how desirable it might be for the German mining industry to follow England in the reduction of prices, the possibility of accomplishing this is strictly limited. The German miner has been able to increase his share of the proceeds of the mining industry, and although excessive wage increases, which are not warranted by the condition of the industry, may be economically questionable and detrimental to the business as well as to the workers, yet, in Germany as well as in America the efficiency of the worker depends on the maintenance of a certain standard of living. A decline in this standard would deprive the workers of the necessities of life which would not only affect the German economic system but would also decrease the effective demand for numerous foreign goods. Moreover, wages are not the only burden on production costs. Taxes and freight rates are so high that anthracite can be exported only at a loss. Yet, Germany cannot cease to export coal, for if exports were curtailed, thousands of workers would have to be dismissed and the trade balance would become even more unfavorable. Although technical rationalization has made great strides in anthracite mining, yet the savings made have been more than offset by increased costs in other fields. The penetration of Dutch and English coal far into Germany, into districts which ought to be reserved for German coal, is due to the high charges placed upon German industry. Since conditions on the European coal market are becoming more and more difficult and since the profit margin for the producers is very narrow, an agreement among the European producing countries appears to be the need of the hour. The basis for such an understanding would have to be an agreement between Germany and England. Nothing towards this end was done in the second half of 1928. The suggestion of the League of Nations, however, to undertake an investigation into the possibility of international cooperation in the coal industry has met with lively interest and a willingness to cooperate in Germany as well as in the other coal producing countries.

Still less favorable than the coal mining industry has been

the development of the other branch of German raw material production, the iron and steel industry. This industry has been particularly affected by the general decline in economic activity. In this case the decline in production has been caused particularly by a slackening of the domestic market. The curtailment of building activity and of orders from the Federal Railways and the lack of orders for shipping construction have contributed toward this decline. Decreased domestic consumption, however, was partially offset by increased exports in consequence of the higher consumption capacity of the world market. Together with a decline in the imports of iron there resulted an increase in the export surplus as one of the most important favorable items in the trade balance. The export possibilities would have been even greater if their full exploitation had not been prevented by obstacles on the international markets and if production had not been curtailed by the dispute in the north-western section of the iron and steel industry. Even after the termination of this dispute, certain obstacles remained as a result of Germany's international obligations. It is to be hoped that just German wishes as regards the quota will be taken into consideration when an extension of the International Steel Ingot Cartel is made in the Spring of 1929, so that Germany may enjoy more fully the advantages of this organization, which would contribute considerably to an economic settlement of the reparations obligations.

German crude iron production reached its peak in January, 1928, with 1.18 million tons and fell to 1.02 million tons in June. The production of crude iron in the first half of the year which amounted to nearly 6.6 million tons was higher than in the corresponding period of 1927 when it amounted to nearly 6.4 million tons. The output of 5.2 million tons in the second half of 1928 was not only lower than in the first half of the year 1928, but was also 1.5 million tons lower than in the second half of 1927. In the production of raw steel a similar situation was found. It declined from its peak of 1.5 million tons in January to 1.3 million tons in June. In the first half of the year production was lower than in the corresponding period of the preceding year. In the second half of the year production declined still further to

6.6 million tons, as compared with 7.9 million tons in the first half of 1928 and 8.4 million tons in the second half of 1927. The output of rolling-mill products declined steadily since August, 1927. The production was 6.3 million tons in the first half of 1928, as compared with 5.3 million tons in the second half of the year. Although production in the German iron and steel industry, within the present boundaries, in the year 1928 was higher than that of 1913, the fact must be taken into consideration that in consequence of increased population the per capita production of the prewar period has not yet been attained.

In the finishing industries likewise a considerable slackening in activity has been noted in the period under consideration. This is particularly true in the case of the machine industry, in which the domestic orders declined from month to month. Employment which until the middle of the year amounted to about 75% of capacity, declined in the last months of the year to 70%. This was partly offset by orders from foreign countries.

In the electrical industry business on the whole remained favorable, yet increasing uncertainty became manifest, and the general decline in economic activity made itself felt in a decline of orders. In the chemical industry, too, business on the whole remained satisfactory, and yet employment in the separate branches of the industry diminished. In the automobile industry demand and sales declined.

As far as the three industries mentioned above are concerned, it should be noted that market conditions throughout the world are in general particularly favorable to their products. That these special industries have to contend with lesser difficulties than the older staple industries is one of the signs of the industrial development of modern times. For this reason the development of the electrical, automobile, and chemical industries does not offer a correct picture of German economic conditions. The German textile industry offers a much better criterion. In the cotton as well as the wool industry the situation was extraordinarily unfavorable and sales very small. In the cotton spinning and weaving industries employment was dull, interrupted only by isolated seasonal increases in orders. Financial returns will be much

smaller than in the preceding year, and with few exceptions the companies had to operate on short-time during a part of the year and in many cases permanently. Foreign competition, too, made itself felt. Because of lower wages and taxes, foreign production costs are lower, and, therefore, foreign competitors are in a position to underbid German goods. Activity in the linen industry was very low during the entire year, partly due to the difficulties of securing raw materials. The situation in the spinning mills has also been unfavorably affected by keen foreign competition. Only in the manufacture of rayon were more favorable results noted. Aside of the fact that it is one of the newer industries, favored by general development, a certain saturation of the domestic market was noticeable which led to an increase in stocks. In this case, too, the struggle against keen foreign competition became more and more difficult.

The amount of orders in the metal industry was lower than in the preceding year in spite of a seasonal improvement in the autumn. The continuous price increases in the copper market, determined by the price policy of the International Copper Cartel, were particularly troublesome. If this price policy continues, it must eventually lead to a substitution of copper by other metals wherever possible. In the long run, therefore, it is not in the interest of the copper producers to increase continually the price of this important raw material, the production of which brings fair profits even if the prices are low.

The satisfactory activity in the paper industry which was noticeable in the summer was followed by unsatisfactory conditions in the domestic market.

Building activity in the year 1928 was behind that of the preceding year. Yet, an improvement was noticeable in the second half of the year, as compared with the first half. The housing problem, however, remains one of the most difficult questions. Its solution is hampered by the lack of capital necessary for housing construction.

The Position of Agriculture

The harvest in the past year was favorable. The total production of flour grains was 22. 4% higher than in the pre-

ceding year. The quality of crops in 1928 was also better than in the preceding year. The grain harvest of 1928 was the best of the last ten years. The yield of forage crops has shown a noticeable improvement, particularly as regards barley and oats. The potato crop, too, was better than in the preceding year. Yet, because of the fact that grain crops have been satisfactory in practically the entire world, there has been an increased supply and in consequence a decline in prices, which means that financially the farmers will not receive the full benefit of larger crops. Thus, the price of Brandenburg (märkischen) rye has declined from 241 reichsmarks in the first quarter to 205 reichsmarks in the fourth quarter; Brandenburg wheat from 236 reichsmarks to 210 reichsmarks per ton. Therefore, profits in German agriculture, which on the average have become smaller and smaller during the past years, are still unsatisfactory, and the burden of farm indebtedness, incurred as a result of poor harvests and low prices in world markets, has not been lightened.

The agricultural indebtedness is estimated at 10,000,000,000 reichsmarks and constitutes one of the most difficult aspects of the great problem of scarcity of capital in Germany. While some of the particularly favored industries are in a position to operate at a profit with interest rates ranging from eight to ten per cent, this does not apply to the agriculture of an old civilized country which, unlike the younger colonial countries, can not cultivate extensively but is obliged to invest relatively large amounts of capital in order to utilize rationally the limited area available for cultivation. Through emergency measures the Central Government and the state governments have attempted to alleviate this most difficult credit situation. Yet, these can be only partial measures. The basic recovery of German agriculture will be possible only when the capital supply of the entire economic system becomes more plentiful and, therefore, cheaper. In agricultural circles, serious efforts are being made to bring about an increase in profits through cooperation and rational marketing and through standardization of the products. Large capital investments, however, are required in order effectively to carry through such measures

the results of which can be realized only over a period of time.

Prices

The movement of prices, which as a result of great economic activity in the first half of the year in general tended upward, showed a downward tendency in the second half of the year. The index of wholesale prices which had risen from 138.7 in January to 141.3 in June, declined to 139.9 in December. The decline in the index of agricultural products from 136.6 to 134.1 is to be attributed to the conditions on the agricultural markets already mentioned. The decline in the index of industrial raw materials and semi-manufactured products from 135.1 to 134.1 corresponds to the movement on the world market. The price level of industrial finished products, however, remained practically unchanged at the high point of 159.5 in December. This shows that the influence of general business conditions on the price movement has been extraordinarily limited. The fact that the index of industrial finished products, on which Germany primarily depends, stands at the highest point among the various commodity groups, is very deplorable from the point of view of national economy, and particularly in view of the necessity for increasing German exports. About three-quarters of German exports consist of industrial finished products.

The impossibility of lowering prices of German industrial products is due likewise to the great charges on German industry. Because of the present price level, many factories are working only for the sake of keeping their workers employed. Losses are not uncommon. In other cases profits were "squeezed" out or were made at the expense of necessary depreciation costs. During the fiscal year, July 1, 1927, to June 30, 1928, which was one of great economic activity, official German statistics show that balances of 1925 industrial corporations with 13.8 billion reichsmarks nominal capital revealed an average net profit of 6.9% on the capital, and an average dividend of 6.9% on the capital entitled to dividends. This rate is below the average return on invested

capital at fixed interest and non-risk bearing, which is generally over 8%.

Foreign Trade

Although the tremendous charges and consequently the impossibility of more favorable prices prevented the German export industry from finding a satisfactory substitute in foreign markets for the declining opportunities in Germany, yet the increase in German exports which has been noticeable in the last few years progressed further in the second half of 1928. Exports amounted to 6,111 million reichsmarks in the second half of 1928, as compared with 5,475 million reichsmarks in the second half of 1927, and 5,530 million reichsmarks in the first half of 1928. Fortunately, the increase in exports was due particularly to increases in the exports of finished products, which in the second half of 1928 amounted to 4,375 million reichsmarks, as compared with 4,127 million reichsmarks in the first half of the year. At the same time, in consequence of the decline in German purchasing power, imports fell from 7,387 million reichsmarks in the second half of the year 1927 and 7,201 million reichsmarks in the first half of 1928, to 6,790 million reichsmarks in the second half of 1928. The unfavorable trade balance, therefore, declined from 1,912 million reichsmarks in the second half of 1927 and 1,671 million reichsmarks in the first half of 1928 to 679 million reichsmarks in the second half of 1928.

During the first nine months of 1928 the value of German imports from the United States was 1,474 million reichsmarks and that of exports to the United States only 614 million reichsmarks. America's trade balance with Germany during these nine months, therefore, was a favorable one to the amount of 860 million reichsmarks or over $200,000,000. Of the American exports, 402 million reichsmarks were foodstuffs; 399 million reichsmarks, raw textile materials and yarns; 220 million reichsmarks, ore and metals; 39 million reichsmarks, wood; and 99 million reichsmarks, mineral oils. In addition to these raw materials and foodstuffs, the imports of American industrial finished products into Ger-

many also played a considerable rôle, amounting to 228 million reichsmarks in the year 1927.

The fact that in spite of declining business activity and in spite of all efforts made by German industry to secure foreign orders even at a loss, and, furthermore, in spite of an exceptionally favorable harvest which made possible decreased imports of agricultural products, it was impossible to obtain a favorable trade balance, shows the great difficulty which Germany encountered on the world market. These difficulties are of a twofold nature. Scarcity of capital in Germany increases interest rates almost twofold as compared with the countries with which Germany is competing. The production costs in Germany, therefore, which are already charged with high taxes, are further increased and this cannot fail to have its effect on the competitive ability of German exporting industries. Moreover, the scarcity of capital prevents Germany from offering payment conditions as favorable as those which foreign countries where capital is not so scarce can offer. Efforts to aid the difficult financing of foreign orders through export credit insurance and other relief measures are to be welcomed in principle, but they can be only partially successful. In addition to these difficulties which are due to the scarcity of capital and high production costs, there are the protective measures of foreign countries which are barricading themselves against German goods behind high tariff walls. Nothing has been accomplished in practice as a result of the decisions of the World Economic Conference and the meetings of the International Chamber of Commerce in 1927, despite the fact that the economic representatives of many countries accepted them in principle. Germany has lowered many of its tariff duties and, therefore, has shown that it is willing to proceed towards an elimination of trade barriers. The results of Germany's action in regard to lowering the tariffs were made known officially at the end of 1928. In order to enable Germany to fulfill her obligations, it is absolutely necessary that foreign countries follow Germany in this respect. Particularly those countries which are to receive reparations deliveries from Germany have every reason to do so. Unfortunately, however, these countries in particular have especially high tariff walls. That

Germany can pay its enormous debts only with the products of German labor has been acknowledged even in the creditor countries. It is to be hoped that in due time the conclusions as to the consequences of this principle will be drawn.

Even then, it will be very difficult to transfer by means of an export surplus the tremendous payments which are necessary to supply Germany with raw materials and foodstuffs, to pay for reparations and for amortization and interest of the German foreign debts which already amount to about one billion a year. At present, Germany's exports balance the imports of raw materials necessary for German industry and of foodstuffs required for her population. Only a quarter of the imports of industrial finished products, however, are covered. Since Germany can not do without the importations of raw materials and foodstuffs, it would appear logical, in order to make the trade balance favorable, to decrease the importation of finished products. It must be emphasized that the withdrawal of nearly two billion marks of German purchasing power can not fail to affect the industries of the foreign countries which are interested in exporting to Germany.

Of greater importance to Germany, and more advantageous to other countries, therefore, is the alternative of increasing exports. At any event, an estimate is of interest, according to which (assuming that imports for domestic consumption remain the same, but taking into consideration that increased exports will mean increased imports of raw materials) the total exports from Germany would have to amount to not much below 20 billion reichsmarks in order to cover the entire amount of Germany's obligations and to maintain a favorable trade balance. These are very difficult problems, the solution of which can only be found in intelligent cooperation of creditor and debtor countries.

For the time being, it will be impossible for Germany to secure a favorable balance of payments because of reasons which are sufficiently well known. German payments must be further balanced by foreign loans. The entire capital imports in 1928 amounted to 4.5 billions, practically the same amount as in the preceding year. Of this amount, 1,573 millions were long-term loans. In the first half of the

year, borrowings were about one billion higher than in the second half of the year. In the third quarter they amounted to only 126 millions; in the fourth quarter as a result of the large capital influx in November an amount of 343 millions was reached again. Altogether the amount of foreign capital invested in Germany may be estimated at 14 billions, of which 6.3 billions consist of loans and 7.7 billions of short-term credits. In spite of this tremendous support of the German capital structure on the part of foreign countries—in the last two years the share of the United States in these loans amounted to about 70%—the German capital market remains weak and the domestic capital accumulates very slowly. Again and again it must be emphasized that the weakness of the German capital market is the chief reason for the difficult situation in which the entire German economic system finds itself.

Through the Peace Treaty, Germany has lost important areas which were sources of raw materials and were suitable for agricultural purposes. For these products, it has to depend upon imports. Germany lost from 20 billion to 28 billion reichsmarks through confiscation of property owned abroad. Only the United States maintained the principle of the incontestable right of private property and has returned to German citizens property confiscated during the war. This, however, is only a part of the German foreign property.

Germany has to export yearly a large share of borrowed capital or the capital raised in the country for the purpose of adjusting the trade balance and also for the payments of reparations. For this reason the influence of foreign capital on the development of Germany's national economy can be only a limited one. In spite of this, it must be emphasized that Germany could not have met its obligations without foreign capital. In the future, too, it will be impossible to do so. The statistics of German domestic capital issues in the second half of the year 1928 show that an adequate supply of capital can not be obtained from Germany's own resources. The total yearly issues of German domestic loans amounted to 1,379 millions in 1926; 937 millions in 1927; and 1,038 millions in 1928. It would be a mistake to draw the conclusion that the capacity of the German capital market has in-

creased because of the increase in the year 1928. A large part of the loans floated in Germany were subscribed for by foreign countries. Moreover, it was extraordinarily difficult to find subscribers to these loans, particularly in the second half of the year and the efforts did not always meet with success. The increased interest rates granted in connection with these loans attest to the fact that conditions in the domestic capital market have become worse, as compared with the preceding year. Foreign commentators often point to the increase in savings deposits as a sign of an increase in German capital. As a matter of fact these deposits increased from about 6 billions in July to over 6.7 billions at the end of the year 1928. It must not be overlooked, however, that these amounts originate particularly from the labor classes and the smaller tradesmen—amounts, which if not for the purpose of covering future needs, are to serve as a reserve in case of illness and old age. Before the war these savings amounted to 19 billions; the present amount is, therefore, only about one-third of that before the war. At the same time, it must be taken into consideration that these deposits were only possible because of wage increases which in turn unfavorably affected production costs and the capital supply of industry. Finally, it must be borne in mind that savings deposits can be made available again for industry only to a very limited degree, because of the peculiar German conditions.

For the purpose of further rationalization and for a systematic development of German industry it will be necessary to continue to borrow foreign capital for the reasons mentioned. During the next few years, there will be still further opportunities for foreign capital to make investments which are safe and advantageous to both parties. There must be a clear understanding, however, that the time will come when an end must be put to unlimited amounts of foreign investments in German industry. Aside from the fact that interest charges would increase to an enormous degree and in the end could not be balanced through increased exports, such a situation presents dangers for the national economic system which should not be underestimated because of the international relationship of the capital mar-

kets. When in the late summer of 1928 a keener demand for capital developed on the American market, there was a considerable withdrawal of short-term loans from Germany. These withdrawals might have led to a catastrophe if it had not been possible to obtain a corresponding substitute in England, and particularly in France where the capital market is particularly liquid. A situation might be conceived in which an international tightening of capital becomes a fact, even if actually at the present moment there is no need for considering such a possibility. The only protection against such a danger is an actual strengthening of Germany's domestic capital supply. The well-nigh insurmountable difficulties which have to be overcome in order to accomplish this were shown in the preceding discussion. It can undoubtedly be maintained that the second half of the year 1928 did not bring an improvement in the German capital market.

Financial Conditions

The money market, which in the first half of the year in consequence of the after-effects of the great economic activity was especially tight until the fall, became easier in the third quarter because of the declining economic activity, and a stronger demand at the end of the year may be explained by seasonal circumstances. The interest rates for day money, ranging from 4% to 6%, however, were still considerably above those of other countries, as, for example, London, 3½% to 3¾%; Paris, 3% to 3¼%; Amsterdam, 2¾% to 3%; Brussels, 3⅛%; Zurich, 2½%. Even if the supply of money was relatively plentiful this may be explained by the high interest rates. During the period under consideration, the Reichsbank continued its efforts to expand its influence on the money market in order to bring about a concentration of the available money supply for industry and commerce.

The stock exchange was particularly affected by the general scarcity of capital. If the supply of foreign money led to a strengthening of security prices, the second half of the year brought a stagnation caused partly by the fact that dividends on industrial securities were lower than interest

on bonds. The index of securities which rose from 144.9 in the first quarter to 151.7 in the second quarter remained fairly stable during the second half of the year at about 149. This signifies that, taking into consideration the entire capital supply, the effective valuation of the securities was 50% lower than during the pre-war period. The stagnation on the stock exchange may also be partly explained by the fact that the circles interested did not dare to hope for a recovery of economic conditions in the near future because of the burdens upon German industry and, therefore, refrained from investing in securities to any large degree.

At the end of the year 1928, therefore, grave concern was felt regarding the future of German economy. The first state of restoration is over. Germany did all she could to increase production through rationalization and utilization of all available forces. Marketing and capital supply are the next problems, which, however, can not be solved without the cooperation of foreign countries. It will be impossible to continue the restoration on a sound basis before the amount which Germany will have to pay to foreign countries is finally fixed. A settlement of the reparations problem, which will not put undue strain either on Germany or the world economic system will not be possible until it is acknowledged by foreign countries that German payments must be in conformity with Germany's capacity to pay and that Germany must be given the possibility to transfer these payments to foreign countries without again endangering the German currency. In this respect, it is impossible for Germany to meet the desires of the creditor countries. The task of the Reparations' Conference, in session at the present moment, will be to find a solution which will embody the justifiable demands of both parties. The character of the experts now meeting is a guarantee that they will meet the problem with all seriousness and fully conscious of their responsibility. In the interest of a harmonious relationship between all nations and of an adjustment of the damages which the World War inflicted upon Western civilization and economic system, it is to be hoped that a formula will be found in Paris which, although not taking account of all desires, no matter how much they are justified, will at least take into consideration elementary economic necessities.

THE ECONOMIC AND FINANCIAL SITUATION OF FRANCE DURING THE SECOND HALF OF 1928[1]

Report of Mr. Henri de Peyerimhoff de Fontenelle, President, Comité Central des Houilleres de France, Paris

French Finance

THE law of June 26, 1928, following a long period of *de facto* stabilization, restored convertibility in gold to the French franc on the basis of its *de facto* value and thus legally stabilized it. It was universally expected that an era of prosperity would set in immediately after the legal stabilization.

As a matter of fact, through stabilization important results were achieved in the financial system. The French public as a whole is barely aware of this fact, because these results can scarcely be appreciated except by a comparison with the changes that have occurred in the second half of the year on the foreign markets.

The disadvantage of the *de facto* stabilization was its uncertainty. From a general economic point of view, certain manufacturing circles were apprehensive of a higher revalorization of the franc because it would have made unavoidable a narrowing of production costs, which is always a difficult matter. More serious were the financial consequences of this uncertainty. The ordinary banks naturally refused to take the exchange risk while the value of the franc was not legally fixed. The result was that the Bank of France had to act as intermediary to all offers of foreign exchange bills. Consequently, every transfer, instead of being accomplished by an exchange of a credit existing in a French bank for a foreign credit, was made by means of a new credit issue by the Bank of France. Accordingly, there was present the menace of credit inflation or, at least, of disorders in the money market, a danger which the Bank of France en-

[1]Translated by the National Industrial Conference Board.

deavored to avert in various ways, particularly by supplying the ordinary banks with exchange balances.

At the time of stabilization, these balances, the so-called "reports," amounted to 9,777 million francs that is, in selling exchange at sight and in buying back on time, the Bank of France was able to provide funds to be used in foreign countries and to reabsorb provisionally 9,777 millions of credits in francs.

The first effect of legal stabilization has been to restore the normal interplay of the exchange market. The existence at the Bank of France of a portfolio of time exchange bills has had good results for the French market during the whole second half of the year, which has been characterized by the tightening of interest rates in the United States and in Europe. During this period, when the French market was obliged to discount foreign bills, the Bank of France by making use of the operation of the "reports," that is, by releasing credits in francs, succeeded in maintaining easy money conditions in France, in contrast to conditions in most other countries. Moreover, the Bank of France maintained its control over the exchanges by the same procedure. By fixing the rate of backwardation in such a way as to avoid time operations, the Bank of France thus more or less obliged the banks or business concerns which did not make use of their operations "en report," to repurchase bills either from it or in the open market. It was thus in a position to alter the supply and demand of francs according to the relative abundance of foreign exchange bills in the open market.

On November 30, 1928, the balances of foreign exchange bills amounted to only 1,300 million francs at the Institute of Emission, and this indicates that nearly 8½ billion francs of credits have been put into circulation during the period since stabilization.

This credit has facilitated the functioning of the whole economic structure of France and has assured elastic relations between our banking and monetary system and foreign countries. Another regulatory mechanism reabsorbed the surpluses as they appeared on the market. The current account of the Public Treasury at the Bank during the half-year rose from 5 billion francs to 7,559 million francs, and the

current account of the Autonomous Fund rose from 1,914 million francs to 5 billion francs, that is, 5½ billions of francs were returned to the Bank by these current accounts. In this manner, the balance of supply and demand of credit has always been maintained in the domestic market of France.

Furthermore, the purchases of gold of the Institute of Emission to a large extent made up for the decrease of the total stock of foreign exchange bills. The increase in circulation of nearly four billion francs corresponds to the difference between the issue and reabsorption of credit by the mechanism of foreign exchange balances and public deposits, as well as to the slight increase of the commercial portfolio.

The reestablishment of control by the Bank of France over its credit issue has thus been assured. In consequence, there is almost perfect stability in bank deposits. Looking over the accounts of the four large credit establishments that publish monthly balances (Crédit Lyonnais, Comptoir d'Escompte, Société Générale and Crédit Industriel et Commercial), which undoubtedly represent half of the French banking power, it may be noted that the total of these credit accounts increased from 22.4 billion francs to 32.9 billion francs during the period when the Bank of France acted as intermediary in foreign offers of exchange bills. During the half year from December 31, 1927 to June 30, 1928, the average monthly increase was close to one billion francs. The growth was stopped by the legal stabilization of the franc. On September 30, 1928 the total deposits at the four banks were 32.8 billion francs, perhaps even slightly lower than the total of June 30.

Credit available for economic purposes, both as regards money and the capacity of bank loans, has therefore been exclusively regulated by the operations of the Bank of France and the Treasury. Moreover, the figure of clearings at the Clearing House of the Paris bankers, which fell considerably in 1927 and rose from January to June, 1928, has remained since that date almost stationary in consequence of the standstill at the Bourse.

These have been the immediate results of the legal stabilization of the franc. In summing up, it may be stated that France was saved from the effect of high interest rates such

as were prevalent in other countries and yet no increase in purchasing power caused a rise in prices.

For the future, there remains, without resorting again to the credit of the Bank of France, considerable potential credit for domestic purposes in the credit accounts of the Treasury and the Autonomous fund and in the credit loaned in the form of bills bought by our banks. Furthermore, our prices have remained favorable to an expansion of production. Finally, more suitable fiscal legislation must be provided to restore activity on the investment market. Legal stabilization first of all restored to us financial independence. This is the first step. Other measures are necessary today effectively to reestablish our financial power at the level we occupied before the war.

Prices

The monetary difficulties which disappeared only with *de facto* stabilization in 1927, followed at the end of June, 1928, by legal stabilization, have reacted on French economic life by the effect which they necessarily had on prices. The first problem offered by the return to stabilization was to ascertain how prices in the domestic market would develop under the new régime. The general opinion was that a more or less rapid rise in prices would be the result of the return to fixed exchange. Indeed, it seemed that a similar situation would occur as had happened in the countries with depreciated currencies, namely, that French prices calculated in gold, would show a lower rate of increase than that of wholesale prices in the principal countries that had either remained on or returned to the gold standard.

Wholesale Prices

In January, 1927 (the beginning of *de facto* stabilization), the gold index, calculated on the basis of data furnished by the Statistique Générale de la France (General Statistical Bureau of France), showed an increase of 30%, as compared with French wholesale prices before the war, while similar index numbers (but not exactly comparable) for the same period indicated a 47% increase for the United States, 43%

for Great Britain, 46% for Switzerland, and 36% for Germany.

A study of the movement of wholesale prices in France, particularly during the first and second half of 1928, shows that the increase in domestic prices was not so rapid or so regular as purely theoretical reasoning would have anticipated. Instead of increasing, prices have tended, with slight fluctuations, to decrease during 1927; in 1928 they rose, but without reaching the level prevailing at the beginning of 1927.

Taking the index numbers of prices obtained at the end of each month by the Statistique Générale and averaging them for each quarter, the following figures for the total of the wholesale prices are secured:

Quarter	1927	1928
1st	645	626
2nd	643	640
3rd	625	630
4th	608	634

The general index compiled at the beginning of the month by the Société d'Etudes et d'Informations Economiques, which by a system of weighting attempts to take account of the relative importance in the whole French economic system of the commodities that are priced for purpose of computing the index, reflect the fluctuations and their amplitude:

Quarter	1927	1928
1st	641	565
2nd	637	605
3rd	593	609
4th	558	601

An examination of the separate price tendencies entering into the composition of these total indexes reveals that the fluctuations, which to a certain extent appear to defy predictions, show two distinct phenomena which must be examined separately in order to comprehend the effects of stabilization on French economic life during 1927–1928.

An examination of the constituents of these indexes clearly sets in relief the independent development of agricultural prices and industrial prices in the period of revalorization and later in the period of stabilization of the franc.

Industrial Prices

The movement of industrial prices has been a simple one. After having reached the peak (July, 1926) at the time when the decline of the French exchange reached its maximum and when recovery was favorable under conditions which might still seem precarious, they fell sharply and regularly during the phase of pre-stabilization and initial stabilization (August, 1926–August, 1927); during the second phase (September, 1927–March, 1928) they remained practically stationary with a tendency to decrease further; the second and the third quarters of 1928 witnessed a recovery, at first rather marked, later more hesitant.

The index computed by the Société d'Etudes et d'Informations Economiques shows the following results when the average is determined for each quarter, prices referring to the beginning of the month:

Quarter	1927	1928
1st	629	576
2nd	594	592
3rd	585	592
4th	579	595

In regard to the development of industrial prices, it is evident that of the two opposite tendencies that might have played their part after stabilization, one moving toward an increase in prices and a balance with world prices, the other towards a decline, in consequence of business difficulties, the latter tendency prevailed at the beginning. The shape of the price curve shows that the immediate effect of stabilization has been to bring about a period of depression in business. The depression extended throughout the year 1927 and did not abate until the second quarter of 1928. If the special conditions during the third quarter of the year are taken into account the movement of recovery appears to have continued during that quarter and ought to be confirmed during the course of the third quarter, the general recovery of business and firmness of world prices appearing as conditions favorable to a regular increase in prices.

Agricultural Prices

Agricultural prices three months after *de facto* stabilization showed a tendency to increase, which has been followed

during the second half of 1927 and the first quarter of 1928 by a marked reaction; the latter in turn was superseded by a new rising movement (April–September) which was halted at the beginning of the winter of 1928. On the whole, the average of the index numbers for agricultural products in 1928 as the beginning of the month was slightly below 1927, but at the end of 1928, prices nevertheless tended to be notably above those at the end of 1927. This has naturally caused uneasiness in agricultural circles. The index numbers as compiled by the Société d'Etudes et d'Informations Economiques are as follows:

Quarter	1927	1928
1st	655	554
2nd	686	618
3rd	582	627
4th	538	605

The reasons for these movements are manifold. In the summer and autumn of 1926, agricultural prices had reacted to the effects of inflation by a pronounced rising tendency, favored moreover, by the state of the grain and wine market. In the third quarter of 1926, the average of the prices, as of the beginning of the month, raised the index of agricultural commodities to 669, and in the last quarter to 680. This tendency persisted, as was to be expected, in the first half year of the succeeding year.

A totally different tendency, however, was noted at the beginning of the following half year. It was from then on that the sharp decline of the third and fourth quarters of 1927 took place. The cause for this decline was a good harvest (which, however, may not be considered exceptional either for wheat or for cereals). There were also other causes, most of which are an indirect consequence of stabilization, namely: decreased demand in the domestic market, caused by the depression in industry and the decline in the number of tourists and foreigners; the decreased stimulus to exportation because of exchange conditions less advantageous to the purchaser; an increase in production costs (cost of fertilizer, etc.) in paper francs and in gold francs, which forced the farmers to realize their profits quickly; and finally, a disorganized market for live stock entailing perhaps a certain

over-production, which the reestablishment of freedom of export (June 15–July 27, 1927) only partially remedied.

If, at the beginning, the industrial depression contributed in a certain measure to disorganize the market for agricultural products, inversely the agricultural depression reacted in two ways on the development of the industrial depression of June, 1927 to March, 1928. It undoubtedly aggravated the unfavorable condition of the domestic market, but it also rendered less pressing the question of an adjustment of wages.

Index of retail prices at Paris

Quarter	1927	1928
1st	586	525
2nd	583	545
3rd	542	544
4th	514	582

Index of the cost of living at Paris

Quarter	1927	1928
1st	524	507
2nd	525	519
3rd	525	519
4th	498	..

In 1928, the condition of the French agricultural market reflected a still more complex ensemble. In so far as it is an autonomous one, prices have tended to mount again, rising more rapidly than prices of industrial products. But this increase was only partially reflected in an increase in the purchasing power of the farmer, because in consequence of the drought, particularly in the south-west of France, harvests have been poor (grains, vegetables and fodder). Moreover, the drought caused a sudden reduction in the number of cattle. Finally, in spite of reenforcing the system of protecting agriculture, which had become disorganized by the inflation, the upward tendency has been thwarted by the general conditions of the market for agricultural products (cereals, sugars). Moreover, the agricultural indexes of the fourth quarter of 1928 are lower than those of the third quarter. It does not appear, however that the decline can reach the amplitude of that which took place from October, 1927 to April, 1928.

Industrial Production

The index numbers of industrial production confirm the impression derived from examination of prices. The monthly index of the Statistique Générale, based on data relating to the mechanical, automobile, metallurgical, textile, extractive, building and rubber industries, proves that the depression passed the peak in the second quarter of 1927 and that since then there has been regular progress, as may be seen for the following table showing general index numbers of industrial production during the last two years (base, 1913 = 100):

Quarter	1927	1928
1st	109	119
2nd	101	125
3rd	107	129
4th	112	132

The following table shows comparative index numbers of activity in the principal industries for the first three quarters of 1928; later figures are not available (base, 1913 = 100):

Industry	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Mechanical industries	125	139	142	144
Automobiles	..	654	642	584
Metallurgy	121	127	123	126
Textile industry	103	101	93	96
Extractive industry	116	116	117	120
Building (adjusted index)	86	86	94	100

Certain index numbers of industrial activity calculated quarterly according to the investigations of the Société d'Études et d'Informations Economiques are shown below:

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter
	1927	1928	1927	1928	1927	1928	1928
Importation and production of mineral oil	264	305	295	309	304	386	395
Extraction of iron ore	99	113	101	110	105	115	117
Production of raw pig iron	104	109	103	113	110	111	114
Production of steel	94	106	96	108	101	106	113
Consumption of fertilizer	192	191	143	186	242	190	200
Importation of cotton	96	99	70	73	46	51	105
Importation of wool	88	107	119	101	62	48	54

Harvests in 1928

The year 1928 has been characterized by an exceptional drought, particularly in the Southwestern region, which has been harmful to the principal crops. Fodder crops have been particularly affected.

The wheat harvest (75.5 million quintals), which was practically the same as that of the year 1927 (75.1 million quintals) and slightly higher than the average of the preceding years (74.1 millions), may be considered as good and of satisfactory quality. Compared with the apparent consumption of recent years, it leaves a deficit of from 10 to 12 million quintals of wheat which will have to be imported.

The corn harvest, concentrated in the region mostly affected by the drought, is 3,700,000 quintals below domestic requirements as compared with 5,263,000 quintals in 1927. The average of 1922–1926 was 3,850,000 quintals. The yields of oats, barley and rye for 1928 compared with the preceding year are as follows, in millions of quintals:

	1928	1927	Average 1922–1926
Oats	48.8	49.8	47.0
Barley	11.5	10.0	9.8
Rye	8.9	8.6	9.6

The failure of the fodder harvest shown in the official statistics, appears to have forced the farmers to dispose of a part of the cattle on the market at the end of the summer. The yields of the principal fodder crops in millions of quintals harvested during the last four years was as follows:

	1928	1927	1926	1925
Meadows (sown)	104.6	132.0	116.9	129.5
Meadows (natural)	165.0	185.2	167.5	172.7
Green fodder (annual)	93.0	129.0	108.0	120.0
Fodder beets	194.8	289.6	182.0	233.0

Potato crops, after an exceptional harvest in 1927, were very mediocre in 1928. The quantities of beets harvested were close to the average of recent years but remained slightly below the 1927 level. Total yield in millions of quintals have been as follows:

	1928	1927	1926	1925
Potatoes	108.9	175.2	111.3	151.0
Sugar beets	53.6	60.0	48.6	53.7
Beets for distilling purposes	6.5	7.6	5.9	6.1

No official estimate has as yet been given for wine production. According to the figures furnished by the principal producing regions, however, it may be expected that it will be one of quality, and larger by about 10 million hectoliters than that of 1927 (48,900,000 hectoliters), the latter succeeding the deficient vintage of 1926 (40,700,000 hectoliters). It may be noted, however that larger production of wine has been recorded in France, particularly in 1924 (67 million hectoliters) and 1925 (62.7 million hectoliters).

Foreign Trade

General Remarks

It might have been expected that one of the chief effects of stabilization would be a paralysis, at least a temporary one, of foreign trade which had shown a considerable upward tendency since the cessation of the War.

The development, however, did not occur. The year 1927 has been characterized by a large volume of foreign trade—49.3 million tons of imports against 45.3 millions in 1926; 38 million tons of exports as compared with 32.5 millions in 1926. There has been, therefore, an increase of 15% in the tonnage exported as compared with the preceding year.

Values, of course, are not comparable with those of the preceding year, since in 1926 the purchasing power of the franc varied considerably and has been in general lower than that of 1927.

The following table shows that exports were maintained during the year 1927 and that the depression was not reflected in a decline of the total value of exports, which in the fourth quarter even reached a new high point. On the contrary, the first three quarters of 1928 did not reach the level of the corresponding quarters of 1927 and showed a certain tendency to decline.

Quarter	Imports	Exports	Excess of Exports (+) or Imports (−)
	1,000,000 francs		
1st	13,223	13,920	+697
2nd	13,741	12,921	−820
3rd	11,376	13,229	+1,853
4th	14,413	15,155	+742
Total excess of exports in 1927			+2,372
1st	12,970	12,759	+211
2nd	13,357	12,491	−866
3rd	12,443	12,301	−142
4th	14,679	13,795	−884
Total excess of imports in 1928			−2,103[1]

It appears then that the difficulty experienced in the domestic market made the industrialists dispose abroad of a part of the production which found no purchasers in France. Thus it may be explained that, even in value, exports have been maintained and that three quarters of 1927 were characterized by a favorable trade balance.

Principal Imports

As a matter of fact, the depression has reacted more directly on imports, particularly on the imports of industrial materials, rather than on exports, thus helping to maintain the trade balance in equilibrium. Imports of industrial commodities distinctly dropped in the third quarter. The phenomenon becomes even more noticeable if account is taken of the fact that certain quantities which appeared in the imports of 1927 have been reexported, as may be seen by an examination of the corresponding items under the two classes of imports and exports. Deducting the reexports, the consumption of wool and cotton by the textile industries in 1927 on the whole remained at a level close to that of 1926—2,467,000 quintals of raw wool in 1927, as compared with 2,413,000 in 1926; and 3,273,000 quintals of cotton, against 3,429,000 in 1926. In 1928 the consumption of raw wool increased slightly to 2,505,000 quintals but the consumption of cotton declined somewhat to 3,150,000 quintals.

The net imports of silk and silk floss in 1927 recorded a

[1] Preliminary figures.

distinct drop, 103,470 quintals, as compared with 125,000 in 1926. In 1928, however, there was a decided recovery, since imports rose to 140,101 quintals.

Imports of metals in 1927 declined appreciably (copper, 927,000 quintals, as compared with 1,403,000 in 1926; lead, 500,000 as compared with 730,000, etc.). This index clearly shows the uncertainty in which the mechanical industries found themselves in 1927. But, all the more is it necessary to take account of the fact that the market for these raw materials was dull in 1927 and that in consequence purchases were restricted to immediate needs. The recovery in 1928 was very marked: copper 1,574,000 quintals, lead 843,000 quintals, tin, 114,000 quintals, zinc, 464,000 quintals.

Imports of crude and refined mineral oils and heavy oils and petroleum products increased from year to year as shown by the quarterly indices of imports and protection of mineral oil (1913 = 100):

Quarter	1927	1928
1st	264	305
2nd	295	309
3rd	304	382
4th	368	396

This development, chiefly due to imports in consequence of the increased use of the automobile, deserves attention because it is a factor which tends to make the trade balance more and more unfavorable.

Imports of rubber increased in 1928 (first ten months) to 423,200 quintals, as compared with 379,400 in the corresponding period of 1927. The decrease in the prices of the raw material was felt, however, the cost of these imports having fallen from 629 million francs (ten months of 1927) to 450 million francs (ten months in 1928).

Calculated in terms of volume and value by quarters of 1927 and 1928, the fluctuations of imports (1913 = 100) are shown in the accompanying table.

Principal Exports

An examination of the index numbers of the larger groups of exports calculated in the same manner according to volume and value leads to two observations—the average level of

Tonnage

Quarter	Tonnage		
	Industrial Materials	Foodstuffs	Manufactured Goods
1927			
1st	127	130	82
2nd	127	121	69
3rd	103	115	69
4th	109	121	74
1928			
1st	119	92	83
2nd	105	85	81
3rd	113	104	104
4th	111	140	119

Value

Quarter	Value in Gold Francs		
	Industrial Materials	Foodstuffs	Manufactured Goods
1927			
1st	134	168	63
2nd	143	160	77
3rd	112	144	65
4th	156	150	78
1928			
1st	138	129	83
2nd	143	123	93
3rd	121	140	98
4th	134	170	114

tonnage of manufactured goods exported has been slightly less during the first two quarters of 1928 than during the corresponding period of 1927 (226 as compared with 228); on the other hand, the index of value likewise calculated on the basis of gold francs shows a rather noticeable decrease (154 as compared with 165).

The volume of raw material exports shows a remarkably regular increase since the beginning of 1913. Exports of iron ore and iron products explain in part this regular increase. The index of values of these exports on first sight appears to reveal a less satisfactory situation, since the average index for the first nine months of 1928 is still much below the level of 1927 which is not true in the case of manufactured goods. But, in consequence of the change in the bases of the custom

statistics which on January 1, 1928 ceased to include the movement of precious stones in the class of materials necessary for industry, it must be borne in mind that the comparison with 1927 can not be made without adjustment. For the first nine months of 1927, deducting the movement of precious stones, exports of raw materials reached 9,113 million francs, while during the corresponding period of 1928 they amounted to 8,941 million francs.

A similar correction shows that the imports of industrial materials during the first nine months of 1928 were not 738 million francs higher than during the corresponding period of 1927, as a superficial inspection of the customs statistics would indicate, but nearly three billions of francs more. This, too, proves that 1928 has witnessed a recovery in production.

QUARTERLY INDEX NUMBERS OF EXPORTS, 1913 = 100

According to Weight

	Manufactured Goods	Foodstuffs	Raw Materials
	1927		
1st	222	77	161
2nd	212	86	170
3rd	248	95	173
4th	257	133	176
	1928		
1st	217	125	179
2nd	214	116	188
3rd	248	107	199
4th	232	113	179

According to Value in Gold

	1927		
1st	164	111	191
2nd	171	115	180
3rd	159	113	170
4th	177	161	195
	1928		
1st	154	147	146
2nd	154	145	135
3rd	154	124	137
4th	169	160	130

QUARTERLY INDEX NUMBERS OF THE PRINCIPAL EXPORTS OF FRENCH MANUFACTURED GOODS

	Cotton Cloth	Wool Cloth	Silk Cloth	Lingerie	Automobiles
			1927		
1st	110	106	142	111	410
2nd	117	87	144	84	327
3rd	139	96	133	102	379
4th	155	101	138	115	400
			1928		
1st	126	119	129	92	321
2nd	116	99	142	114	340
3rd	113	114	153	114	316
4th	130	92	161	161	341

LABOR SITUATION

Unemployment

Unemployment, which was severe during the year 1927, disappeared during 1928. No statistics are available in France which give an accurate idea of the extent of unemployment. The number of unemployed receiving aid from the municipal and departmental unemployment funds is much below the actual figure. Many unemployed fail to register, and the conditions and formalities exacted restrict the grants of allocations. Nevertheless, these figures give some idea, if not of the extent of unemployment, at least of its movement.

During the depression of 1927, the greatest number of unemployed receiving aid was 81,916 on March 10, 1927. The figure dropped to 8,662 on November 5, 1927. Because of seasonal unemployment, the number of unemployed receiving aid rose to 17,840 on January 28. Since then there has been a decline as may be seen from the following table:

Date	Number
January 28, 1928	17,840
February 25	15,294
March 31	10,473
April 28	7,273
May 28	3,746
June 30	1,659
July 28	1,005
August 25	1,010
September 29	562
October 27	453
November 24	503

Another index of the change of conditions in the labor market is the movement of the immigration of labor. In 1927, the exits of workers exceeded the entries probably by several hundred thousands. In 1928, it was necessary to have recourse to foreign labor, particularly for agriculture, and the entries appear to balance the exits or exceed them.

It can not yet be stated that there is a scarcity of labor in France. But, if business conditions should improve, such a scarcity would soon be felt.

Labor Conflicts

The recovery of economic activity has been accompanied, as is often the case, by a reappearance of strikes. The majority of them were caused or supported by the communist organizations called "unitaires."

If one would believe the communist theorists, there is present in France, as in other countries of Europe, an increasing class struggle, a "radicalization" of the masses in the revolutionary sense. According to them, this is the result of capitalist rationalization which tends to reduce wages and to aggravate labor conditions. We will not waste time in discussing such assertions concerning the effect of the measures of industrial reorganization. Moreover, "radicalization" of the masses and aggravation of the antagonism appear to exist above all in the imagination of the communists. The latter have made strenuous efforts to agitate labor. The number of strikes, nevertheless, has not been abnormal, and their importance has been quite limited.

In many cases, the strikes have been directed by the communists against the rival syndicates which are affiliated with the C. G. T.,[1] as much as against the employers. Their purpose is to increase the membership of the communist syndicates, known as "unitaires," and take away the members from the reformist C. G. T. If the strike succeeds the "unitaires" take all the credit; if it fails, they accuse their reformist competitors of treason.

The C. G. T., which is of a reformist tendency and is not inclined to accept violent tactics of the communists, employs other methods. It tries more and more to obtain the inter-

[1] Confederation Générale du Travail.

vention of public authorities in favor of the workers and against the employers. This new procedure of outbidding sometimes enables the organization to bring about the failure of the communist movements, while at the same time obtaining results for the workers which the organization can credit to its account.

The principal efforts of the communists have taken place in the mining, transportation and textile industries. It may be noted that in these three industries their unions are not preponderant and that the purpose of their agitation was largely to make them dominant.

In the mines, the only effect of the communist campaign has been to spur on the confederate unions (reformed) which are in a majority. The latter have taken a series of steps since the first months of the year with the employers and with the government. They demanded an increase in wages and at the same time protested against the tightening of discipline and the reduction of the personnel, or against the so-called measures of rationalization. Although a congress of the unions of the Nord and Pas-de-Calais at the end of July voted in principle a strike of 24 hours, a vote on which no action was taken, the eventuality of a strike of any importance has never been seriously entertained. It was possible to settle the questions in dispute in meetings between representatives of the employees and workers. In November, wages were increased in the Nord and Pas-de-Calais.

In the transport industry, on the other hand, a large number of local strikes occurred. A communist attempt in June to proclaim a general strike in the transportation industry together with the Paris region failed completely after a few days. The reformist union was opposed to this strike, which was unpopular and was undertaken without any serious cause.

During the whole summer there were strikes of dock workers. Nearly all of the ports were affected. The most important movement was that at Bordeaux under the joint direction of the "unitaires" and the reformists lasting from September 24 to November 17. Contrary to their custom, the "unitaires" accepted the mediation of the Government which had been demanded by the socialist mayor and by

the reformists. The proposals of the Government, which the employers had to accept, embodied an increase in wages almost as high as that demanded by the strikers. Both of the rival organizations have loudly claimed the credit for this victory.

The agitations among the seamen have only partially subsided. Since the month of July the confederated or reformist Federation, which is connected with the shipowners by collective agreement, has been demanding an increase in wages. Several partial strikes broke out. The subsidized companies being obliged to take recourse to arbitration in case of dispute, the strike was terminated by being submitted to the President of the Court of Appeal. According to the decision pronounced by the Court on September 17, only the daily food indemnity was increased. The Federation appeared to be inclined to accept. On October 19, however, because of the efforts of the extremists, the seamen's union of Marseilles began a general strike which was terminated by a failure after a few days.

The most important dispute, or at least the most violent, has been that of the textile industry of the Nord. From the month of June on, the communists demanded wage increases and commenced to agitate. The principal object was the Roubaix-Tourcoing centre, managed by a powerful employers' organization. Success for the communists would have had the advantage not only of weakening that organization but also of reenforcing their own position in a region where they were not dominant. The reformist and Christian unions did not let themselves be engulfed in an adventure in which they had everything to lose. Since the month of August, the reformist unions have been expressly urging the workers not to yield to the agitations of the communists. The latter then proceeded with a succession of outbursts. In the middle of September, they declared a general textile strike at Halluin, a centre which is wholly devoted to them and where there is so to speak a constant strike. From there they spread to the neighboring localities, then to Armentiéres and to Lille. There they succeeded in causing only partial strikes. Altogether at the beginning of October about 20,000 workers were on strike. On October 5, the communists

ordered a strike for Tourcoing, but only a very small number of workers followed the order. Finally, at Roubaix they were entirely unsuccessful. They had to order a resumption of work on October 9. The strike continued only at Halluin. During this time, the reformist unions attempted to agitate among the employers in favor of Government intervention but without avail. This failure has struck a severe blow to communist propaganda.

Wages

The improvement in the economic situation has been followed, at the same time as the strikes, by an increase in wages. The workers who demanded higher wages generally based their demands on higher cost of living. This increase, however, has been very slight during the course of the year. The cost of living index for the Paris region was 507 for the first quarter of 1928 (base, 1914 = 100) and 519 for the third quarter. The increase in wages, therefore, does not appear to have been very great.

The wage increases were of a sporadic character, and it is impossible to evaluate even approximately their importance. The results of the latest annual official investigation which took place in October are not yet known. We can cite only a few examples.

In the mines of the Nord and Pas-de-Calais, wages were slightly reduced in March–April, 1927. They were raised in November, 1928, in the proportion of 5% for pickmen (piqueurs) and from 1% to 4% for other workers. The wages of skilled workers thus increased to 5.78 times those of 1913.

Railroad employees demanded increases similar to those of the public officials. In January, 1928, the Minister of Public Works granted the first increase. The minimum basic wage (without bonuses and indemnities) was raised from 6,250 francs to 6,850 francs per year. A new increase was decided upon in October in consequence of an agreement between the Minister and the Managing Committee of the large railroads. Beginning with January 1, 1929, the basic wage will be raised to 7,220 francs and beginning January 1, 1930, to 7,600 francs. The index of wages with 1914 as 100 will be 632.

Conclusions

In summary, legal stabilization of the currency, creating confidence and courage in the country, gave an undeniable impetus to industrial and commercial activity, the recent expansion of which does not exceed the bounds of reason. Certain essential branches of the national economic system, however, to begin with agriculture, participated only insufficiently in the business prosperity which followed and which perhaps caused the improvement in the purchasing power of the masses in consequence of recent salary and wage increases.

Although the country appears prosperous prices of domestic products show an upward trend and may fairly soon reverse the conditions of international competition which are still favorable in France. In this respect, the deficit of the visible trade balance, becoming more marked from month to month, may serve as a warning. All the signs of disequilibrium, all the morbid symptoms, have not yet disappeared from the national economic system, which for so long has been undermined by inflation.

Although the country has acquired monetary stability, it has not yet recovered either economic stability, or fiscal stability; and the political stability which it has been enjoying for nearly three years may be questioned.

It is sufficient to say that prudence ought to guide French politics and the evaluations of the country's future possibilities and opportunities.

ECONOMIC CONDITIONS IN FRANCE DURING 1928[1]

Report of Professor André Siegfried, l'Ecole Libre des Sciences Politiques, Paris

General Review of the Situation

Monetary Stability

The most important event in the year which has just closed is the passage of the law of June 25, 1928, which established in France the system of gold monometallism. Preceded by *de facto* stabilization of the franc since December, 1926, prepared by the law of January 28, 1928, reestablishing freedom of capital exports, supported at the beginning of May by large borrowings in 5% redeemable rentes, after a half year's experience the monetary reform appears as a solid monument.

From a purely monetary view point, there is no cloud in the horizon at the present time. Money is and continues to be abundant; in no country is there a better market, at least on short term. Only in Switzerland, the same official discount rate of 3½% is found as in Paris.

Money is cheap on short term, but it remains dear on long term, and in this anomaly lies the proof that the return of France to stability, to equilibrium, to normalcy (as the Americans say) in spite of everything is not yet complete. Although bank deposits amount to 33 billion francs, industry can borrow only with difficulty and at high rates. Thus, although people are saving again, there is hesitancy to invest. It is not because confidence in the economic order is lacking, but because political confidence has not been completely restored. The present position of France as far as business conditions are concerned can not be understood without taking account of the political factor.

[1] Translated by the National Industrial Conference Board.

The Political Situation as an Economic Factor

Without a doubt it would require particularly violent political disturbances in order to shake again the stability of the franc, which hereafter is based on enormous gold reserves and foreign exchanges (reserves the total of which exceeds that of the entire fiduciary circulation). The restoration of the franc by Mr. Poincaré has been his personal achievement. The Prime Minister inspired Frenchmen and foreigners once more with confidence in the value of the franc, but this happened only because Mr. Poincaré represented in their opinion the policy of sound government. If, at a given moment between July, 1926, and June, 1928, he had been overthrown, there is no doubt that the franc would have given way and that instability would have reappeared. The period during which the personality of Mr. Poincaré was indispensable to monetary revaluation appears to have ended with official and legal stabilization of the franc last June. Monetary equilibrium hereafter will no longer depend on a personality; it has become real.

Nevertheless, the separation of economics and politics has not been entirely accomplished, assuming that it will be eventually. As in the case of individuals who are recovering from an illness and incessantly fear a relapse, France remains nervous even though the monetary operation, wisely made, has proved a success. Since the last ministerial crisis at the beginning of November, 1928, it has been no secret that numerous dollar purchases have been made. Pessimists already interpreted the possible departure of Mr. Poincaré as a sign of a new depreciation of the franc. Nothing of the sort happened, nor ought to happen, particularly because Mr. Poincaré has remained in power. But, in this spontaneous nervousness of general opinion there is a sign of an unsound condition which has not been entirely eliminated. In other words, France has been reconstituted today on a sound basis and in such a manner that it may dispense with Mr. Poincaré, but when he ceases to be head of the Government, the change of Prime Ministers will not take place without uneasiness, and for a long time politics will maintain the power to influence business, much more than would be the case in a country which has not experienced the violent dis-

turbances which France has suffered during the last fifteen years.

Economic Activity and Its General Tendencies

Measures of Economic Activity

When the franc was stabilized in December, 1926, at a level of about 25 francs to the dollar, the Government did not even hope that stabilization could be accomplished without a severe industrial depression, an occurrence, moreover, which everyone expected. The depression, such as it was, however, took only the form of a discomfort, undoubtedly clearly defined but not serious, the peak of which appears to have been in the second quarter of 1927. Since then, there has been a regular progress toward recovery, and the year 1928 without question leaves France with the impression of prosperity.

The index of production of the Statistique Générale de la France (General Statistical Office of France) shown in the following table confirms this impression:[1]

	1927	1928
January	110	116
February	114	119
March	109	123
April	103	123
May	104	125
June	105	128
July	105	129
August	106	130
September	107	129
October	110	131
November	112	..
December	115	..

As may be noted, there has been a regular upward trend since April, 1927. There is undoubtedly a tendency towards stability which reflects sound activity in French production without being speculative. The industries, however, do not show signs of equal prosperity.

Among the industries which showed particularly high activity the following may be cited:

Mechanical Industry (1913 = 100)

January, 1928	121	August, 1928	146
June	143	September	141
July	146	October	143

[1] Base, 1913 (present boundaries of France) = 100.

Metallurgy

January, 1928.....118	August, 1928.....124
June.....126	September.....124
July.....122	October.....125

Extractive Industries

January, 1928.....116	August, 1928.....118
June.....117	September.....118
July.....116	October.....120

Building Industry

January, 1928..... 79	August, 1928..... 94
June..... 88	September..... 99
July..... 89	October.....101

Rubber Industry

January, 1928.....555	August, 1928.....612
June.....595	September.....639
July.....584	October.....629

Many industries, on the other hand, show signs of stagnation:

Textile Industry

January, 1928.....100	August, 1928..... 96
June.....100	September..... 93
July.....100	October..... 96

Automobile Industry

June, 1928.....670	September, 1928.....590
July 1.....687	October.....562
August.....649	

The general index of production of the Société Générale d'Etudes et d'Informations Economiques (1913 equals 100, with present boundaries) confirms the preceding impression:

Coal and Lignite Mining

October, 1927.....110.31
October, 1928.....124.00

Extraction of Iron Ore

October, 1927.....104.13
October, 1928.....112.12

Steel Production

October, 1927..... 98.52
October, 1928.....113.65

Pig Iron Production

October, 1927.....104.13
October, 1928.....112.12

Carloadings (daily average in cars of 12 tons)

October, 1927.....127.40
October, 1928.....127.45

Railroad Receipts

October, 1927 ..... 121.36
October, 1928 ..... 126.86

Bank Deposits

October, 1927 ..... 74.41
October, 1928 ..... 92.53

The general index of the Société Générale d'Etudes et d'Informations Economiques is about the same as that of the Statistique Générale de la France:

October, 1927 ..... 124.12
October, 1928 ..... 128.67

Analyzing the stock exchange situation, we will show presently that, taking account of the present quotations of most of the large industrial enterprises, their yield is very low, often 2% or 2½%. It is one of the signs of the unhealthy condition—more political than economic—referred to before, namely, the unsound quest for stocks, rather than bonds, which would yield a far larger return. But, the fact that many enterprises are capitalized on the stock exchange at a level which excessively reduces their yield to the ultimate purchaser, does not signify that these enterprises are insecure. On the contrary, the characteristics of the French industry after the war have been firmness and solidity, at least among the most representative enterprises. During and since the war, large reserves have been accumulated without having been generally distributed to the shareholders. It is an old policy of French employers not to increase dividend distributions when profits rise. This policy, persistently followed since the war, has resulted in the building up of reserves which very often permitted capital reorganization of a concern without taking recourse to new subscriptions. Without a doubt, capital increases have been numerous; but equally numerous have been the cases where large enterprises have continued to function with reduced capital supplemented by accumulated reserves. Because of this fact, the financial situation of the French industry may be considered as strong.

The industries of the Nord, which were rebuilt through the reconstruction of the devastated regions, have been reorganized in conformity with the most recent methods and proc-

esses. Whether it be the coal, metallurgical, mechanical or the textile industries, wherever these repairs were made, they have been made under the best conditions. England, which has been working for a long time with her old equipment, which she has not had any urgent need to repair, is in a less favorable position. Germany is not necessarily in a better position than France because of the fact that all she has built during the inflation period bears the mark of isolation in which she found herself at the time, an isolation which prevented her paticularly from knowing the latest American improvements and from profiting by them. Old-fashioned methods undoubtedly are followed widely in the old French industries, particularly in the small ones, which have not been reorganized since the war. Everywhere, however, where an idea "d'ensemble" may prevail and wherever the material means exist, France attempts to practice the American tradition which the Europeans designate by the name of rationalization. Nevertheless, it must not be forgotten that even today France remains essentially a country of small industries, with a great many employers, often self-contained, routine men and jealous of one another, among whom a policy of combination and cooperation is particularly difficult to achieve.

As regards agriculture, the fact that France forms largely an autonomous market plays an important part. Because of the fact that it is an autonomous market, prices have tended to rise during the year 1928—or to remount—more rapidly than industrial prices. This benefit to the farmers, however, has been counteracted by the marked drought of last summer which was particularly harmful to the farmers of the South and which in a number of localities caused a sudden reduction in cattle. On the other hand, despite the recent increase in customs duties, the international trend of prices (cereals, particularly sugar) has operated as a factor lowering the price level, and because of this fact the year ends on a rather low level, the relative amplitude of which, however, is not marked.

In summary, on the whole, France is active; at the moment, the possibility of expansion exceeds the available labor supply. We shall see in subsequent pages that the official unemployment recorded is nil. Despite a consider-

able amount of immigration during recent years, the country is still suffering from the loss of manpower suffered in the war.

Budgetary Returns of 1928

Budgetary returns during 1928 on the whole reflect a satisfactory situation. Drawn up at the end of 1927, the budget for 1928 might easily have presented difficulties. Normally, it might have been expected that direct taxes, based on the revenues of 1927, might have given less satisfactory results, and as far as indirect taxes and monopolies are concerned, they might naturally have been affected by a monetary collapse.

In reality, however, the budget of 1928, both as regards the estimates and as compared with the receipts of the preceding year, has brought satisfactory results.

Receipts from normal and permanent sources for the account of the general budget amounted to 42,890,669,200 francs, an increase of 2,699,106,900 francs over the returns for 1927. On the other hand, the returns on December 31, 1927, exceeded by 3,268,905,800 francs the budgetary estimates for indirect taxes, monopolies (other than tobacco monopoly) and revenue from public domain. The returns from direct taxes at the end of 1928 were 850,285,100 francs lower than those at the end of 1927 (the reason may undoubtedly be found in the fact that the taxpayer is not prompt in paying the direct tax, although in the end he discharges his obligations without any serious loss).

It is interesting to observe from one year to another which taxes were responsible for fluctuations in revenue. In 1928, the returns of direct taxes on income were 732,582,100 francs less than those of the preceding year. On the other hand, revenue from taxes on "fortune" and stamp taxes increased by 1,280,055,000 francs; luxury taxes by 280,328,900 francs; diverse receipts from "products not indispensable to living" by 306,695,000 francs; consumption taxes by 1,574,389,700 francs; income from State domain and other enterprises by 70,220,400 francs.

Of the increase of 2,699 million francs in 1928, as compared with the preceding year, the yield from consumption taxes

accounted for 58%. The only decrease was due to direct taxes on income which reflect—it must not be forgotten—the conditions of the preceding year. Adding the taxes collected for the account of communes, departments and public institutions to the taxes of the general budget, it may be noted that the French taxpayers in 1928 payed a total of 51 billion francs.

The remarkable fact in this situation is the maintenance of a balanced budget despite the persistent increase in public expenditures. The total of these expenditures, which increased by three billion francs between 1927 and 1928, will show a similar increase during the next year, since the amount of open credits will rise from 42,441 million francs in 1928 to 45,431 million francs in 1929. This persistent increase of expenditures is the consequence of the unavoidable adjustment of the value of the stabilized franc to all the expenditures which were at a lower level than the deceiving appearance of the inflation period allowed to maintain. The elasticity of the taxes up to this time has been sufficient to meet the situation without affecting the strong position of the Public Treasury. In fact, the credit balance of the Treasury at the Bank of France on December 20, 1928 was 7,818 million francs, as compared with 5,079 million francs on June 25, that is, at the time of stabilization. At the same time, the extent of the liquid resources of the Caisse d'Amortissements rose from 1,934 million francs to 5,193 million francs. The danger of heavy payments has now been removed.

The preceding statements show that a balanced budget is a reality in France. In order to obtain it under circumstances, which for a long time made it absolutely impossible, it was necessary, on the one hand, for the country to be, and above all to visualize itself as being at the brink of an abyss, and on the other, it needed the iron will of a Finance Minister whom the Cabinet had agreed to follow to the end without recrimination. The Chamber each day now takes away again, as far as the Government is concerned, an increasing part of the freedom which it had agreed to give up in times of danger, and furthermore, even the memory of this peril is beginning to become obliterated. In these facts lies the

danger for the future which may compromise the budgetary work of Mr. Poincaré which has so far been very solid.

Foreign Trade

When *de facto* stabilization was effected at the end of 1926, it was expected that it would at least momentarily paralyze the foreign trade of France, the upward trend of which had been considerable since the cessation of war. The year 1927 undoubtedly has marked a decline in foreign transactions in terms of value (53,049 million francs in 1927 of imports, as compared with 59,598 million francs in the preceding year, and 54,924 million francs of exports, as compared with 59,678 million francs in the preceding year). But foreign trade in terms of volume, on the contrary, shows an increase which, while moderate as far as imports are concerned, is notable as regards exports (49,369 millions of tons in 1927 of imports, as compared with 45,394 million tons in the preceding year and 37,994 millions of tons of exports, as compared with 32,549 million tons in the preceding year). This is the natural result of the decline in prices of 1926–1927 in consequence of the revalorization of the franc.

Nearly the same tendency was maintained in 1928. Expressed in value, imports kept at nearly the same level in 1928 as in 1927 (53,448,265,000 francs in 1928, as compared with 53,049,878,000 in the preceding year), but exports continued the downward movement begun in 1926 (51,346,799,000 francs in 1928, as compared with 54,924,759,000 francs in 1927). On the other hand, measured by volume, imports likewise maintained nearly the same level (49,105,307 tons in 1928, as compared with 49,369,840 tons in 1927); exports, however, show a marked upward movement (41,080,629 tons in 1928, as compared with 37,994,267 tons in 1927).

An examination of this foreign trade by groups of products shows certain interesting tendencies.

Imports of food products show a decline of 1,342,918,000 francs and of 779,707,000 tons, as compared with 1927. It should be noted that in 1927 the purchases were particularly large because of the unsatisfactory harvest in 1926. In 1928, the decline was due principally to lower imports of cereals

(a reduction of about 1,300,000 tons, valued at over two billion francs). Imports of raw materials remained nearly the same as in the preceding year (a slight decline of 381 million francs in value, a slight increase of 149,000 tons in weight). In fact, there would have been a total increase in imports of raw materials if there had not been a decline in our imports of coal (nearly one million tons less than in 1927). The characteristic feature of the imports of the year is the notable increase in the imports of manufactured products, both in volume and value (an increase of 2,122 million francs and 365,000 tons, that is, an increase of 36.5% and 30%, respectively). This must be regarded as an indication of the restoration of the purchasing power of the French population, due partly to monetary stability, partly to a return to saving, and partly to profits realized by the general increase of stock exchange securities. All these factors will be discussed later. The increase in the imports of manufactured products, however, has not escaped the attention of the protectionist groups in Parliament and very frank remarks have been made at the Chamber of Deputies at the sitting of December 27, 1928, which was devoted to a discussion of tariff policy.

In regard to exports, a fact of real significance must be emphasized, namely the notable progress made in the exports of foodstuffs, as compared with 1927 (an increase of 841,668,000 francs and 166,000 tons). In terms of value this is a very appreciable increase of 15%. The principal cause of this may undoubtedly be sought in the fact that exportation of agricultural products is again permissible. As long as the depreciation of the franc represented the danger of a constant increase in the cost of living, the Government and Parliament, alarmed by the possible social consequences of such an increase, remained resolutely hostile to free exportation of agricultural products. Agriculture suffered in consequence but was unable to make its protestations heard until the question of prices ceased to be a burning political issue in France after the exchange was stabilized. Exports of raw materials have declined appreciably in value (3,775,510 million francs), but have increased in volume (2,854,806 tons more than in 1927). As exporter of raw materials France

plays a more important rôle than before the war. The most noteworthy phenomenon of the year, however, is the decline, both in value and volume, of the exports of manufactured products (644,118,000 francs and 14,351 tons less). The percentage decline is not particularly great (2%), but it shows that after a long period during which exports were "easy" because of the constant depreciation of the currency, France has returned to a more normal position, that is, a position less favorable, when exports are more difficult. The interesting fact is that the transition from abnormal to normal did not result in any real depression. The adjustment was made gently, and up to this time the fears which revalorization and afterward stabilization had provoked have not been justified by events.

The trade balance of the year 1928 appears to show a new orientation. After the war until 1924, the unbalanced condition had been chronic and of a most difficult character, but beginning with 1924 a reversal took place, due both to the rapid improvement in the country, and to the fact that exports were at a premium because of the monetary depreciation. From 1924 to 1927, inclusive, France experienced a period of favorable trade balances, a new experience for her. To be sure, this favorable balance was particularly small in 1926, the year of the greatest depreciation of the franc, and particularly strong in 1927, when the currency was already stabilized—undoubtedly because when inflation is marked it ceases to produce its effect as an export premium, and also without doubt because in 1927 French industrialists, seeing the decline in the domestic market, turned with doubled efforts to the export market. Today we see a reappearance of an unfavorable balance (2,101,466,000 francs excess of imports). Nevertheless, we have stated it and shall restate it, the impression created by the country is one of prosperity. It may be concluded that France tends to return to the type of trade balance it had before the war (8,421 million francs of imports in 1913, 6,880 million francs of exports)—a trade balance with a normal deficit, but corresponding to a balance of credit accounts. All these aspects of economic activity point to the fact that France is returning rapidly towards normalcy.

Price Tendencies

Security Prices

On the stock exchange the year 1928 has been characterized by a rise in security values which must be considered as an essential factor in the general economic situation of France. The Statistique Générale de la France gives the following table of index numbers of security prices at the Bourse of Paris for each month of 1928, and a comparison with the averages of 1927 and 1926, the base being 1913 = 100:

	Fixed-Income	Variable-Income	Foreign Securities Variable-Income
1926 Average	57.0	233	663
1927 Average	72.0	287	596
1928 January	80.4	345	644
February	80.2	334	632
March	80.3	368	653
April	81.3	413	640
May	81.8	419	660
June	84.3	421	644
July	84.7	397	630
August	84.9	441	672
September	84.9	451	678
October	84.4	450	676
November	83.8	467	689
December	84.1	483	684

This is a very interesting table—it shows that prices of foreign securities had become adjusted already two years ago, but that those of French variable-income securities did not become adjusted until during the course of the year 1928, while prices of fixed-income securities, although increasing, are still far from normal.

From this a lesson in psychology may be derived which should be mentioned. Because of the increasing monetary crisis after the war, the French people in successive stages took refuge in foreign securities; the best informed began to buy from 1919 or 1920 on; a second group of informed buyers started from 1923–24 on and above all in 1925, finally a great many people somewhat tardily seized these securities in 1926 when the depression was at its height (as a matter of fact, too late). In this way, foreign securities expressed in francs mounted very rapidly, to become adjusted to the depreciation and likewise in order to become adjusted to the

specific value which their character of "refuge" and "safety" gave them. When the franc rose again in the autumn of 1926, they declined only partially. On the other hand, French variable-income securities have been astonishingly slow in becoming adjusted to their real value. For a long time, neither the French nor foreigners seemed to realize that even a monetary catastrophe could not deprive French industrial enterprises of their real value (the German lesson was not yet available at the time). It should be added that the political régime of the Cartel, created at the elections of 1924, alarmed the holders with fears of taxes, of annoyances, even of deprivation. Consequently, many people who might have purchased shares of French industrial enterprises refrained from doing so. Until 1926, securities of the best French business houses could be obtained for ridiculous prices, not only in gold francs but also in paper francs. It was in 1926, it seems, that foreigners and informed Frenchmen began to realize that stocks of the large industries or of the large French financial enterprises had been unjustly quoted below their normal price. During the depression of June–July, 1926, the important French securities reacted on the stock exchange in a manner quite similar to that exhibited by exchange values. But it was not until legal stabilization appeared a probability—in the spring of 1928—that a movement of speculation on a large scale took place in French securities from which attention had been diverted for years. This movement began distinctly in March–April, 1928, quieted down during the summer, but took renewed force in the autumn and during this winter. It may be stated that French variable-income securities have replaced foreign securities in the people's favor; it may even be said in the people's "infatuation." They are not purchased for their yield, which has fallen because of the rise in prices to extremely small percentages, but for their possibilities, their potential increase in value. Fixed-income securities, the yield of which is much higher, have not yet become as popular as they were before the war. This denotes an unhealthy symptom, which, however, is very easily explainable. General opinion believes in the stability of the franc but there is not yet a complete security and there is a demand,

not so much for a sound income, as for a kind of insurance against a possible depreciation of the franc or a chance for a quick profit. To be sure there is a tendency to return to buying bonds and rentes of the Government, but only slowly.

I do not wish to express the opinion that there may be something artificial and excessive in the present rise of French securities on the Paris Bourse (January, 1929). Nevertheless, I do believe that the rise of 1928 should be considered as the repairing of a former injustice to their real value. After a long period of mistrust, it was realized that there was a wealth which had not been appreciated. In 1928, we witnessed the gradual but rapid opening of the wealth of the French industry which had been stored up. Not everything was destroyed and ruined during the policy of partial inflation which was prevalent in France after the war until 1926. The Government borrowed to reconstruct and transformed this borrowed money into tangible wealth. As the decline of the franc amounted to 80%, the debt of the Government has been lightened to that degree and the wealth of the lender has correspondingly declined, but the tangible wealth has remained, only changing hands. Because of this fact, the inflation has above all changed the distribution of capital, which has been transferred from the former class of savers to the class of producers of tangible wealth. We have indicated to what extent the principal, wisely managed, French business houses have ample reserves. Thus, there is in France an unknown wealth, and undoubtedly will remain unrecognized as long as the balances are not revaluated. This wealth is much greater than that indicated in the present balances. But, the difference between the potential value of the French enterprises and their value actually expressed in terms of francs can not in the long run fail to strike the attention of observant persons. The lack of balance between the real value of the French industry and its value expressed in francs represents a powerful inducement to invest in these securities. When this disequilibrium ceases to exist, the increase in the value of the securities will cease and France will become revaluated. If, at that time, French industries fail to augment their dividends in proportion to

the increase in value (it is little likely that they will be able to do so, either because of the burden of taxation or for various other reasons) it is possible that the public (which in France more so than in America relies upon dividends for its income) will return to buying fixed-income securities, such as bonds and above all French rentes, in regard to which at the moment a marked rising movement is in progress.

This rise in securities during the year 1928 is more than a financial phenomenon, it is a social phenomenon, as we shall see later on, of a nature to react on the price level. The holdings of nearly all French owners of industrial and bank shares have increased in a notable manner during the course of the last year. Although the French people, who are traditionally habitual savers, do not spend all the money thus earned but reinvest a large part, none the less it has resulted in an increase in the purchasing power of a large part of the population.

Prices

Wholesale prices, according to the Statistique Générale de la France, in a general way, show the following tendency:

	Paper Francs	Gold Francs
1914	100.00	100.00
1922 (monthly average)	333.30	140.40
1923	428.00	133.10
1924	498.70	137.50
1925	561.25	137.60
1926	717.40	119.00
1927	630.00	128.15
1928 January	620.00	126.53
February	622.00	127.00
March	636.00	129.63
April	637.00	129.68
May	646.00	131.80
June	639.00	130.12
July	637.00	129.20
August	630.00	127.30
September	633.00	128.10
October	630.00	127.50
November	639.00	128.20
December	637.00	129.20

It may be seen that prices have shown a gradual tendency to increase during 1928. Technically, this increase is due particularly to the marked rise in the prices of foodstuffs, while those of raw materials remained remarkably stable

throughout the year (from January to December, prices of foodstuffs rose from 556 to 589; those of raw materials fell from 673 to 660). On the whole, it should be noted that raw materials are on a higher level (at least as based on the figures of the Statistique Générale de la France) but that there is a tendency towards a levelling of prices. Foodstuffs actually show a slow but constant rise during the last two years, while raw materials are neither declining nor rising. The cause of this may be easily found: domestic products remain at a level notably lower than that of imported products (in December, 1928, domestic products were 631 and imported products 646), that is, France imports relatively more raw materials for industry than agricultural products for food.

It should be noted that the French price level expressed in gold (that is in terms internationally comparable) is much lower than the American level, 129.2 in December, 1928, against 143. The French level appears relatively stable since 1927, as is that of the French currency. It will undoubtedly tend to increase slightly, but it is probable that, as was the case before the war, it will remain in a normal way lower than the international level. The twofold reason for this fact appears to be that France subsists largely on its own production, and on the other hand, that even after the war and its upheavals the French consumer is still of simple tastes and prone to save.

Retail prices behaved in a manner similar to that of wholesale prices, but a slightly different rhythm was noted:

1914	100.00
1922 (monthly average)	301.40
1923	331.50
1924	380.10
1925	424.72
1926	535.66
1927	556.50
1928 January	530.00
February	522.00
March	524.00
April	532.00
May	546.00
June	557.00
July	547.00
August	540.00
September	544.00
October	566.00
November	585.00
December	596.00

Taking account of the exceptional period of 1926–27, which somewhat tardily entailed a decline in retail prices following upon the revaluation of the franc, retail prices have shown an upward trend since the war. A distinct development in this respect was noted in the year 1928, as the index rose from 530 in January to 596 in December. The reasons for this situation are not astounding, still the public at large will not comprehend them. It had expected a marked decline, either because of the revalorization of the franc in 1926, or even because of stabilization in 1928. But, a general consideration of the situation undoubtedly permits a more philosophic view.

It is important to emphasize at this point that price fluctuations in France are no longer determined by the monetary factor. Stabilization of the franc as a matter of fact existed since December, 1926, and there has been sufficient time for it to show its effects. The period of repercussions of the monetary system on the French price level may today be considered as closed.

The factors which have determined the rise of prices in the last quarters of 1928 are of an economic and social order, and if they are still partially monetary, it is only indirectly because of the remote influence of revalorization and stabilization. On the one hand, it is certain that France, on the whole, has become enriched during the year 1928. Outside of the enrichment which results from the normal exercise of her activity, there should not be forgotten the enrichment mentioned above resulting to the French holders of industrial shares because of the remarkable rise of these shares since a year ago. The available funds of a great many Frenchmen have increased because of this fact, and consequently there was an increase in their purchasing power. This increased purchasing power is very naturally reflected in a rise of prices. It should be observed that the increase in the consumption capacity is reflected particularly in food prices. Without a doubt, many people have improved their daily fare; it is a known fact that the French are quite particular about the quality of their table. As a very probable factor in the rise of prices should also be added the fact that France in 1927–28 adopted a new tariff régime, and that at the same time it

lifted the embargo on exports which had for a long time affected many agricultural products and which operated, as has been noted, to maintain food prices at an artificially low level.

After the extraordinarily disturbed period of the last decade, the country has returned for the first time to an economic régime in which normal causes determine the movement of prices. In fact, the price fluctuations of the current year may be notable and even significant, but they will not be catastrophic or even alarming, because their amplitude will be necessarily limited.

Wages

France, which is undergoing rapid and profound transformations from the viewpoint of technical production, is changing less rapidly from a social viewpoint. In general, wages are below the corresponding wages among other nations with the same level of civilization.

As a result of the crisis brought about by the depreciation of the franc after the war French wages, expressed in gold, declined to an extraordinarily low level in 1926. At the end of 1926, when the cost of living fell because of the revalorization of the franc, wages also declined but less so than prices. The result was that when prices resumed their upward trend towards 1927–28 they had a gap to cover before reaching the level of wages. This explains why during a fairly long period wages scarcely moved. Today, the increase in the cost of living, while not sensational, is nevertheless appreciable, and it follows that an adjustment of wages is in order.

Among the factors which permitted the French industry to overcome the obstacles in its way, particularly that of tariff barriers in the export markets, the factor of wages should not be forgotten. During the monetary crisis, exports, stimulated by the low wage level, served as a stabilizer, thus contributing to a general defence of the economic equilibrium of the country. But today, since the currency has become stabilized, the wage system must necessarily change. A large margin of expansion is ahead of French wages, either because from a monetary point of view it has long been de-

layed, or because the social evolution which is taking place in France renders it normal and necessary.

The year 1928 ends and the year 1929 commences in France with a number of strikes due to demands for wage increases. These movements are not surprising. Taking into account the great activity in industry, demands on the part of the workers for some years have been exceptionally rare. General opinion, particularly among employers, must accustom itself to this eventuality which raises directly both for the workers and the employers the problem of efficiency. When increasing wages, French industry ought to watch whether the return increases in proportion. This will be the proof of the merit of higher wages.

Unemployment

The Government seriously feared an industrial depression toward the end of 1926 or the beginning of 1927 and in consequence expected a period of unemployment. This unemployment did not result nor did a depression occur in industry. The peak of unemployment officially determined appears to have been 81,196 unemployed on March 10, 1927, but in January, 1928, there were only 17,840 unemployed according to official reports, and at the end of 1928 the figure was practically nil.

The fact is that at the end of 1926 the Government, fearing a possible depression, seized every opportunity to decrease the rate of immigration and even to deport from France certain foreign workers who were more or less undesirable. The result was that when industrial activity was resumed there was a scarcity rather than an abundance of labor, and this relative scarcity may be classed among the factors which at present make for higher wages.

THE DEVELOPMENT OF THE FRENCH TARIFF POLICY AFTER THE WAR[1]

Report of Professor André Siegfried, l'Ecole Libre des Sciences Politiques, Paris

WITH the stabilization of the franc in 1926–1928, France emerged from the state of instability and monetary indecision. Consequently, it was possible, after a long period of tariff uncertainty, to restore order also in its foreign trade. The country has again a tariff and a tariff doctrine, so that the moment is opportune to view as a whole the tariff policy of France. Moreover, although in certain respects the new customs tariff continues the protectionist tradition of 1892, symbolized by the name of Méline, in certain other respects, particularly as regards negotiations, it is similar to an older and more liberal tradition, which goes back not only to the tariff of 1881, but even to the treaties of 1860 and to the policy of Napoleon III. Thus we have arrived at a turning point where a cycle of tariff development ends.

The Tariff Policy of France Before the War of 1914

The fundamental doctrine of France before the War was that of customs protectionism of 1892, the principal author of which was M. Méline. This doctrine itself, however, was largely a reaction against the former liberal doctrine, the essential characteristics of which determined by the government of Napoleon III, actually go back to the liberal inspiration of the Cobden School. The liberal régime of 1860, confirmed in 1881 by the Republic, was characterized essentially by free trade, tariff stability, negotiation of long-term commercial treaties with supplementary tariffs (that is, consolidated), and the general acceptance of the most-favored-nation clause. When the Republicans came to power after May 16, 1877, their leaders, who were generally liberal in the

[1] Translated by the National Industrial Conference Board.

economic as well as in the political field, confirmed the liberal tendencies of 1860 in the tariff of 1881. Soon after, however, a profound change became manifest. The régime of 1860 came at a time when France, strong from an industrial and agricultural viewpoint, was an exporting country, and (except for England) without a really dangerous competitor. After 1881 the general transformation of the extra-European world, which began after 1848, tended to make itself felt more and more. Many distant countries became industrialized; extensive agriculture in the newly cultivated continents competed seriously with the intensive agriculture of the old countries of Europe; and assisted by low freight rates, agricultural products invaded all parts of the old Continent. Moreover, after 1870 a revival of protectionism was felt in Europe. The French tariff of 1881 did not escape its influence. Cereals and cattle were voluntarily excluded from the supplementary tariffs annexed to the treaties. A little later, in 1885–1887, the protective duties on wheat and in 1887 the duties on cattle were increased. Although the large ports, the large cities, and in a general manner the merchants and the consumers, remained free traders, agriculture and industry were openly protectionist.

The Chamber elected in 1889 received a mandate which clearly defined public opinion in this respect; it desired effective protection of national production and the termination of the régime established by the treaties of 1860. Accordingly, treaties which expired were not renewed, except in the form of *modus vivendi* at short term, and on October 20, 1890, after an entire year of parliamentary discussion, the Government, inspired chiefly by M. Méline, President and Reporter-General of the Customs Commission of the Chamber of Deputies, submitted a tariff plan which became the famous tariff of 1892.

The new system provided for a double tariff, maximum and minimum. In the opinion of its authors, the former was in principle a general tariff, while the latter was to be considered as a means of granting favorable treatment to foreign countries in exchange for corresponding advantages extended by them to France. At the same time, however, it was understood that this minimum tariff had to give sufficient protec-

tion to domestic production. Furthermore, the Chambers insisted on the principle, which in their opinion was essential, that the Government in the course of tariff negotiations could under no circumstance grant concessions below the minimum tariff. It may be seen from the preceding that there was no question of considering the abandonment of the policy of negotiations. For this purpose, there was maintained a rather large spread between the two tariffs (in general, the minimum was to be two-thirds of the maximum); furthermore, it was agreed to include in the minimum tariff a large number of articles in order to enlarge the basis of possible negotiations. Nevertheless, the Chamber, which was essentially an agricultural one, refused to consent to a minimum tariff, lower than the maximum tariff, as far as the principal articles of interest to farmers were concerned, as for example wheat or cattle. At no price was it willing that agriculture should bear the cost of the possible concessions granted in the course of the negotiations.

On the other hand, Parliament took away certain powers which the Government as negotiator of the treaties had formerly exercised. In the preceding régime, the supplementary tariffs of the treaties were thus in fact consolidated, and, in consequence, were not subject to the will of the elected Assemblies. If the treaties were on long term, Parliament, in practice, found itself deprived of the right to modify the tariff. It was decided that hereafter the concessions accorded would include a minimum tariff duty without mentioning the rate, that is to say, simply a relative favor. Under this system, Parliament was in a position at any time to raise the minimum tariff, since nothing in the treaties prevented it from doing so.

It may be seen to what extent this contractual régime differed from that of 1860. According to the conception of 1860, the negotiater, that is to say, the Government itself, fixed the possible extent of the concession without being limited in its field of action by a barrier raised before it by the Legislature. In the system of 1892, on the contrary, the law fixed rigid limits to the negotiator which, in principle at least, it was not in a position to exceed. The concessions, altogether relative, which it was permitted to accord, re-

sulted in fact in the granting of the most-favored-nation clause, but without fixed rates and not for long periods.

Such is the doctrine which has been applied since 1892, in spite of some exceptional impediments. Actually, however, one of the predictions of the authors of the tariff did not materialize. They believed that the maximum tariff would be the general duty; but on the contrary, it was the minimum tariff which in consequence of the many conventions became the general rule. On the whole, the framework of the system voted in 1892 has remained. The revision of 1910 added no new principles. As has been said, it was only a simple adjustment of its operation, designed to take account of certain new circumstances which could not have been forseen twenty years before that time. It may be assumed that without the Great War, the work of M. Méline would have lasted beyond 1914.

In this sense, the period during which this customs policy was in effect and which extends from 1892 to 1914 is quite uniform, since the doctrine which inspired it has not changed in its essential lines during this entire time. The essence of the system is that it represents according to the conception of ensemble, a close alliance of agriculture and industry, The industrial worker, in this conception, is enmeshed in the orbit of the employer's interest by the bait of wage stability —joint interests which are well recognized in the United States. On the other hand, the merchant marine and foreign trade are partially and consciously sacrificed. It is the policy of an autonomous France, a rural France, an industrial France as well, but working above all for the domestic market.

It is important to understand that the true instigator, the real and steady supporter of this policy has been Parliament rather than the Government. It was Parliament which if not presented, at least constructed the Tariff of 1892; it was Parliament which demanded and obtained the revision of 1910; it was Parliament which against a more or less reluctant Government insistently demanded and obtained satisfaction for the rights of the elected Assemblies. The Government, step by step, defended, in the name of the Constitution of 1875, the intangible rights of the negotiator, but finally the freedom of the negotiator was diminished and

confined between the two rigid points of the two tariffs, the maximum and the minimum. From the point of view of French constitutional history, this was a period of superiority of Parliament, coinciding with the effective establishment of the Republic. This is important to note because the war and the immediate post-war period, on the contrary, denoted a quite different era of evident diminution of parliamentary power.

As we are now viewing this customs era after the lapse of time, we note that it was undoubtedly openly protectionist without any false shame. At the same time, however, we note that this protectionism accepted the corollary of a general contractual policy wherever the system used in the foreign countries permitted reciprocal concessions.

The result was an extraordinary tariff stability during the twenty years which preceded the War, which moreover, corresponded to that general stability at the end of the 19th and the beginning of the 20th century, which now appears to us so enviable and, to speak the truth so paradoxical.

The catastrophe of the Great War was necessary to deprive Parliament, at least in practice, of the rights which it believed to have acquired forever and to revive the powers of the Government in customs matters. With 1914, a period of customs arbitration on the part of the Executive begins, and it can hardly be said that we have yet emerged from this state.

Tariff Policy of France during the War and Immediately after the War

After the declaration of war, the Government received from Parliament almost dictatorial powers in customs matters. Parliamentary ratification continued to exist, but the Government enjoyed, not only the initiative, but also the possibility of immediate action. During the entire duration of hostilities, government action was principally manifested by the policy of embargoes on imports and exports on the one hand, and by the power of establishing customs duties by decree, on the other hand. This régime undoubtedly only partially survived the state of war, properly speaking. Nevertheless, contrary to the spirit of the former period, up

to this time (and this observation is still true at the moment as I am writing these lines) it leaves the initiative of customs policy to the Executive.

For political reasons, more so than for customs reasons, on July 31, 1914, the Government was given power to issue embargoes on exports. During the entire duration of the war it made large use of this power without arousing any astonishment. Nevertheless, when it renounced the principle of this policy on January 20, 1919, it maintained as an exception a certain number of embargoes which were no longer justified by military defense, but which were maintained for the purpose of a more or less legitimate defense of various national interests. For example, it was desired to reserve certain raw material products of France for domestic industry; or by prohibiting the exportation of certain foodstuffs it was attempted to prevent an increase in prices, always politically dangerous in a country subject to monetary crises as France was at that time; moreover, certain embargoes on exports constituted a means of efficacious pressure in diplomatic negotiations. Only in 1927 a decisive change of policy occurred. Because of pressure on the part of the Chamber, and particularly on the part of the agricultural elements in the Chamber, the Government was finally obliged in that year to renounce even the principle of placing embargoes on exports, and although some exceptions still existed after that time, they were very small in number.

To the policy of embargoes on exports, there was joined naturally a corresponding policy of embargoes on imports. The latter, however, were of much greater importance. By a decree of September 27, 1914, the Government prohibited the importation of all enemy merchandise; later, the law of August 4, 1915 confirmed the prohibition of all trade with the enemy. The chief statute, however, was the law of May 6, 1916, passed for the entire duration of the war, which authorized the Government both to prohibit imports and to increase customs duties by decree. The decrees of March 22 and July 31, 1917 gave this policy wide application. General embargoes on imports were decreed, not without the necessary corrective measure of numerous departures and numerous special agreements with the Allied powers, with a view

of allotting them certain quotas in regard to importations. This was a political doctrine for the purpose of maintaining the exchange value of the franc by systematically reducing purchases outside of the country, of concentrating importations on products really necessary for national defense, of relieving the merchant marine which was already overburdened by reducing to a minimum transports which were incumbent upon it. The desired effect undoubtedly was partially and even largely attained, but at the same time it resulted (as it did likewise in the case of England) in *de facto* protectionism, doubly dangerous, because it was at the same time disguised and arbitrary. It was in effect a régime which was justified only by the war and which could not survive it. Therefore, after January 20, 1919, a decree accorded more liberty to imports, and a little later the decree of June 13, 1919 lifted the majority of the embargoes. Finally, on December 31, 1920, the Government found itself deprived of the power to pronounce embargoes on imports. Nevertheless, certain embargoes remained for many more years, both because of the necessity for protection during a particularly unstable period and for reasons of sanitation which will always exist in all countries. It was necessary to wait until 1927 until the policy of embargoes was definitely classed as pertaining to the period of the war and consequently to the past. An international convention, prepared by the League of Nations, moreover, has since then strictly limited the international use of embargoes.

The suppression of the majority of the embargoes in 1919 directly opened the problem of tariff protection. In the absence of embargoes, customs duties became necessary. The principal law of May 6, 1916, as we have noted, authorized the Government to increase customs duties by decree. This was a considerable departure from the régime of 1892, during which the initiative and influence belonged to Parliament. The entire period of the war and of post-war reconstruction is characterized by the surrender of this extraordinary and arbitrary power to the Government. What use did the Government make of it? As long as embargoes were at its disposal, it preferred to employ this method, and this was natural because it is the most decisive weapon. However,

when the general practice of embargoes was withdrawn in 1919, it was necessary for the Government to take up the question of customs duties which up to that time had been of secondary importance. It was at this time that an extraordinarily delicate problem was raised, that of customs policy, under circumstances which were so new that former experience was practically of no avail.

What were the powers of the Executive at the time of the Armistice? The law of 1916 was at first prolonged from year to year until the end of 1922. At that time, beginning December 31, 1922, the exceptional powers of the Government disappeared. Thereafter, only Parliament had the right to fix new tariffs. It may be astonishing to see this French Parliament, formerly so jealous of its prerogatives, wait four years before depriving the Government of a truly tremendous power. The truth is that during the uncertain conditions, every one admitted that the establishment of customs duties by decree constituted a more rapid and hence a more efficacious method. Let us add—a consideration entirely political—that the Chamber elected in 1919 and largely composed of new men, strangers to the preoccupations of the pre-war period, was far from possessing the political tradition which had characterized the boldness of the legislatures of the end of the 19th century.

The question of tariff protection continued to be a serious one, and became even more serious by the return to peace conditions. As a matter of fact, industry during the war, insofar as it was not in the hands of the enemy in the invaded territory, had made large profits; new industries had been created to replace those of which the country had been deprived by the invasion of the Nord; on the other hand, in France, as had happened everywhere else, the need for commodities had been so great and the necessity to manufacture quickly so urgent, that little attention was paid to production costs. The result was that a part of the industry began to question anxiously under what conditions it was going to exist. This anguish became manifest following the removal of import embargoes on foreign competition, and it became still more acute when the depreciation of the mark and other European currencies began to stimulate the exports of the

industry of Germany and of other countries. Then, there was witnessed the renaissance of a spontaneous protectionist movement, which tended to strengthen the advantages acquired during the war and to keep, as far as possible, at their acquired level the new industries created by the war or those which the war had considerably developed.

It should be stated that the protective power of the old tariff of 1892–1910 which was still in force had been considerably weakened by the combination of circumstances. The tariff duties, generally specific, had become entirely unsound, that is, diminished to an extreme by the rapid increase of prices beginning with 1919. A duty of six francs on a commodity valued at one hundred francs in 1913 lost two-thirds of its effectiveness when the price rose to 300 francs; that is, under these conditions the former duty of 6% was worth only 2%. It is true that, if the depreciated exchanges of certain foreign currencies acted against us, on the other hand, the depreciated exchange of the franc constituted an effective customs protection for French industry in regard to countries with appreciated currencies. Nevertheless, even if account is taken of this advantage, the principal handicap of the French producer lay in the instability of prices, which rendered all precaution impossible and removed the question of comparative production costs between the various countries from the domain of reason. Under these conditions, there was urgent necessity to proceed to a rapid revision of our customs legislation.

The Government did not even wait until the end of the war before taking upon itself all liberty of action as regards foreign powers. On September 10, 1918, it denounced all commercial treaties containing the most-favored-nation clause, and one year later, on September 10, 1919, its hands were absolutely free. It was not that the Government wanted to be without regular relations with the other countries, since the agreements which were denounced were temporarily prolonged, but it desired to reserve the possibility of a contractual policy of an entirely new spirit.

The changes of the French customs tariff between the Armistice and 1927–1928 accordingly reflect the force of circumstances, dictated entirely by the changing needs of the

moment. It was a succession of opportune measures for the purpose of adjusting the desired customs protection at the time of the continuous fall of the French currency. Let us point out that during these eight years a stable tariff and worthy of this name was not established nor was it possible to establish it.

The problem to be solved was to assure fixed protection in spite of variations in prices. Under the first system, conceived by the decree of June 14, 1919, an attempt was made to add an ad valorem duty to the existing specific duty in order to bridge the difference caused by the rise in prices. This system remained stillborn. In theory, it was well conceived, but in practice the difficulty of evaluating prices in a period of extreme instability (the year 1919 witnessed tremendous price changes) the customs office found insurmountable. The decree of July 8, 1919, inaugurated another method which consisted of multiplying the specific duties by coefficients, varying according to prices. If, for example, prices increased three times, the specific duty remaining the same and consequently becoming three times less was multiplied by three. The process is a simple one, but the difficulty lies in knowing who is to be charged with determining the coefficients. From 1919 to 1922, the Government itself performed this function, proceeding by decree. For this purpose it created a Commission of Coefficients, charged with establishing and revising periodically these coefficients. From 1919 to 1922, there were 65 decrees modifying 3,294 customs items.

In what spirit were these decrees issued? Theoretically, this was to be merely a process of equalization, but in practice it happened naturally more than once that the coefficients, instead of maintaining the former protection, tended to increase it. Yet, beginning with 1922, a law became necessary to modify the coefficients, and from that moment on the entire system was upset. It lost its essential quality of subtleness. As prices continued to mount, it actually came about that beginning with 1922 real protection continued to decline, particularly as far as agricultural products are concerned because the increase in their coefficients had been long delayed. In this may be seen the advantages and the

inconveniences of the system. Established by decree, it functioned effectively, but not without the danger of arbitrariness and exaggerated protectionism; established by law, it presented certain guarantees, but actually it could not function, at least during a period of instability which exacted immediate and perpetually changing decisions.

In the presence of the disconcerting competition of the countries with depreciated currencies, France, as well as all other countries, adopted sweeping methods. Procedures as delicate as the mechanism of a watch, were abandoned. The decree of March 28, 1921, raised the spread between the maximum and minimum tariff to 300% (the latter had already been increased by its coefficients). The true aim of the measure was to protect French industry against German competition which was then at its full height (at the same time, in fact, the former maximum tariff was maintained as regards the United States).

In the course of time, however, these various measures, no matter how vigorous they were, ceased to be adequate because of the depreciation of the franc which, beginning with 1924, adopted a truly alarming pace. To be sure, until 1926 the depreciation of the French currency was in itself its own customs remedy, acting as a powerful protection. In 1926, however, the depreciation tended to reach that phase of acuteness when the organism no longer defended itself. Twice, on April 6th, and August 14th, 1926, the Government increased the minimum tariff by 30% each time, this increase automatically entailing a corresponding increase in the maximum tariff, in order to maintain the difference of 300%. It was as a matter of fact the end of the crisis, since the franc became stabilized, de facto, beginning with December, 1926. The customs measures taken in consequence, however, belong to the subsequent period which we shall discuss later on in connection with the establishment and the passage of the present tariff.

As far as the contractual policy of the period immediately after the Armistice until the new Tariff of 1927–1928 is concerned the Government in 1919 made Parliament give it new powers of negotiation which it hoped to use in order to launch a policy of commercial conventions. The law of July 29,

1919, specified the concessions which the negotiator thereafter would be authorized to make, as well as those which it could not make. Under the former system, either the maximum or the minimum tariff could be given in the treaty. Hereafter, some reductions in the duties on the maximum tariff could be accorded to a foreign power, calculated as a percentage of the difference between the maximum and the minimum; this was equivalent to the establishment of an intermediary tariff, determined according to the various negotiations. On the other hand, the negotiator was no longer in a position to grant the most-favored-nation clause en bloc (the total grant of the minimum tariff was forbidden) and the law adds that "the concessions will be accorded in exchange for corresponding advantages," which excludes the gratuitous grant of the most-favored-nation clause and tends to make the system similar to that known under the name of "reciprocity clause."

The new doctrine was not badly conceived in theory, but developing under difficult circumstances, it soon showed itself impractical. At first, the instability of the currency and of prices modified the real incidence of the tariff, and, consequently, it was necessary to change the duties incessantly. Because of this, protection was nothing but a mere shadow. On the other hand, because these customs duties lacked effectiveness, their power being constantly weakened, there was constant temptation to return to the method of embargoes. Finally, when the currency became entirely disorganized, every one knew that the customs duties were losing all effectiveness. Only the premium or the protection given by the depreciated currency really remained effective. Under these conditions, it became impossible to use the delicate system of negotiation which had been conceived, with its intermediary duties, its differences in relation to the maximum tariff, its preferential duties, article for article. Moreover, in the course of these negotiations, a demand was persistently present on the part of the negotiator for the most-favored-nation clause. The negotiator held out on this point, the more so since a period of several weeks was sometimes sufficient to modify completely the nature of the advantage which it believed to have secured for itself. Under these con-

ditions, only a relative guarantee, compared with the advantages eventually granted to others, could appear satisfactory.

Leaving aside for the moment the Franco-German customs relations during the transitory period in which they were fixed by treaty, it must be stated that the contractual policy of France underwent a series of changes under the régime inaugurated in 1919. Four phases, which it is true overlap, may be distinguished. First, a vain attempt was made to apply the doctrine of 1919. Second, there was a development towards the policy of reciprocity. Third, one was satisfied with limited agreements because of the impossibility of getting more in a period of extreme instability. Finally, there was a gradual return, without acknowledging it, to the pre-war conception, that is, to the most-favored-nation clause in the form of a general duty of the minimum tariff. Retracing our steps in order to cover the years following the Armistice, an almost identical development may be distinguished (but too much precision must be avoided). From day to day, however, the history of these customs negotiations appears astonishingly complex and confused. It was constantly necessary to revise the agreements; with certain countries a new agreement was concluded each year. The most important countries, feeling themselves constantly outplayed and deprived of their advantages, not because of bad faith on the part of France, but due to circumstances, accepted only new concessions which had been granted to others and not immediately extended to them.

In summary, the system functioned badly, and in the absence of a practical doctrine, there was a fairly rapid development towards a system which marked the return to the conception before 1914, and in the final analysis to the conceptions even prior to those of the Méline régime. For example, there exists tariff autonomy in the hands of Parliament since Parliament may change the duties. Nevertheless, various de facto consolidations may be noted, (for example, the maintenance of the former general tariff with the United States at the moment of its sudden rise as regards other countries). Let us add that by force of necessity, which the negotiators practically could not escape, it was necessary

to accord the total of the minimum tariff, which is in fact equivalent to the grant of the most-favored-nation clause. This development, a logical outcome of events, takes us to the threshold of a new period in which, the franc having finally become stabilized, it was possible to put matters on a sound basis. For it was not the ingenuity, the talent, or the technical competence which was lacking to our negotiators during this extraordinary period; on the contrary, we had in M. Serruys, our principal negotiator, a most informed and most capable diplomat; but the problem was unsolvable as long as the instability of the exchange and of prices dominated the entire situation. This entire period throughout Europe developed under the sign of disorder and every effort of order, of stability, and of construction necessarily failed. As a matter of fact, it was impossible either to conclude a durable customs convention or to put into effect a tariff. Only when at the end of 1926 the French currency became definitely stabilized was it possible finally to envisage the establishment of more durable relations with foreign countries and even to put into effect a customs tariff conceived according to a plan *d'ensemble*. A new customs period then began, and at this fundamental date, December, 1926, may be fixed at least theoretically the French financial reform, a date which symbolized the success of the policy of M. Poincaré and stabilization of the franc, if not already legal, at least already effective.

The New Customs Policy and the Tariff of 1927–28

Although considerably modified under the conditions which we have just explained, the old tariff of 1892–1910 on the whole survived the War and it was still in effect after the War. For many reasons, however, an increasing desire was aroused among industrial and commercial circles for a new customs tariff. The depreciation of the franc had resulted in a certain diminution in the effectiveness of customs protection. In certain cases, the real protection consisted of only 1% or 2%. Later, the need for tariff stability made itself felt with growing urgency. Finally, the French industry no longer resembled that of the pre-war period. Alsace-Lorraine

was again an integral part of France, while in the Nord powerful industries had become established, new because of their equipment and their technical processes. The old nomenclature of 1892, already revised in 1910, was out of date. The tremendous technical progress realized, for example, in the aeronautical, mechanical and chemical industries called for a new designation of commodities. The desire for these reforms had in reality been always present since the Armistice, and repeatedly various projects were proposed; but nothing was accomplished because of the fluctuations of the currency and of prices which rendered vain all efforts of stabilization. When beginning with December, 1926, the franc was de facto stabilized it was possible to undertake the construction of a durable customs régime.

From 1922 on, the Government undertook with this aim in view various preparatory investigations, but they remained without results for the reasons which we have just mentioned. In consequence, the Customs Commission of the Chamber of Deputies and the Government devoted themselves, along parallel lines, if not always jointly, to the preparation of a new customs tariff. In 1927 the Government finally submitted its project which, more or less modified by the Customs Commission and the Chamber, includes the following essential principles:

The plan of 1892, that is, the system of double tariffs, maximum and minimum, was maintained with the possibility, nevertheless, of intermediary tariffs, conforming to the precedent of the contractual régime of 1919. Moreover, a choice had to be made between ad valorem and specific tariffs. In this connection, the experiences of the depression years have been precious. In conformity, however, with the French customs tradition, it was the system of specific duties which prevailed. As a matter of fact, practice demonstrated that an ad valorem conception gives rise to endless claims on the customs office and to vexations difficult to avoid as far as trade is concerned. An ad valorem duty appears easier to establish, and at the same time more subtle and more equitable, but actually, from the point of view of customs application, the specific duty is more practicable in the sense that it does not exact from the customs personnel anything but

a simple identification of the products. Nevertheless, it must not be forgotten that in a period of instability specific duties had become unusable. For this reason specific duties were not employed again until corrective measures were applied which enabled them to become automatically adapted to eventual price changes. It was admitted, therefore, in principle, that the duties would be expressed in francs according to the weight or the number of the merchandise; but it was specified that the rate would be variable, according to the variations of the index numbers of wholesale prices and that a quarterly revision would determine this adaptation every time that the variation exceeded 20%.

Specific duties exact a very precise designation of the commodities; moreover, the new project consists of 1,750 items, that is about three times more than the number in the preceding régime. If account is taken of the subdivisions, the items may be estimated at about 8,000. The fault of the system lies in the fact that in certain cases it is technically impossible to designate all the commodities with sufficient precision. The technicians in many branches were forced to admit their defeat, and accordingly there was a return, but only a partial one, to fixing the duties by the ad valorem system. This was the case, for example, for automobiles, scientific instruments and apparatus, clothing, certain chemical products, pharmaceutical specialties, etc.

We have mentioned above the vicissitudes of the embargo régime. In consequence of the pressing demand of agriculture, the embargo on exports was lifted. New embargoes on exports can not be established by decree, and likewise export duties have been suppressed in principle. Naturally, only those embargoes on exports have been maintained which the needs of the customs policy and of general security render necessary.

It is difficult to specify the rate of the duties contemplated under this arrangement, the more so because in the case of a specific tariff (even when the necessary precautions have been taken) this rate may be constantly modified by price changes. It has been estimated that the protection established varied from 10% to 20% in the case of the minimum tariff, while the maximum tariff was three times the minimum tariff.

The theory under which negotiations were to be conducted marks a considerable change, as compared with the ideas which prevailed in 1919. We have shown above, however, how circumstances themselves prepared this development by making it more or less necessary. The experience acquired since the Armistice has shown our negotiators that foreign countries aim above all to obtain two essential advantages from us—the effective stabilization of the concessions granted by the French Government and equality of treatment—it is particularly in reference to tariff discriminations to their detriment that our foreign negotiators show greatest concern. The French Government has shown itself disposed to take such desires into account; the new régime undertakes to guarantee the stability demanded by the automatic variation of duties relative to the index of prices, by the longer duration of the conventions, and even by certain consolidations of duties in the treaties. As to the equality demanded, we consented to guarantee it, in fact to return to the most-favored-nation clause, that is, to the possible granting of the total minimum tariff. Nevertheless, we are disposed to grant it only as a matter of reciprocity, that is to say, we deny its automatic play and in principle we refuse its benefit to countries which in turn grant us only their general tariff.

The spirit which characterizes these tendencies bears the mark of the lessons learned during the war. In 1919, the policy of seclusion behind trade barriers was followed; today there is a willingness not only to negotiate but to make the negotiations successful, and for that reason there is even no hesitation to return to methods of negotiation employed before 1892, which the régime of 1892 had abandoned.

At this point, it is interesting to describe briefly the attitude of the interested public at the time of the tariff discussion before the Chamber, that is, in May, 1928. As has been noted, after the Armistice the existing customs régime did not benefit agriculture. The export embargoes prevented it from exporting freely and, on the other hand, the coefficients were accorded to it only parsimoniously. The Government and Parliament during this period, as a matter of fact, were constantly hypnotized by the danger of the high cost of living; they persistently favored the consumer at the ex-

pense of the agricultural producer, a very rare occurrence in the political history of France. For still another reason, agriculture found itself more isolated than it had been formerly. The Tariff of 1892 was put through, thanks to the alliance of farming and manufacture, in a joint effort to obtain protection; but after that time, agriculture itself became industrialized, having become a large consumer of equipment and machinery. Thereafter, it suffered directly from certain aspects of industrial protection and under these conditions it became more difficult to bring about the old alliance of 1892. These are the reasons that caused the agricultural deputies to protest against certain aspects of the tariff prepared by the Government, which placed industrial protection above agricultural. At the Ministry of Commerce agriculture has little influence, but it makes its voice better heard at the Customs Commission of the Chamber.

Industry became accustomed to protection immediately after the Armistice, at first because of the easy system of coefficients and later because of the benefit derived from the monetary depreciation. On the other hand, the increase in the capacity of production at its disposal since the war, and which is due largely to the development of machinery, forced it (as was the case in all other countries) to sell a large mass of products. Under these conditions it had to rely more and more upon the domestic market and because of this fact its natural tendency was protectionist. Nevertheless, the analysis of industrial opinion must not be abandoned at this point, because the influence of the international cartel system made itself felt among the industrialists. Many of the large French industries have made or are about to make international agreements for the purpose of allotting by common agreement their production and arriving at an amiable division of the markets. Now, when industrial organization extends beyond the national boundaries, it is well known that customs preoccupations tend to become of secondary importance. The result is that in the French industrial world a double tendency may be discerned, not contradictory but distinct—protectionism is found particularly in the industries where there are no cartels; among the industries

which have entered into international agreements, there is very naturally more indifference to protectionism.

The opinions and actions of the consumers are particularly interesting to observe. Traditionally, comparatively little attention is paid in France to the consumers. The Tariff of 1892 was made without them. But the increase in prices together with the decline of the franc did not take place without causing grave anxiety among the responsible political persons. The former pacific consumer then appeared as a possibly dangerous person who could not be relied upon if the cost of living became too high. Accordingly attention was paid to him and the politicians no longer forgot him—he played his rôle in the establishment of the new régime.

To what extent did these different influences make themselves felt in the preparation of the Tariff of 1927? It appears that the Minister of Commerce who prepared it was in close contact with industrial circles. On the other hand, the Chamber which had to discuss it was more influenced by the farmer, and even by the consumer. It was afraid, as often happens in France, to appear too favorable to large-scale organized industrial production and to capitalists. It was in this sense that the Customs Commission of the Chamber modified certain provisions of the plan which was presented to it; it was the Commission which insisted on the suppression of export embargoes harmful to the farmer, and it was the Commission which attempted under the influence of certain agricultural representatives to diminish industrial protection in order to diminish the difference which separated the latter from the protection accorded to agriculture.

This analysis was necessary in order to explain why the tariff project presented to the Chamber in May, 1927, was in the same month set aside by it; it was not actually rejected, but temporarily postponed, which at the moment amounted to the same thing. As we have stated, agriculture did not feel itself as well treated as industry; the Left of the Assembly was obscurely afraid that the consumer might appear to have been sacrificed. Under these conditions, after having voted the first ten articles, the Assembly without actually rejecting the new tariff, refused to proceed further with the discussion. It was because of this circumstance,

purely parliamentary in nature, that one of the most interesting and most curious developments in our tariff history took place.

In reality it was impossible to pass the new tariff; but the economic life of France and that of Europe, none the less, continued on its course. It was under these conditions that the repercussions of the Franco-German economic relations revealed themselves as being of decisive influence on the orientation of the whole French tariff policy. Indirectly, and because of unavoidable necessity, France finally received through the combination of circumstances the tariff which she had hesitated to adopt of her own accord.

Until 1925, the economic relations of France and Germany had been regulated in a temporary way by the Treaty of Versailles, but after that date they became governed by ordinary laws. The two Governments then attempted to regulate their reciprocal customs relations by agreements. As a matter of fact, they had never been without agreements, although provisional and never satisfactory. From 1925 to 1927, the two Governments exchanged a large number of protocols, agreements, *modus vivendi*, and declarations of altered policy. . . . No success was attained, because Germany always insisted upon obtaining the most-favored-nation clause and because we hesitated to agree to it as long as we did not have a suitable and sufficiently protective minimum tariff; and as we have indicated, the instability of the franc prevented us from establishing this minimum tariff. From then on, negotiations interminably moved in a vicious circle. In 1927, when the Government presented its tariff to the Chambers, it might have been supposed that the establishment of stable relations with Germany was possible and near at hand. But the rejection of the tariff ran the risk of causing a failure of all Franco-German economic negotiations, while the repercussion of this failure threatened to affect the policy of Franco-German rapprochement which had been in progress since Locarno. The last Franco-German tariff agreement expired on June 30, 1927. By allowing this expiration to occur without having made a new agreement, the work of many years ran the risk of becoming compromised. The Left of the Chamber, particularly favorable to the policy

of European peace, showed itself especially sensitive to this argument, and because of political rather than tariff considerations the entire Parliament felt that it was impossible to insist purely and simply on the recent rejection of the tariff.

It was under these conditions that, with an ingenuity to which homage must be paid, the Government suggested a means of coming out of the impasse. France could not accord the most-favored-nation clause, that is, its minimum tariff, without raising this minimum tariff to a level sufficient to furnish reasonable protection. But the minimum tariff was really not in question. Would it not be possible, therefore, suggested the Minister, to transform into a new minimum tariff the list of duties on which an agreement with Germany might have been made. The basis for this determination being contractual, the Government could only proceed as negotiator. It was necessary, therefore, that the Government be authorized to fix these duties by decree, with the understanding that the new tariffs could only be put into force together with the agreements which motivated them, it being necessary to obtain the approval of Parliament for the tariffs at the same time as for the agreements. It was in this sense that the solution was approved by the Chamber in July 13, 1927, 486 votes against 20, and which became the law of July 27, 1927.

Fortified by these powers, the Government no longer experienced any insurmountable difficulty in negotiations with Germany which resulted under these conditions in the Franco-German Treaty of August 17, 1927. A few days later, in conformity with the new procedure, a decree of August 30, 1927, established and put into effect the new minimum tariff duties on the basis of the recent German agreement. Because of this fact, the former customs tariff of 1892 and of 1910 was replaced in the proportion of three-fifths of the duties by a new tariff system, which did not originate in Parliament, but was the result of diplomatic negotiation. A little later new negotiations with Belgium and Switzerland resulted in a new revision of the minimum tariff.

Food and allied products remained outside of this entire discussion by virtue of an agreement between the Govern-

ment and the Chamber. The Law of March 2, 1928, supplemented in this respect the insufficiencies of the new tariff, following which the new negotiations with Belgium (February 23, 1928), with Switzerland (March 11, 1928), with Italy (March 7, 1928), with Austria (March 10, 1928) and with Czechoslovakia (July 12, 1928) resulted in still further supplementary modifications.

Under these conditions, France found herself in possession of a new tariff. Of approximately 1500 articles which it contains, 950 were instituted because of the Franco-German negotiations, 5 by the Franco-Italian negotiations, about 100 by the Swiss negotiations and about 100 by the Belgian negotiations. Altogether, on the direct initiative of Parliament only between 150 and 200 items were covered. From a constitutional viewpoint, this denotes a most curious procedure which, no matter how little it may be related to the spirit of the new customs policy, clearly marks the extent of the development which has taken place since the war, as compared with the period inaugurated in 1892.

In its true meaning the new régime, first of all, represents a reaction against the system adopted in 1892 and a tendency to return to the spirit of 1860. As a matter of fact, in 1927 it was the negotiator who effectively fixed the minimum tariff, while according to the procedure of 1892 the negotiator was imperiously confined within the two limits of the maximum and minimum tariffs (although protestations were made against the principle). On the other hand, there may be noted, in contrast to the political atmosphere of the pre-war period, an evident decline of parliamentary influence in tariff matters. The initiative has passed, in effect, from Parliament to the Government; the tariff is conceived contractually and not by itself; Parliament in consequence can do no more than ratify or revise it en bloc.

The Chamber of Deputies by approving on July 13, 1927, a procedure which was imposed upon it like a forced card, did not fail to sense to what extent its moral position was affected by that fact. The doctrinarians, the oldest members who recalled the former tradition, did not fail to indicate their reservations and their melancholy: "We are asked to deprive ourselves of our normal prerogatives and to author-

ize the Government during recesses to put in effect a customs law, a legal tariff, which applies no longer merely to a country with which we have concluded a convention, but to all foreign countries. Tariff duties will be increased on the initiative of the Government, duly accepted by the interested parties, but *outside of Parliament.* . . . One can imagine what M. Méline would have said in regard to the present procedure. . . . and I fear that this has been brought about less by conscious intent than by the force of circumstances" (discourse of M. Nogaro). There is no doubt that these regrets, expressed by a conscientious Parliamentarian, are entirely justified. Before the war, the Chamber certainly did not allow itself to be set aside in this manner, as far as the tariff is concerned, by the Government acting as negotiator. In this fact, however, there may be seen a natural consequence of the war and the disturbances which followed it. The future will tell whether in this rivalry between the executive and the legislative the latter will recover the conduct of the operations which it had so incontestably arrogated to itself in 1892.

However, whatever may be the influence which directed the establishment of the new customs policy, it can not be denied that its tendency is directed toward a big and open conception from an international viewpoint. For the somewhat narrow reciprocal negotiations of 1919, in which the concessions had to be limited article by article and were different for each contracting period, it tends to substitute a more general policy of conventions by granting the total minimum tariff with a return to the most-favored-nation clause. In this sense, after the war there has been a return to the liberal and truly international ideas of the régime of 1892, despite its reputation of protectionism. And, through the wider powers which are left to the negotiator, through the practice of consolidating the duties, through the desire to make conventions durable after the contractual duties become a part of the tariff, there is a tendency to return to a régime, internationally still more liberal, which in a sense belongs to the period of 1881 and 1860. In this manner, France takes part in the movement for wide cooperation between nations which has been the result, delayed perhaps but certain, of the lessons learned by the Great War.

ITALIAN INDUSTRY IN 1928

Report of Mr. Antonio S. Benni, President, Confederazione Generale Fascista dell' Industria, Milan

AT the beginning of 1928 Italian trade went through a period of notable depression. The rapid and considerable revaluation of the lira, which took place in the latter months of 1926 and in the first six months of 1927, and the later stabilization at a much lower level than that to which costs of production and prices of products had risen in the preceding years, had in fact radically modified the exporting ability of Italy, placing Italian exporters in a disadvantageous position with respect to those of other countries. If some elements of costs had responded rapidly to the changed value of the money, others of no small importance had either remained stationary or had only partially followed the movement. Internal costs of production in this way came to be higher than in the competing industries in foreign countries. This caused considerable concern regarding the maintenance of the positions reached at home or abroad. During 1927, Italian manufacturers, with a far-seeing spirit of sacrifice and in order to avoid giving way to foreign competition, had lowered prices to a point at which in some cases all margin of profit disappeared and products even sold at a loss; but it was logical that this could not go on for long. The home market, under the influence of the poor agricultural production of 1927 and great unemployment, and pending the clearing up of the situation, had limited its orders to the barely indispensable, with restricted and irregular orders, and gave no sign of picking up.

The necessity of not compromising monetary stability, on the other hand, tended to limit as far as possible all credit, which caused a certain scarcity of money and kept interest rates high although interest rates had already shown a tendency to decline.

Nevertheless, if the revaluation had put the power of re-

sistance of the national industrial body to a severe test, stabilization had caused a wide sense of faith in the future. The violent oscillations of our money in the past few years being eliminated, producers could now base their estimates on an absolutely sure foundation, such as the stability of the lira. The home market could be expected to return to its normal course, little by little, especially since the agricultural campaign of 1928 promised to give sufficiently good results. The Stock Exchange, in brilliant recovery, only confirmed the wide sense of optimism.

Comforted by these facts and encouraged by the words of the Head of the Government, the manufacturers, who even before stabilization had taken into consideration the necessity of studying the best means to reduce the costs of production, did not fail to persevere wholeheartedly in the revision of the systems of organization of agency and systems of production, introducing such modifications to that end as appeared advantageous and possible.

In this way the process of industrial concentration, which led in 1928 to the fusion of more than 150 industrial and commercial share companies, was intensified; careful study was given to the possibility of a larger and more reasonable employment of mechanical means in working; sales consortiums were formed to diminish the damaging effects of competition between producing firms and limit the cost of services of information and propaganda; and the personnel both of workmen and clerks was reduced to the minimum, although an endeavor was made to avoid, as far as possible, a painful increase of unemployment.

Substantially, in 1928, there was an intense process of rationalization and reorganization, which, while it did not fail to have its painful side causing a noticeable increase in failures, has reinforced, and is reinforcing increasingly, the Italian productive body.

The effects of this intense work of elimination and reconstruction, were not long in showing themselves. Italian industry in the second half of 1928, favored also by the recovery of the home market, took a decided turn for the better. Undoubtedly the situation can not yet be called normal, but notable improvements have taken place in almost all

fields, and everything seems to point to the fact that in the near future our industrial activity will return to a satisfactory level.

Textile industries, taken as a group, succeeded in 1928 in maintaining their position and show improvement over 1927; the metal industry shows a tendency to recover; mechanical industries are here and there showing signs of improvement; the chemical industry, in spite of the keen foreign competition, continues to develop slowly; the leather industry shows a sensible recovery; the rubber industry is progressing; and the building industry already shows unmistakable signs of recovery.

Without dwelling further on the development of the individual industries, we find an unfailing indication of the industrial recovery in the importation of raw and semi-worked materials, which has risen from 11,783.1 million lire in 1927 to 12,155.3 million lire in 1928. The increase would have been greater if prices during 1928 had not been on the average lower than those of the preceding year and if importation of coal, returned in 1928 to a normal level after the heavy increase of 1927, had not largely contributed to diminish the difference between the two years.

The total export of industrial products showed a certain decrease, having dropped from 9,808.7 million lire in 1927 to 9,465.1 million lire in 1928. This decrease, however, was due essentially to the decline in prices, for if our exports of industrial products have not increased in quantity, they have certainly not diminished much. This demonstrates how, even through notable difficulties, our manufacturers have been able to maintain their position, even in foreign trade.

Under the wise guidance of the Duce, Italian industry, shaken, but not bent, by the difficulties of the moment, today moves forward full of faith to start again its upward progress, which was momentarily slackened.

THE RELATIONSHIP BETWEEN FINANCE AND INDUSTRY IN BELGIUM[1]

Report of Hon. Georges Theunis, Minister of State, Brussels

AN examination of the economic situation of Belgium and the manner in which it has developed reveals that the relations between banking and industry are of a very peculiar nature. They are not comparable to those existing in other countries, England, the United States, France, or even Germany.

In order to understand the relations which exist between them at the present time, it is necessary to summarize briefly certain phases in the history of banking and industry in Belgium. And in particular the development of Belgian economic life since the beginning of the last century will give the necessary explanations of their respective positions at the present time.

At the beginning of the 19th Century, the survival of the former corporative régime, transportation difficulties and the partial paralysis of the Port of Antwerp represented as many elements which were little favorable to an expansion of production. Although Belgium remained what it has always been in the course of her history, a nation exporting manufacturing products and importing raw materials, the market for Belgian products remained relatively narrow.

The available capital was practically non-existent and its creation difficult.

For the most of its commerce, the Belgian nation depended upon foreign traders.

Thwarted in its overseas trade by the closing of the Escaut and the dissolution of the Cie d'Ostende, which offered great possibilities for expansion, Belgium was not able to acquire a class of merchants with considerable capital at their disposal as had been the case in England and particularly Holland.

[1] Translated by the National Industrial Conference Board.

Furthermore, large land owners were practically non-existent.

In other countries, less ravaged by international wars and having been less subjected to foreign occupation, there was formed a national aristocracy, holding official administrative posts, which was conducive to a rapid creation of wealth or a consolidation of the existing wealth. During the course of the régimes to which Belgium was subjected, the principal posts were occupied by foreigners. Belgium, therefore, was not in a position to derive any profit for its industrial development from the sources of capital which these functions created.

Moreover, foreign domination drained Belgium of considerable sums by fiscal taxation and subscriptions to foreign loans. The uncertainty created by numerous wars and other ravages likewise contributed to destroy the savings which were in a nascent state. As the battlefield of Europe, the Spanish and Austrian Netherlands have experienced all the excesses committed by the armies of the old régime—devastations and pillages.

In consequence of the French occupation (1795–1815) the Escaut was opened and allowed Belgian industry to begin on its conquests of foreign markets. Nevertheless, great difficulties had to be overcome.

After a mournful experience with the assignats, bank notes were practically non-existent. Specie was relatively rare. There were only a few provincial banks. Trade bills had a small circulation and exchange was still fixed from city to city. Under these conditions, a central institution of large dimensions, having at its disposal large amounts of capital, had to intervene in order to finance the development of industry which the regained commercial freedom was going to make possible.

The Belgian bankers were not in a position to supply the necessary capital.

Domestic capital alone was insufficient; the absence of note circulation and the insufficiency of national specie precluded much aid from private Belgian wealth which for the most part was that of land holders.

Thus, in 1822 William the Third, who reigned over the

Netherlands and Belgium united into a single kingdom, created the Société Générale de Belgique. The purpose of the new bank, of which the Sovereign was the principal stockholder, was to promote the use of notes in the southern provinces of the kingdom of the Netherlands, unify the circulation, introduce the florin, and eliminate the old brabançonne as well as French currency which was circulated to a large extent.

The program of the new bank was a vast one, but it seems that it would have been destined to fail if the management had confined itself to purely commercial operations, the number and importance of which at that time were insufficient. On the other hand, industry began to develop. The textile and metallurgical industries were first to expand in Belgium.

The manufacture of textiles (cotton goods require rather little equipment and relatively little capital) permitted the development of independent "family" establishments, most of which retained this character until 1919. From that time on, bank influence began to be distinctly perceptible.

The creation of the metallurgical industry in Belgium could not have been made without the aid of funds which called for the creation of capital stock companies or the continuous aid of bankers. The latter, being practically the only group with sufficient funds at their disposal, were in a position not only to further the growth of business, but also, by having a fixed policy, to assure a methodical development.

The Société Générale, particularly in consequence of the liquidation of immense holdings of immovable property which constituted a part of its capital, was able to begin the financing of the metallurgical and coal industries. The sale of this property led to digging of canals, laying out of roads, and the exploitation of forests (furnishing charcoal to iron works and blast furnaces).

The financial market being very limited, the bank was forced to keep in portfolio a large part of the capital of the enterprises which had been created and to supervise their operations.

This appears to be one of the reasons why the first Belgian

joint stock bank engaged from its beginning in the financing of industry.

It should be noted that the Société Générale was the first bank in Europe to follow this policy.

The type of "industrial bank" was thus born in Belgium before it existed in Germany and even before the Crédit Mobilier Français of the Pereire brothers who were inspired by the policy of the Société Générale.

The characteristic which dominates the history of banking from the middle of the Dutch régime until the first years of the Independence is that only one important bank operated in Belgium; it issued notes, liquidated a considerable amount of immovable property, practiced discounting, and financed industry by participating in the new companies.

Private bankers, it seems, played only a very insignificant part. The Société Générale was at the same time the banker of the Government. After the declaration of Belgian independence, opposition inspired by purely political reasons showed itself against the existing monopoly. This opposition was crystallized in the formation of a competing establishment, the Bank of Belgium, created in 1835.

This new institution copied entirely the organization of the Société Générale; it was likewise a bank of note issue, it was interested in industry and founded companies. The creation of the Bank of Belgium, therefore, did not add any original elements to the Belgian financial market.

Nevertheless, private capital developed very slowly.

Under the former régime the Belgian public held foreign rentes in fairly large quantities, particularly French rentes, and the French Government even maintained a permanent agent at Brussels.

Although the public was accustomed to buy government securities, the Belgian Government at first encountered the greatest difficulties in placing its loans on the domestic market, and it had to rely partially, until after 1850, on Paris and to a less extent on London.

During the first decades of the existence of the Belgian Kingdom, its Government had to appeal many times to the credit of foreign bankers, the Rothschilds of Paris and London. The number of stock brokers was very small and they were not always successful.

Thus it may be said that the Belgian financial market was very limited. On the other hand, the status of stock companies remained uncertain—previous authorization of the government was necessary. Under the Dutch régime, only twenty joint stock companies were formed.

Nevertheless a change soon took place. From 1834 to 1838 Belgium witnessed a period of great economic activity. Metallurgical production which had been very insignificant under the former régime developed feverishly—the two banks playing an important rôle.

Between 1833 and 1839, one hundred and fifty-one joint stock companies were created with a total capital of 289 millions. The initiative for their creation came largely from the two Brussels banks which did not always intervene directly but entrusted the task of realizing their projects to branch companies which they had established, companies which are very similar to institutions commonly called financial trusts, participating banks, or holding companies.

The introduction of this type of company is often attributed to the English who began to establish them about 1860. As a matter of fact, however, these two types were functioning in Belgium from 1835 on. The task of these companies, established by the Société Générale and the Bank of Belgium, was (a) to contribute to the establishment of all useful enterprises and to take an interest in them; (b) to buy and to sell merchandise, concessions, rentes and other securities. The interests of the banks led them to devote themselves to financial operations and note issues which at a given moment provoked waves of speculation. It should be noted that until 1848, on the other hand, commercial credit developed to a very small extent; not only was the amount of discounting limited, but it was badly distributed. Possibility of making use of it was practically non-existent in the provinces except among the special banks. And yet it was in the provinces that industry became established. The reasons for the scant development of commercial credit were to be found (1) in the financial policy of the two joint stock banks and (2) in the embryonic state of the circulation of notes in which there was little confidence.

A new element came into play: the construction of rail-

roads in Belgium was soon begun, 1835. As has been noted elsewhere, it led to an increase in the production of iron and coal, made communication easier and thus favored the production and distribution of goods.

On the other hand, it required for its operation considerable amounts of capital which had to be obtained from the public. At first the railroads were built by the Government; later on, their development was given over to private initiative and finally, since 1870, the Government gradually repurchased the Belgian railroad system. The result was that during a certain number of years the Belgian railroads did not contribute to the development of available capital except to that of the metallurgical industry and the improvement of transportation, the financial point of view being negligible, the Government borrowing to build the railroads without specifying its borrowings. In consequence the railroads contributed to a specialized financial activity.

A few figures will indicate the general lines of the industrial policy practiced in the beginning by the Société Générale de Belgique.

By 1825 this bank had already patronized the establishment of four coal companies, and in 1848 more than 25% of its portfolio was composed of coal securities.

Likewise, it was interested in the iron industry. The total production of cast iron in 1836 was only 135,000 tons.

The Société Générale established new companies, aided the reorganization of the existing companies and by financial operations helped them to place orders in foreign countries.

Independently of the metallurgical companies, which were directly patronized, the Société Générale also made important advances to other enterprises, particularly to the firm John Cockerill in 1834. In addition to participating in the heavy iron industry, it should be mentioned likewise that it participated to a less extent in 1837 in the blast furnaces of Luxemburg and in the construction shops at Gand and Brussels.

In the transport industry, the Société Générale supported at an early date the initiatives taken toward the building of railroads. It endeavored particularly to establish a close connection between the two methods of transportation, the

canals and the railroads, and took it upon itself especially to bring about easier communication between Paris and the mines of Charleroy and of the Center, Paris being a large consumer of Belgian coal. The Société Générale played only a small part in the development of the railroads as long as the effective monopoly of construction and operation was reserved to the Belgian Government. After 1855, it became again interested in it. The Société Générale was likewise interested in the first company which raised the Belgian flag on a steam boat. It participated in the establishment of glass works, refineries, manufacture of carpets, as well as the cotton industries.

The Crisis of 1848 and the Reform of the Issue of Notes

The Belgian banking system had a grave defect—the functions of issue and industrial credit were combined in the same institution; furthermore, each important bank issuing notes could only rely on itself; and the absence of a central bank of note issue where the other banks might rediscount their portfolios made itself felt.

In 1848, a rather serious industrial and financial depression occurred, caused by the revolution in France, poor harvests, and unemployment. The Belgian banks were overrun with demands for withdrawal of deposits. Compulsory rate had to be decreed.

A reform was necessary, designed to separate note issue from non-commercial banking operations. After long negotiations the Minister of Finance concluded conventions with the two establishments in accordance with which subscription to the capital of the new central bank, the "Banque Nationale," was reserved to them. The National Bank was given the monopoly of note issue. From then on, the two other banks were in a position to develop their industrial policy.

Banking Policy from 1850 until the Great War

After 1850 the country developed rapidly although undergoing fairly frequent economic depressions. The prosperity

of Belgium was due to the application and extension of technical progress, to the formation of capital which facilitated further development, and to the creation of foreign markets in countries which had not yet become industrialized. The possession of a colony of first rank at the beginning of the 20th Century opened new possibilities for Belgium.

The industrialization of Belgium entailed a movement of concentration which was definite but little visible, the characteristic traits of which are the increase in the size of the establishments and of the number of workers employed and the development of capital invested. The status of joint stock companies having been definitely established in 1873, a return to this form of enterprise was made possible in order to consolidate larger and larger amounts of capital which the isolated companies were incapable of furnishing. Concentration by fusion and alliances has been rather insignificant and integrated enterprises have even been divided into independent factories during the industrial depression. Mergers of railroad companies have been fairly numerous, but these are special cases and this movement of concentration has been the forerunner of the unification of the Belgian railroad system by the Government, which, as we have seen, had gradually repurchased the lines operated by concession companies.

Belgian banking policy may be divided into two phases, the point of separation of which is marked by the period 1870–75.

From 1850 to 1870 the Belgian banks strongly developed their discount policy which was made easier by the assistance of a central bank of discount, the National Bank.

Beginning with 1870 a number of new banks and new holding companies began to appear in the industrial field. Their number and their importance will increase in spite of the creation of a network of patronized banks by the Société Générale.

Still, the Société Générale for a long time was the only institution which held sufficient shares to assure it an active rôle in the development of industry in the country. Thanks

to its mixed character, therefore, it was in a position to follow a systematic industrial policy.

In exchange for its control, the bank procured orders for its branches; it made bids in foreign countries for supplies of rails, timber and so forth, and apportioned them among the factories belonging to its group.

As during this time Belgian industry suffered periodically from over-production, the Société Générale attempted to regulate production in the coal and metallurgical industries. Between 1860 and 1870 a group of rail manufacturers were kept at work through its intervention. It caused mergers and integrations. The Société Générale obtained the concession of building and operating various railroads—it lent its support to new companies which had been established with this end in view.

Although the Société Générale was the only bank which maintained close relations with industry, the majority of the other Belgian banks which had been established, nevertheless, held a considerable amount of securities. As a matter of fact, however, these security holdings were largely the result of investments, speculative operations, or dealing in "rentes" and did not give to the credit establishment holding them either the power or the desire to exercise an industrial control. It might be said that the banks managed a portfolio as do the investment trusts, without having close relations with the enterprises. This reservation, however, does not exclude the possibility of joint management between the banks and the industrial companies.

Some banks—Cassel, Nagelmackers, Phillippson, Empain, on the other hand, have followed an industrial policy. Nevertheless, they are rather limited by the resources at their disposal and by the specialization of business. These private bankers appear to be the transition to the holding companies, (principally railroads in foreign countries, electricity, water and gas), which have assumed a large importance in the country.

Exploitation of the colony in the beginning was carried on by special merchants. The Société Générale did not participate in the Congo until the beginning of the industrial

era, and has furthered the development of the railroads, metallurgical and copper industries, etc.

Industrial Policy of the Belgian Banks after the War

At this point a distinction should be made and the policy of the banks and their relations with industry before stabilization (October, 1926) and after monetary reform should be studied.

From 1919 to 1926 the economic situation has been characterized by the necessity of restoring industry, which had been almost entirely devastated by the war. Likewise, the country had to adapt itself to inflation which was nearly eightfold the circulation of notes as compared with 1914. The general cause of inflation was the introduction of German marks during the war, and the obligation under which the Belgian Government found itself of taking the place of the German Government and the Reichsbank in order to recover this foreign money. Inflation created at one time to replace the marks in Belgium resulted at first in making the industries more independent of banking credit. This tendency, however, was temporary, because after a certain period of time the rise of the exchanges and of prices reduced the circulating capital of the companies, and in this manner checked the self-sufficing tendency of the companies. On the other hand, although payment of war indemnities placed enormous sums at the disposal of the companies, these sums were devoted entirely to investments and construction, as well as to reinforcing the means of production. Investments being very large, floating capital too had to be increased. It was likewise affected by the increase in wages.

Finally after some time it was noted that the conquest or the holding of foreign markets was more and more difficult in consequence of international competition. Because of this, the companies had to take recourse to credit.

On the other hand, banking conditions became changed.

During the general decline of values, securities adapted themselves to the monetary depreciation with a certain tardiness.

Furthermore, it should be noted that a great rise took

place on the stock exchange after the monetary reform which was considered necessary. Since then, the Belgian banks have naturally been forced to increase their investments in securities in order to offset the depreciation of other items in their balances.

The increase in deposits places large assets at the disposal of the banks. They have been able to use them for industrial credit. In Belgium, as had happened elsewhere, the discount habit had fallen into disuse during the period of uncertainty as to the future of the franc. The banks then developed their policy of sight advances to their affiliated enterprises. Moreover, this is one of the reasons why the number of bills discounted by the National Bank of Belgium was only ¼ of that recorded during an average year of the pre-war period.

The sight advances being very large, the debtor companies often could not pay their debts except by increasing their capital, which has permitted the banks to increase their share holdings.

Belgian banks have recovered the place held by German interests in the iron, zinc, copper and electrical industries of Belgium.

After the war, new industries were introduced or developed in Belgium—the manufacture of mechanical glass by the process Libbey-Owens; the manufacture of artificial silk; and the chemical industry has developed considerably. It was nearly always the banks who took the necessary steps to create new companies which required large amounts of capital, because only the banks had the technical means and the power to furnish the funds.

It is well known that Belgium is rather poor in raw materials. It has to import nearly all of them from foreign countries, iron ore especially coming from France. In order to assure a regular supply, the large Belgian factories themselves have often secured the control of the enterprises which furnish them with raw materials. Nearly all the important Belgian factories hold considerable portfolios representing their interests in metal and coal-mining establishments.

The exploitation of the Congo could not be made except

by the investment of enormous amounts of capital, invested without any prospects of return during some years. The collection of this amount of capital, the constant aid to the companies during the years of their development, the incessant increase of capital which rapidly became necessary, the maintenance of prices, was possible only through the aid of the powerful and centralized organizations. It was thus the Belgian banks which helped to finance the colonial companies in which they naturally kept an interest, 23% of the shares of the colonial companies belonging to the banks, an amount amply sufficient to assure them an effective majority. The development of the colony called for an extension of control by the banks because the shares could not be placed except through the chains of industries in which the banks and their branches became more and more interested. The transformation of raw materials imported from the Congo resulted in the establishment of manufacturing enterprises in Belgium. The metals, copper, tin, cobalt, radium, etc., imported from the Congo, are transformed near the Port of Antwerp in the factories established by the Union Minière and the Société Générale de Belgique.

Two other factors have also strengthened the industrial policy of the banks. Because of the control which the banks have acquired over a certain number of enterprises, it has been possible to establish a "constellation" of industries which, supporting one another, are in a better position to succeed and to meet competition.

Furthermore, the necessity of obtaining credit, either by a bond issue or by capital increases, in successive stages forced the more important "family" enterprise to become transformed into joint stock companies. This transformation was brought about, for the most part, with the participation of the banks, which quite rightly considered that these old established enterprises constituted a valuable asset to their group.

The reinforcement of banking policy did not take place immediately after the war. On the contrary, it required eight years before the general lines of this movement became defined. This evolution would not be understood without explaining some of the internal changes of the banking organi-

zation. Let us point out first of all that the institute of note issue, the National Bank of Belgium, because of the very conditions of monetary stabilization, has become more an organism of monetary control than a commercial credit bank.

The Société Générale de Belgique has not to any degree modified its organization. It has maintained a network of provincial banks, which, however, have considerably developed the system of local agencies.

Three other institutions, on the other hand, have greatly modified their organization and these reforms have had a direct influence on the relations between the banks and industry:

1. *The Bank of Brussels*, was before the war a bank of average means whose holdings of securities were rather small. Since the war this bank has at various times increased its capital to a very large extent, chiefly in order to increase its participation in industrial enterprises. It has created a net work of agencies as well as a holding company, designed to deal more particularly with the Congo.
2. *La Mutuelle Solvay* was before the war a kind of trust company managing the numerous interests of the Solvay family. Since 1919 La Mutuelle Solvay, while being a family concern, the securities of which are not traded, has become a true holding company, establishing companies, participating in capital increases, taking particular interest in the chemical, coal and the new industries. La Mutuelle Solvay likewise controls an important branch bank. Having large amounts of capital at its disposal, as well as international influence, it takes part with one or the other bank, sometimes even with several of them, in the large industrial operations.
3. The evolution of the *Boerenbond* is particularly interesting to note.

   Before the war this organization was an association of agricultural guilds engaged in cooperative purchasing and selling and in mutual credit operations.

   The present agricultural prosperity has supplied the Boerenbond with large funds. At present they exceed

one billion francs. The Boerenbond has thus been in a position to inaugurate a banking and industrial policy. It controls two large provincial banks. The Boerenbond has likewise established a portfolio of securities. It is particularly interested in industries which can serve to develop certain regions of the country or to facilitate the sale of agricultural products; on the one hand, they are the textile, electrical and coal industries of Campine, on the other hand, they are food industries, manufacture of sugar, manufacture of conserves, etc.

4. *La Banque Belge du Travail* (Belgian Labor Bank), finally, is much less important from an economic point of view, but we cannot pass over it in silence because its evolution illustrates in an exemplary manner the natural tendency of the Belgian banks to direct the industrial development. La Banque Belge du Travail is a joint stock company established by certain persons interested in the socialist movement at Gant. It is not satisfied merely with extending credit to the cooperative enterprises of the Belgian socialist party, but it establishes new enterprises or interests itself in those already existing. It specializes in the textile industries—cotton, silk, jute, cotton plantations, etc.

   In the development of this bank it is interesting to note that the influence of the "milieu" has been stronger than the socialist doctrine which was responsible for its creation and which finds itself in direct conflict with the industrial policy followed by the bank.

The other banks have not played an important rôle and for that reason we are not going into greater detail.

In 1927, the industrial policy of the banks became more marked.

Up to that time, they had reduced the number of foreign security holders, repaired the considerable losses suffered in Russia, subscribed to the loans of the Government and maintained the enterprises belonging to their group.

In 1927, a law was passed which favored business consolidations. This law grants fiscal relief in the case of mergers of stock companies. The banks took advantage of

this measure in order to bring about a number of mergers among themselves, and then they decided to merge certain of the enterprises controlled by them. They took shares of the new companies before permitting the final fusion and thus strengthened their position.

Since 1927 banking activities are revealed by the statistics of note issue. In 1927 of the six billion francs of note issue, the banks were responsible for one and one half billion; in 1928 of the 13½ billion of note issue the banks were responsible for four billions.

Banks have not kept in their portfolios all the securities subscribed, often they have simply lent their counters, but statistics, show that the banks have become the indispensable intermediary in financial operations of any importance.

It is evident that in spite of everything, the greatest number of companies escaped control of the Belgian banks, but these figures are deceiving because in order to appreciate the true position, it is necessary to take account of the influence of the different industries in the country, i.e., of the property value of the enterprises. Thus, of 4,760 enterprises (joint stock companies) recorded in 1927 with a total capital of 17 billion 585 million francs 159 enterprises had a total capital of 8,152 millions leaving a little over nine billions for the 4,600 companies. It may be said that at present these 159 enterprises have more or less close relations with the banks, and that it is these enterprises which have an effective value in the industrial policy of Belgium.

Despite the more and more important rôle which the banks are playing in the economic development of Belgium, it may, nevertheless, be stated that their participation in the capital of the industrial establishments does not exceed a reasonable measure.

The balances clearly indicate that the industrial shares of the bank are always notably lower than the amount of capital and reserves.

The danger of excessive conversions, therefore, does not exist.

The rôle of the private banks has not diminished during this period of rationalization of stock ownership. They still continue to share in the large operations. The number of

holding companies has increased, the large banks have established a small number of holding companies and have in general specialized them.

They exist particularly for electric works, tramways, cement concerns, colonial establishments, maritime transport and chemical products. They have a considerable influence. Many holding companies have been established by speculators, in order to acquire the securities of a limited number of companies. Apparently there have been exaggerations, and it may be expected that reorganization will become necessary. It may be believed, however, that their establishment, although at times unjustified, has nevertheless prepared the way for the banks. The latter are managed by persons who by the nature of their functions have a broader understanding than the industrialists who are preoccupied by technical problems. Thus, the reforms which have been made in Belgian industry are worthy of a careful study. We shall confine ourselves to citing one example.

The Belgian coal industry is affected by the world crisis of over-production. This situation, moreover, is so much more precarious because our country is surrounded by four coal producing countries which are dumping their products in our country. The banks have not given up attempting to press the coal mining companies in order to obtain the following results:

(a) Mechanization of the means of production and increase in the average area of the concessions;
(b) The merging of establishments wherever possible;
(c) The formation of a joint sales organization.
The two principal banking groups have come to an agreement and have organized quite recently with this aim in view, the "Comptoir Belge des Charbons Industriels" and the "Syndicat Belge des Cokes et Charbons a Coke."
(d) Rational utilization, by means of chemistry, of coal which it is difficult to market in the form of coke or raw coal.

The two principal banking groups have established, each within its respective group, central companies for the setting

up of coke furnaces and the utilization of gas for the production of synthetic fertilizer, as well as for the establishment of factories for chemical by-products.

These latter reforms apparently demand a close connection between the metallurgical, the chemical, the coal and the carbide industries.

The banks have thus realized in consequence of persevering efforts a veritable revolution in the coal industry which has been brought about in spite of enormous difficulties.

The rôle of the Belgian banks, already important before the war, has been considerably strengthened; at the present time four groups are pursuing an analogous policy, although before the war there existed only one outside of the private banks, which, moreover, are still in existence today. This influence of banking on industry will certainly contribute to bestow upon Belgium a few years hence an absolutely original character which will permit developments of great interest.

ECONOMIC CONDITIONS IN SWEDEN IN 1928

Report of Mr. Oscar Rydbeck, President, Skandinaviska Kreditaktiebolaget, Stockholm

DURING the entire first half of 1928 Sweden was in the throes of a big labor conflict—the lockout and strike at the iron mines. The negotiations which had broken down in the spring were taken up during the summer, and in August an agreement was reached. Work at the mines was gradually resumed during the following month. The great losses which this conflict, as well as the disputes in the wood, pulp and paper industries during the first quarter of the year, brought on both employers and workmen, paved the way for a widespread opinion that something ought to be done for ensuring industrial peace. The Minister of Interior, therefore, took the initiative of inviting representatives of employers and workmen for a two days' conference, which was held in Stockholm on November 30 and December 1. This step met with a general feeling of satisfaction, and from statements made during the discussions it could be gathered that both parties were willing to further the object in view. It was decided to appoint a commission for this purpose, to consist of ten representatives each of the employers' and workmen's organizations and five members appointed by the Government, of which a certain number should represent engineers and foremen.

This movement has had a good start, since in all probability the coming year will be a year of industrial peace, at least in all the basic industries. The turn of the year is always a critical period, since the collective agreements usually expire on December 31 and on January 31. Notice had been given this year at the engineering works and the saw mills, but after prolonged negotiations a satisfactory settlement was reached just before Christmas. The new collective wage agreements have been concluded for two years, thus breaking the earlier practice of making agreements for only one year.

In this connection it may be of interest to mention the new law providing for compulsory arbitration in those labor conflicts that have originated in differences of opinion as to the interpretation of existing collective agreements. Such conflicts must be referred to a labor court appointed exclusively for this purpose, and the parties are bound by the court's decision. This law has, however, been met by considerable opposition from the Labor Party.

In spite of the labor conflicts, general economic conditions have improved and the prospects for the coming year are good. According to the index of industrial production published by the "Svensk Finanstidning," the output in basic industries has in the autumn reached the highest point for the post-war years. The iron industry, which has suffered most from the depression, has also shown a decided improvement. The engineering works, not included in the above-mentioned index, have enjoyed a very good demand for their products, and the increase in their exports has counterbalanced part of the loss due to the labor conflicts in the other big export industries.

The unfavorable balance of trade has aroused comments in many quarters. At the end of November the import surplus had reached the figure of 179,400,000 kronor as compared with an export surplus of 27,500,000 kronor at the end of November, 1927. That year, however, was a year of an exceptionally favorable balance of trade, and the decrease is therefore not as great as this comparison would seem to indicate. The deficit in our foreign trade has been caused not only by the falling off in exports, due to the labor conflicts, but also by an increase in imports due to the bad harvest of the preceding year. At the end of 1927 the foreign exchange reserves of the banks were unusually high, however, and it has therefore been possible to meet the demand for foreign exchange without difficulty. The falling off of the Riksbank's foreign balances during the summer caused some anxiety, and the official discount rate was raised in August by ½%, to 4½%. At the same time the preferential rediscount rate was withdrawn and the cost for the banks of borrowing at the Riksbank was thus increased by 1%. As a consequence, the banks raised their lowest discount rate by

½%, but the other loan rates and the deposit rates remained unaltered.

The stock exchange has been very active and prices have risen considerably, especially for such shares as Swedish Match, Kreuger and Toll, Separator, etc., which have been introduced on foreign stock exchanges and are therefore subject to influences from abroad. The shares of the Grängesberg Company have shown a different movement, since the stoppage of work at the iron mines did not fail to have a depressing influence on quotations. The shipments of iron ore decreased in fact, from 9,689,000 tons in 1927 to 4,265,000 tons in 1928, and the dividend will be reduced to 5% from 17% for 1927. For the other groups of shares the improvement in prices has proceeded at about the same rate as in 1927. The bond market has been very firm and has been characterized by a marked shortage of material. Prices have therefore hardly been influenced by the increases in the discount rate, and prime industrial bonds are still sold on a 5% basis.

We have this year had a general election in which the interest was very lively among the voters. The result was that the Conservative Party won eight seats, while the Labor Party lost fifteen seats. These two parties have now 73 and 90 members, respectively, in the Second Chamber of the Riksdag. The remaining 67 seats are divided among the four small parties. The Liberal Government resigned as a consequence of the election results and was followed by a Conservative Government with Admiral Lindman as Prime Minister.

INDEX OF PRODUCTION

(Source: Svensk Finanstidning)

(Base, 1923–1924 = 100)

1927		1928[1]	
1st quarter	117	January	83
2nd quarter	115	February	70
3rd quarter	111	March	75
4th quarter	117	April	105
		May	117
		June	122
		July	105
		August	112
		September	119
		October	125
		November	133

[1] Labor conflicts from January to August, 1928.

Railway Freight Traffic

(Source: Affärsvärlden)

(Base, corresponding month of 1913 = 100)

	1928	1927
January	96	104
February	89	98
March	103	108
April	78	86
May	92	98
June	100	90
July	98	98
August	115	111
September	108	110
October	109	96
November	..	106
December	..	112

Per Cent of Trade Union Members Unemployed

	1928	1927
January	14.5	16.3
February	13.4	15.6
March	13.3	14.1
April	11.7	12.3
May	8.2	9.9
June	7.6	9.4
July	7.4	8.3
August	7.0	7.9
September	7.7	8.4
October	9.1	10.4
November	..	12.8
December	..	18.6

Foreign Trade

(In million kronor)

Month	Imports		Exports		Excess of Exports (+), Excess of Imports (−)	
	1928[1]	1927	1928[1]	1927	1928[1]	1927
January	122.1	106.1	83.3	90.1	−38.8	−16.0
February	127.2	109.0	81.4	92.2	−45.8	−16.8
March	140.7	123.3	91.0	99.4	−49.7	−23.9
April	135.7	134.8	87.5	118.3	−48.2	−16.5
May	153.9	135.1	134.8	146.3	−19.1	+11.2
June	143.9	124.4	145.6	143.1	+ 1.7	+18.7
July	127.4	122.2	138.6	152.3	+11.2	+30.1
August	151.7	131.2	148.7	148.7	− 3.0	+17.5
September	152.2	147.2	158.1	164.1	+ 5.9	+16.9
October	158.0	147.5	165.6	155.8	+ 7.6	+ 8.3
Nobember	166.3	157.5	165.2	151.6	− 1.1	− 5.9
December	..	146.1	..	154.7	..	+ 8.6

[1] Labor conflicts from January to August, 1928.

Price Index Numbers, 1928

Month	Wholesale Prices[1] (Base, 1913–14 = 100)	Import Prices[2] (Base, 1913 = 100)	Export Prices[2] (Base, 1913 = 100)
January	142	129	145
February	142	127	146
March	145	129	148
April	147	130	147
May	149	130	148
June	149	130	147
July	149	129	148
August	148	127	147
September	139	125	147
October	136	126	146
November	138	127	146

[1] Svensk Finanstidning.
[2] Svenska Handelsbanken.

Stock Exchange Index

(Source: Skandinaviska Kreditaktiebolaget)
(Value of the shares in per cent of par)

	1928	1927
January	150	115
February	147	113
March	149	111
April	157	113
May	160	117
June	152	117
July	154	120
August	161	127
September	168	128
October	169	128
November	166	127
December	171	130

New Issues of Swedish Bonds, 1928

(In million kronor)

	New Issues	Redeemed Bonds	Increase (+), Decrease (−)
1st quarter	145.65	40.57	+105.08
2nd quarter	58.26	71.41	− 13.15
3rd quarter	37.72	66.14	− 28.42
4th quarter[1]	96.52	83.46	+ 13.06
Total	338.15	261.58	+ 76.57

[1] Preliminary figures.

Percentage Yield on Certain Swedish Bonds, 1928

(Source: Skandinaviska Kreditaktiebolaget)

January	4.58	July	4.72
February	4.65	August	4.71
March	4.66	September	4.72
April	4.68	October	4.72
May	4.74	November	4.70
June	4.74	December	4.71

ECONOMIC CONDITIONS IN SWEDEN IN 1928

Report of Mr. Marcus L. Wallenberg, Chairman, Enskilda Bank, Stockholm

THE first months of the year were dominated by labor conflicts, which touched the paper, pulp and saw mills as well as the iron ore mines. These conflicts kept about 20,000 men without employment during January; about 40,000 during February; and about 55,000 during March. The mining strike continued for seven months, ending in the middle of August.

After the elections in September, a Conservative Government replaced the Liberal one, which had remained at the helm since June, 1926. One of the first measures of the new Minister of Labor was to convene employers and workmen in a public conference with the object of discussing what could be done to promote peace on the labor market.

It seems as if this year's conflicts had contributed to a better realization of the disastrous consequences of strikes and lock-outs, for the initiative of the Government was very favorably commented upon from different quarters. Although no definite results could be, or were, expected, it was quite obvious during the two-day conference that both parties manifested a distinct will to mutual understanding. Nobody knows today what, if anything, will come out of this first step, but the step in itself may be regarded as encouraging.

But for the labor conflicts, 1928 would probably have been an excellent year. Now it can be looked upon as a normal one, the consequences of the depression in some industries having been compensated by favorable conditions in others, especially the engineering industry, and also by a harvest somewhat above the average.

The balance of trade for the year will probably show imports about 170 million kronor in excess of exports, but this deficit will be balanced by invisible exports, freights, etc. The balance of payments shows no important changes; a decrease of 48 million kronor in the foreign balances of the

Bank of Sweden and the private banks is compensated by a net import of securities.

The import of securities seems, however, to be decreasing. This decrease is due mainly to a diminishing interest, on the part of the public in foreign bond issues. Owing to the introduction of Swedish shares on foreign stock exchanges, there is also an export of securities going on tending to diminish the net import. Considerable blocks of Swedish shares have thus found their way to America, Great Britain, Germany, Holland, France and Switzerland.

The Stock Exchange has been rather active, although no over-speculation has taken place. The transactions in shares during the year amounted to 507 million kronor, as compared with 201 million kronor in 1926 and 350 million kronor in 1927. The index for representative industrial and transport shares (Dec. 31, 1924 = 100) had risen to 170 at the end of 1928, as compared with 125 at the end of 1926 and 146 at the end of 1927.

The finances of the State are perfectly sound, as is shown by the budget presented by the Minister of Finance at the opening of Parliament on January 10. In spite of an increase in the amortization of the funded debt from 18.4 million kronor to 26.1 million kronor, the budget shows a surplus of 25 million kronor for tax reduction. Direct taxes will be reduced by 9 million kronor and indirect taxes, including railway freight rates and Stock Exchange stamp duties, by 16 million kronor. It should be observed, however, that the direct taxes are still very heavy. Each year Parliament is required to fix a percentage by which the so-called "standard amount" of the income tax shall be multiplied. A percentage of 100 should be considered as normal. Four years ago the percentage was 170; the Government's proposal for this year is 140, which is still far from 100.

The outlook for 1929 is uncertain. Sweden is a country largely dependent on its exports, that is, on the purchasing power abroad, which in its turn will be influenced by two such unknown factors as the problem of reparation payments and the monetary policy in different countries above all, in the United States. A solution of the reparation problem would therefore be of great interest to Sweden.

THE ECONOMIC SITUATION IN THE NETHERLANDS AT THE BEGINNING OF 1929

Report of Mr. E. Heldring, President, Royal Netherlands Steamship Company, Amsterdam

ON THE whole the impressions gathered from a review of the situation of different branches of national economics is clearly favorable. Apart from a few black spots, commerce, industry, agriculture and fishing are prosperous.

Although short-term money was in demand during the whole of the year 1928, and the rate of discount of the Netherlands Bank was maintained at 4½%, there was no scarcity of capital. The issues on the Amsterdam exchange amounted in 1928 to 936 millions of florins, of which 624 millions were for Holland and her colonies, and 312 millions for abroad.

Unemployment was appreciably reduced during the course of the year, the index number falling from 5.6 in December, 1927, to 3.8 in December, 1928.

The following is a brief outline of the conditions prevailing in several important sections of the economic life of the country.

Shipping—apart from the lines dealing with traffic with and in the Dutch East Indies—is suffering from the universal trouble, abundance of tonnage, but the shipping community is succeeding on the whole, notwithstanding the absence of assistance by the State, in maintaining and even consolidating its position, thanks to continuous efforts.

Trade in important colonial and tropical products is subject to various influences. It is neither very brisk, nor very slack.

As regards industry, the amount of orders from the Dutch East Indies does not reflect the fall which occurred in 1928 in two capital products of the colony—sugar and rubber—which fall will, however, appreciably affect the total of remittances to the mother country. Complaints about foreign

competition to industry are much less bitter and less numerous than they were some years ago. It would seem that this competition has a stimulating rather than a damaging effect. Exports have increased, not only in special articles, such as electric lamps, radio articles and artificial silk, but in hundreds of commodities. The steel and engineering industries, the cotton and woolen trade, diamond trade, boot and shoe trade, margarine and paper trades are very busy. Wages in neighboring countries are gradually rising to a level at which their influence on our competing power is hardly more appreciable than before the war. If the closing of foreign frontiers has dealt a few hard blows to certain trades, up to the present they have succeeded in adapting themselves to the circumstances, either by finding fresh markets or by substituting other articles in place of those affected. It is to be noted that the home market is extending continually owing to the growth of new requirements, the result of new inventions and the improvement of technical appliances, causing an infinitely greater frequency in the movement of people from one place to another. The constantly growing tendency towards creating difficulties in importing into the greater part of the countries buying from us—a tendency in sharp contrast to the numerous official declarations testifying to a greater liberal feeling—constitutes nevertheless a serious menace to our export trades. Amongst the trades hard hit and less flourishing, we would mention sugar growing and refining, flour and rice milling, and shipyards, although building orders have come in freely in the new year.

The crops in 1928 were, in general, excellent: horticulture, carried on more and more under glass, continues to supply the important foreign markets with vegetables, fruits, bulbs, cut flowers and plants. The export of potatoes and potato-flour, insignificant in 1928, will be large during the present year. The export balance of eggs, of which Holland had a net import before the war, rose in 1928 to a value of 60 millions of florins, the export of milk products—butter, cheese and condensed milk—to more than 220 millions of florins. The export of cattle is impeded by protective measures of other countries, but that of pigs is fairly satisfactory, while bacon replaces pork, prohibited in England.

Fishing in the North Sea was abundant in 1928, especially of herrings, an important export product.

The total imports in 1928 amounted to 2,684 millions of florins, exports to 1,986 millions (not counting bullion), the excess of imports over exports amounting to 698 millions, that is, 49 millions more than in 1927. This increase need cause no anxiety, seeing that our export of industrial products increases as years go on, side by side with the export—older still—of farm produce, and that this unfavorable balance is explained moreover by the increasing creditor position of Holland in relation to other countries, caused by investments abroad, freight earnings, commission on forwarding business, or resulting from trade and financial transactions.

INDUSTRIES IN DENMARK IN 1928

Report of Mr. Benny Dessau, President, United Breweries, Ltd., and Tuborg Breweries, Copenhagen

FOR many Danish industries, 1928 contributed towards strengthening their ability to compete on the market. In the first place, the industries themselves put forth energetic endeavors, especially in the way of systematizing and "rationalizing" production, and in the second place wages of labor in the industries of the neighboring countries showed an upward trend, so the Danish manufacturers were able to improve their competitive position. The result has been a very welcome increase of production as far as the majority of Danish industries are concerned. Also the employment of labor has reached better figures, though not quite in proportion to the increase of production owing to the fact that the higher Danish price-level now causes the industrial leaders to introduce all possible labor-saving means. Unemployment—which because of the exceptionally hard winter was especially heavy—thus still runs into figures about double the normal.

For the exporting industries progress seems to have been very considerable, and the exportation of manufactured goods from Denmark has grown rapidly during 1928. The rise might no doubt have been still greater, had it not been for the fact that a number of markets with great purchasing power have protected themselves through prohibitive import duties.

The annual statements of a great many industrial concerns have now become known, and throughout they show a very happy improvement compared with the past few years, proving that they have been able to consolidate their finances and even in a number of cases to increase the dividends to stockholders.

The splendid harvest in Denmark in 1928 and the improved economic conditions generally caused an increase

in the purchasing power of the population, which again greatly facilitated sales for the whole industry.

The important reorganizations of banks in Denmark meant a reinforcement of banking in general, and there is at present (April, 1929) comparatively ample capital at disposal. The rate of the "Nationalbanken" remained throughout the year at 5%, while bonds went upward, so that the actual rate of interest has been downwards.

The cheap money and the improved access to capital jointly paved the way for a favorable development of business and justify a more optimistic sentiment.

ECONOMIC CONDITIONS IN SWITZERLAND IN 1928[1]

Report of Mr. Louis Dapples, President, Board of Directors, Nestle and Anglo-Swiss Condensed Milk Company, Vevey

SWITZERLAND has an area of 41,000 square kilometers, three-fourths of which is arable soil and one-fourth is unproductive area composed of rocks, glaciers, lakes, rivers and marshes. Furthermore, approximately 9,000 square kilometers of woodland must be deducted from the arable land, so that the land actually available for agriculture is rather small. The subsoil is not rich in coal and metals as in other countries. On the other hand, "white coal" is more and more utilized by the harnessing of waters descending from the mountains and by the creation of reservoirs and artificial lakes. The Swiss are therefore obliged to cultivate intensively an area which is insufficient to satisfy their needs, and to import the foodstuffs necessary for their existence. The means to cover this deficiency must come from the products of industrial, commercial and financial labor.

The occupational classification of the country's population well illustrates this condition. Switzerland has over four million inhabitants, employed as follows:

Agriculture	26%
Industry and trades	44%
Commerce and finance	11%
Salaried employees and transportation	6%

These figures show that the topography of the country has had a direct influence in directing the Swiss people toward the production of manufactured goods. Formerly predominantly agricultural, Switzerland has become during the course of time an industrial country.

These general remarks should be kept in mind in studying Swiss economic conditions and discerning their tendencies.

[1] Translated by the National Industrial Conference Board.

Furthermore, it should not be forgotten that the poverty of the subsoil as regards raw materials, the distance from seaports, the distances involved in, and the cost of, transportation have made it necessary for the industry in this country to specialize in perfection of workmanship which has led to quality production. By adapting itself to these conditions and by applying itself energetically to derive the greatest benefit from the situation the Swiss nation has become prosperous and has succeeded in playing an honorable rôle in world economy.

The economic structure of Switzerland rests upon three pillars—agriculture, industry and commerce, finance. The condition of these master columns reflects the general situation and denotes the trends of national economy during a given period. In 1928 these trends developed as follows:

1. Better returns in agriculture, but further improvement is necessary in order to reach the pre-war level.

2. Satisfactory results in the majority of the branches of industrial and commercial activity. Unemployment declined to the lowest point since 1921. The return to commercial freedom by the abolition of monopolies resulting from the war.

3. A sound financial situation, an almost general increase in industrial securities, but a tendency toward a tightening of capital towards the end of the period.

In the political field, the action of the Federal and the Cantonal governments has been strongly influenced by economic considerations. This resulted on part of the Swiss Confederation in the adoption of an agricultural relief measure. Laws for protection of farmers and wine growers against the risks of damages by natural forces have been passed by different cantonal governments, and likewise offices have been established for the purpose of improving the methods of selling the products of the soil. Insurance against unemployment has become general. Labor bills affecting employees and commercial travellers are being studied, and social political measures are being taken into consideration for the purpose of ending, if possible, the struggles between employers and the laboring class. Finally, the important work of social insurance, which would provide

old age and dependent insurance for the Swiss people, is being developed; this problem will probably find a definite solution during the course of the year 1929.

Confined to purely economic facts, the picture of activity in Switzerland during 1928 in its broad outlines is sketched in the following pages.

Agriculture

It is estimated that in 1928 the gross return of agriculture will amount to 1,466,180,000 francs, exceeding that of 1927 by about 70,000 francs. This increase may be attributed in the first place to an increase in the price of milk of 2 centimes per kilogram, to the excellent harvest of cereals, to the very satisfactory vintage and also to the increase in dairy production. If this gross return is computed in terms of pre-war prices, it shows an increase of 12 per cent for 1928. Because of the peculiar conditions of agriculture which can not voluntarily increase production by the use of machinery, this increase in quantitative returns may be considered high. It is the more remarkable because since 1911 agriculture has been deprived of some 30,000 hectars of the best land, which has been needed for the extension of towns, localities or industrial installations, and artifical lakes, and that only a very small part of this land has been regained by the acquisition of new land which was formerly unproductive. This reduction of 30,000 hectars should have resulted in a decline in the production of milk of 1.2 million quintals or of 750,000 quintals of bread grains, which at present prices represents a value of 30,000,000 francs in round figures. If despite this very notable decrease in the productive acreage, Swiss agriculture has been able to furnish a gross return 12 per cent higher in volume than that before the war, it must be conceded that it has done its utmost to overcome the post-war depression by its own efforts. Nevertheless, taking also into consideration the increase in production costs which necessarily resulted, the increase in gross return was not sufficient to cover the spread of about 30 points which exists between the index of the prices of agricultural products and that of the means of production. The purchasing power of agricultural production is some 20 per cent lower than that

before the war, and contrary to what has been noted in all other activities, the real return and the real production of agriculture are lower than they were before. It appears, however, that the peak of the depression has been passed.

Various means have been conceived to aid Swiss agriculture. The interested groups have formulated numerous demands, supported by a demonstration of over 30,000 farmers in the capital of the State. The public authorities have reason to be troubled about this state of affairs, and the Swiss Confederation has decided to devote a large sum to the aid of the farmers, if need be. The latter, without contesting the usefulness of such a measure, find it insufficient and would like the price of their products increased by completely closing the frontiers to all importation of animals designed for human consumption. A solution of this kind, however, would not serve the interests of the farmers, since it would expose Switzerland to measures of reprisals on the part of other countries which, in turn, would prohibit the importation of milk products from which Swiss agriculture is the first to derive profit.

It is therefore not an easy matter to find a remedy for this crisis, the essential cause of which lies in the lack of adjustment to post-war conditions between gross revenue of agriculture and its production costs. Two means may be considered to remedy this plight. The first is to attempt to increase the area of all small agricultural holdings; and the second is to encourage small farmers, who are not in a position to increase their holdings, either to cultivate intensively those products which will yield a large return (market gardening, fruits) or to develop a side line. The latter method fortunately has been adopted in certain agricultural regions where large-scale industry has been established. There the factory worker has remained a cultivator of the soil. Helped by his family, he adds to his industrial wages the income from a little farm which he has kept and at which he works outside of the legal eight hours at the factory. Wherever this system has been followed, the results have been good.

The difficult agricultural situation caused the Government to come to the aid of agriculture by placing a sum of 8,000,000 francs at the disposal of the Cantons for the purpose of mak-

ing short-term advances to farmers in need. The Cantons pay to the Confederation 2 per cent interest on these loans, but they are obliged to grant them without interest. Furthermore, a credit of 6,000,000 francs has been extended for the encouragement of butter production, subsidies were made possible by a credit of 1.5 million francs in order to facilitate the exportation of cattle or their domestic sale, and finally a credit of 1,000,000 million francs has been applied to the promotion of various activities, such as rational utilization of fruit, vegetables and bee products, measures taken to procure an additional income to the farmer by homework, etc. In this manner, it is hoped that Swiss agriculture will overcome a part of the difficulties which it is encountering. The lot of agriculture will be further improved when the question of wheat importations necessary for providing Switzerland with bread is solved. The Federal Chambers have agreed on a proposed law which, while reestablishing commercial freedom in wheat trade, contains also certain measures devoted to the encouragement of the domestic production of wheat. Thus, the Confederation will buy domestic wheat of good quality and will be in a position to force the millers to repurchase this wheat at its market value in the proportion of their production of flour obtained from foreign wheat. In the mountainous regions, the Confederation aids the farmer growing wheat for his own needs. The Confederation will fix the price of domestic wheat at a level which will permit its cultivation. It reserves for itself the right to prohibit the importation of bread flour in order to prevent a decline in the price of domestic wheat and it takes various measures for the purpose of equalizing flour prices. In this way the farmer will be more inclined to maintain and develop, if possible, the cultivation of wheat. The new legislative measures on this subject, according to all appearances, will be passed by the Swiss people during the course of March, 1929.

Industry and Commerce

Commercial transactions of Switzerland with foreign countries were more active in 1928 than in the preceding year. Imports to the value of 2,744,700,000 francs show an

increase of 180.9 million francs, and exports rose to 2,134,400,000 francs, an increase of 111.2 million francs. Deducting imports and exports of gold bars, not included in the commercial balance, the deficit of Swiss foreign trade amounts to 586,400,000 francs, which means that 78.1% of imports have been balanced by the exports. The unfavorable balance, as is well known, is offset by the hotel industry, by international insurance, and other resources more difficult to evaluate precisely.

Among the imports, the most important item in terms of value is that of cereals which amounted to 267,210,000 francs, of which wheat amounted to 141,785,000 francs. This very important commodity is imported from the United States of America and from Canada. Its cost was slightly lower than during the preceding year, since for the sum of 141,785,000 francs, 4,581,406 qm. were imported, while in 1927 for a slightly smaller tonnage, namely, 4,525,799 qm., 149,148,000 francs had to be paid, that is, expenditure in 1927 was 7,363,000 francs higher. Likewise an increase was noted in the value of the following imports: foodstuffs, raw materials for tanning, machine industry, and the wood industry, as well as coal, machines, pharmaceutical and chemical products, gasoline, dyes, fats and oils, silk, rubber, paper, textile materials and rags. On the other hand, there was a decline in the importation of cotton, wool, linen and hemp, tobacco and automobiles, the latter item declined because of an increase in the customs duties in Switzerland.

It may be seen from this enumeration that certain industries importing their raw materials in large quantities have enjoyed satisfactory activity in 1928, while others, having imported less, found themselves in somewhat more difficult conditions. This fact leads us to group in the first category the activities which have worked satisfactorily in 1928, the metallurgical industry, watch and clock making industry, chocolate industry, tanning and the manufacture of shoes, artificial silk industry, hat making, manufacture of aluminum, pharmaceutical, chemical and aniline dye products, instruments and apparatus. On the other hand, the textile industry, particularly silk goods, cotton goods and threads, silk ribbons and wool goods showed a notable decline. The

embroidery industry was less satisfactory than in 1927. There was a slight decline in the exportation of cheese and condensed milk. The straw industry has been characterized by a decline in the sales to foreign countries.

On the whole, Swiss products have found an easier access to the world market which absorbed 111.2 million francs more than in 1927. The opening of new markets, that is, a more extensive geographic distribution of Swiss exports, is a fact which must be judged not only from the point of view of the success encountered by this trade, but also from from the point of view of the division of the risks assumed by the export trade.

No particularly striking changes were noted in the destination of the exports as far as the principal markets are concerned. Germany figures at the head of the list with 387.2 million francs of imports. The second place belongs to Great Britain whose purchases amounted to 309.7 million francs. The third place is occupied by the United States of America to whom Switzerland furnished merchandise to the value of 195.3 million francs. The trade with the United States of America shows a slight decline, since in 1927 it had reached the rather high figure of 219.6 million francs.

The principle of commercial freedom progressed considerably in 1928 by the adoption of a law, already mentioned in the chapter relating to agriculture, which abolished the grain monopoly. The latter had been instituted by the Swiss Confederation at the beginning of the World War, under the régime of full powers. A popular vote demanded its suppression in 1926. It is certain that the Swiss people will ratify the measures taken on this subject by the Chambers in 1928. This question is of particular interest to the large grain producing countries, such as the United States of America and Canada, because it is very likely that from 1929 on they will deal no longer with the Government but with private buyers as regards the sale of grain destined to provide Switzerland with bread.

Yet, the solution of the wheat problem will entail new charges on commerce and industries; to wit, in order to pay for the expenditures necessary for the domestic production of wheat the Swiss Confederation will levy from two to

five centimes and in certain cases ten centimes on articles entering and leaving Switzerland. In itself, this measure seems a soothing remedy. Applied to the whole of trade it will procure for the federal treasury about 10,000,000 francs and this new charge will fall almost entirely on commerce and industry. Nevertheless, after a difficult and patient recovery during the last years, this branch of national economy appears assured of a better future.

Finance

The Swiss financial market has been less active in 1928 than in 1927. Swiss loan issues absorbed only 55,328,000 francs of new money in 1928 against 205,207,000 francs in the preceding year, and the issue of foreign loans placed in Switzerland amounted to only 91,604,000 francs as compared with 218,602,000 francs in 1927. Thus the question of capital exports has less engaged the attention of the public. The funding of the cantonal finances continues to progress and the regular receipts suffice more and more to cover expenditures. The requirements of the cantons have been smaller. The situation is the same as far as the communes are concerned. In industry, the issues have been modest. Not counting about 20 millions of capital issues of three insurance companies and one electric company, the security issues of industrial and commercial companies amounted to about 30 millions which is a relatively small amount. At the beginning of the year the money market was characterized by a marked easiness, but soon the abundance of ready money disappeared. The particularly favorable situation in commerce and industry, the credits granted to foreign countries, and above all the great activity of the bourses did not fail to call for large funds. Yet, the official discount rate remained invariably fixed during the whole year at 3½%, the lowest of the principal financial markets. The activity of the bourse is reflected in a movement of more than ten billion francs at Zurich and of two and one-half billion at Basle. The rise in industrial securities is shown in the increase of the Swiss index of industrial securities which rose from 223 per cent at the end of December, 1927 to 252 per cent at the end of December, 1928.

The Swiss franc remained remarkably stable. The one hundred franc note was quoted at the end of December, 1928, at 90.27 francs on the New York Stock Exchange, parity 19.29; and the American dollar was quoted at 5.18 in Switzerland at the end of December, 1928, that is, at parity. During the whole of the year the Swiss franc moved not only between the two gold points, but the largest spread recorded between the two extreme quotations of the dollar in Switzerland amounted to only 4%. In spite of the moderate rates on the money market and the relatively low rates demanded for long-term investments, the Swiss exchange proved of an excellent tone, and it may be correct to conclude that Switzerland has a favorable balance of payments. Let us note, furthermore, that the average metal reserve against Swiss bills in circulation amounted to 61.89 per cent in 1928 (65.06 per cent in 1927). The total reserve, metal and gold exchanges, reached a maximum of 98.72 per cent and a minimum of 80.62 per cent; its annual average was 88.37 per cent.

Owing to the increase in customs receipts and stamp taxes, as well as the larger receipts realized by the post and telegraph offices, the accounts of the Government of 1928 do not show a deficit as had been expected but an excess of receipts.

The financial situation of the federal railroads, which to a large extent depends upon the general prosperity, has benefited by the more favorable economic conditions. Total operating receipts of transportation rose to 418,103,000 francs in 1928, as compared with 395,525,000 francs in 1927. Operating expenditures amounted to 254,057,000 francs, against 251,150,000 francs. Excess of receipts over expenditures thus amounted to 164,046,000 francs in 1928, against 144,375,000 francs in 1927. Furthermore, since the first stage of electrification is nearing its end and since this work will soon stop, the expenses of construction will be considerably reduced and the returns improved. The public services operated by the Swiss Confederation likewise show an excess of receipts, as compared with the preceding years.

A problem which remains to be studied is that of a reform of the Swiss monetary legislation. Various plans are open

for discussion relating to the legal issue of notes by the National Bank, measures regulating bonds and money coinage. The new measures on the subject have not yet been definitely fixed, but they will probably be enacted during 1929.

These summary indications show that the Swiss financial market is in an excellent condition, that the state of public affairs is satisfactory, and that the economic life of the country is tending decidedly to develop more and more on sound and solid foundations.

ECONOMIC CONDITIONS IN CANADA IN 1928

Report of Sir Henry W. Thornton, Chairman and President, Canadian National Railways, Montreal

THE general trend of business in Canada during the latter half of 1928 maintained the upward tendency of the first six months and, in effect, resulted in a year of continuous activity in practically every line of endeavor. It is quite safe to say that the year was one of exceptional prosperity along balanced lines, without any inflation. The crop situation proved fairly satisfactory. The harvest was a large one and prices fair. Some damage had been caused in certain sections by unusual weather conditions, and in many instances, wheat did not grade quite as high as anticipated. Nevertheless, the aggregate return to the western and other farmers represented a substantial sum. The general condition of agriculture, apart from failures in scattered areas, was good, so that this great basic industry enjoyed a profitable year. A considerable acreage of virgin land was broken during the year, chiefly by new settlers from the British Isles and from the approved countries of Europe, especially from the Scandinavian countries. There was also an appreciable movement of farmers from the western part of the United States to Western Canada, cheaper and richer lands proving a strong incentive. It is probable that the present year will see an even greater acreage under cultivation, encouraged by the fact that there is a big export market for Canadian wheat for foreign milling, while Canadian flour has a large sale abroad, including such diverse markets as the West Indies and the Orient.

In other primary industries, such as the wood, paper and pulp industry and mining, the year was a busy one, but for a while there was a tendency towards overproduction in the newsprint trade. This matter was amicably settled following conferences between the manufacturers and the representatives of the provincial governments most deeply interested in the pulp industry.

The output of mines reached a new peak and the output of gold, silver and copper was on a large scale. The opening up on new mining territory and the erection of smelters and building of railway mileage to serve such areas are factors operating towards increased output, and the considered opinion of interested experts is to the effect that Canada will continue to increase mineral production during this and the coming years.

The steel industry was busy during the year because of the increased program of construction, and large orders for rails and railway equipment. The amount of building in all the provinces was exceedingly large, and furnishes admirable proof that prosperity in Canada is on a solid basis. Building has been carried on extensively in every large city, and the lesser communities are also sharing in this development.

Improvement of roads was carried out in each of the nine provinces. One result of this was a greater influx of tourists than ever before. The tourist has now reached the dignity of governmental notice by the Federal and Provincial departments and the large number of seasonal visitors has been referred to as the "tourist industry." From various sources, it has been estimated that the amount of money spent in Canada by tourists during 1928 totalled $300,000,000, so that the term "industry" is not a misnomer.

Car loadings in Canada during the second half of 1928 were 13.2% greater than during the corresponding period of 1927, and exceeded those of the second period of 1926 by 17.6%.

Second Half Year	Loadings	Increase of 1928 over 1927	Increase of 1928 over 1926	Per Cent
1928	2,642,055	..	..	..
1927	2,333,197	308,855	..	13.2
1926	2,246,560	..	395,495	17.6

About one-third of the increase over the second half of 1927 was contributed by grain. There was a slight falling off in domestic coal and coke loadings, due chiefly to the exceptionally mild weather. There was also a small decline in live stock loadings, but lumber, pulpwood, pulp, paper and other forest products were moved in increased volume.

This is also true of ore, merchandise, and miscellaneous products. The latter, representative of the great bulk of manufactured foods, moved in 14% greater volume than in the corresponding period in 1927.

The increasing prosperity of this country as indicated by car loadings is further borne out by the increasing earnings of the railways of Canada. The upward trend manifested in the first half of 1928 continued to the end of the year, but at a somewhat higher rate of increase. The combined earnings of the two major railway systems in Canada (Canadian National and Canadian Pacific) for the two periods, were as follows:

	1928	1927	Increase	Per Cent
January–June	$212,184,000	$195,699,000	$16,485,000	8.4
July–December	320,209,000	280,325,000	39,884,000	14.2
Total	$532,393,000	$476,024,000	$56,369,000	11.8

While earnings for the first period increased 8.4% over 1927, the increase in the second period of 1928 over the second period of 1927 reached the very substantial figure of approximately $40,000,000, or 14.2%, with the result that the year's increase averaged nearly 12% over the year 1927.

Either one of the two foregoing tables pictures the rising tide of prosperity, which is carrying this country ahead in a manner that has fully justified the persistent optimism of the people. Employment figures indicate not only a continuing improvement over preceding years, but a decided increase in production per employee. Indexed at 100 for the average of 1924, the production per employee in Canada during the third quarter was 92.7. For the third quarter of 1927, this index had risen to 112.8, and for the third quarter of 1928, to 128.2. This rate of increase in production per head for Canada is somewhat higher than the rate of increase in the United States over the corresponding period. So with increasing employment and increasing production per head, our index of total production for the third quarter of 1928 stands at 156.5, as compared with 127 for the third quarter of 1927, and 90.9 for the third quarter of 1924.

These figures indicate that the Dominion is in a healthy condition, and may look forward to the new year with confidence and hope.

ECONOMIC CONDITIONS IN ARGENTINE DURING THE SECOND HALF OF 1928

Report of Mr. Carlos A. Tornquist, President, Ernesto Tornquist and Company, Buenos Aires

THE favorable evolution in the economy of the Argentine Republic, which began in 1927, has gained in strength during the course of the year 1928, especially in the second half of the year. All the indices upon which an appreciation of the economic state of a country is usually based denote a prosperous situation during the period in question. Such indices are the large volume of home and foreign trade, with the consequent steadily increasing movement in the bank clearings; the considerable diminution in the bankruptcy figures; the easy conditions prevailing in the money market; and the increase in the public income, mainly attributable to the larger yield of the taxes on articles of consumption.

The financial situation of the country is very satisfactory and the national income shows a steady upward trend. Argentine credit is held in very high consideration abroad, and foreign capital continues to take an increasing interest in the economic progress of the Republic. This interest takes the form of important new enterprises and the enlargement of those already existing. Mention need only be made of the important schemes undertaken by the great public utility companies, on some of which work is already in hand and on others is only awaiting the approval of the plans. Electricity supply companies, railways, city transport companies, such as tramways, underground railways and omnibuses, and road construction companies, to mention only the most important, are carrying out extensive works for the improvement of their respective services. This involves the investment in this country of large amounts of fresh capital, the need and utility of which is indorsed by the

rapid progress the Argentine Republic has made in latter years.

Monetary Position

The monetary system of the Argentine Republic is based on the gold standard, under the form of the "gold exchange standard." The functions of the "Caja de Conversión" as regards the free exchange of gold for paper money were temporarily suspended during the war, but by decree dated August 25, 1927, the National Government restored these facilities, so that the conditions which now govern the monetary system are once more the same as before the war, no restrictions being placed on the free exchange of gold for notes. On account of the premium at which our gold peso was quoted during the first half of 1928, there was an influx of gold to the value of 99.5 million gold pesos, while in the second half of the year the exchange was slightly unfavorable, resulting in the exportation of the equivalent of 13.2 million gold pesos while the exchange was below the export gold point. At the present time, the exchange of the Argentine peso on New York hovers around 104.50 gold pesos per $100 (par 103.60). Considering the larger exports to be expected shortly from this year's harvest, it is probable that the exchange will improve steadily, as usually occurs at the beginning of the year. On December 31, 1928, the gold reserve in the "Caja de Conversión" amounted to 519,657,138 gold pesos, the total holdings in the country being 641,205,090 gold pesos.

Commerce

Both home and foreign trade were very active during the past year, especially during the second six months. The total imports and exports for the year were only slightly below 2,000,000,000 gold pesos and were, with one exception, the highest ever registered. Shipments of cereals did not decline during the second half of the year as much as is customary; on the contrary they maintained a fairly high level because exports of maize, wheat and linseed were above the average. The market for linseed, and more especially the market for maize during the same period, has been favorable

to this country, but the wheat market has been seriously affected by the heavy fall in world prices, as a consequence of which the disposal of last year's wheat crop left only a small margin of profit to growers. On the other hand, other principal export products, such as wool, hides, quebracho extract, cotton, butter, etc., have found a ready sale on the world markets at quite satisfactory prices. The prosperity that this country at present enjoys is therefore to be ascribed to the favorable conditions under which foreign trade has developed during the last half of the year.

Exports of the main products in the second six months of the year, compared with those of the corresponding periods of the preceding two years, were as follows:

EXPORTS OF PRINCIPAL PRODUCTS
(In tons)

Products	June 1 to December 31		
	1928	1927	1926
Wheat	1,695,400	985,700	322,000
Maize	3,960,900	4,620,900	3,185,200
Linseed	918,200	825,900	632,000
Oats	31,400	153,600	111,000
Barley	2,700	28,200	37,600
Wheat products	178,900	175,400	199,200
Alfalfa and hay	3,400	4,200	500
Flour	81,700	76,700	64,000
Wool	38,100	44,500	51,600
Cotton	15,900	6,200	16,400
Frozen and chilled meat	297,100	371,900	375,400
Frozen sundries and canned meats	41,300	40,300	49,900
Tallow and melted grease	30,900	42,500	49,800
Dry ox hides	10,300	15,800	14,600
Salted ox hides	64,600	72,100	85,700
Dry horse hides	1,200	1,600	1,300
Sheepskins	9,000	11,900	8,200
Goatskins	1,200	1,800	1,400
Horse hair	1,800	2,300	1,900
Quebracho logs	88,300	67,100	42,200
Quebracho extract	92,300	87,700	104,100
Butter	9,000	8,200	14,100
Casein	8,300	5,200	8,500

AGRICULTURE

The grain crop harvested in the last few weeks of the year is considered to be very satisfactory, both in quality and quantity. The wheat crop is estimated at from 7½ to 8

million tons, with a fairly high specific weight. The linseed crop, also of good quality will probably be about 2,100,000 tons, and there will be an export surplus of some 560,000 tons of oats. It is calculated that 6,000,000 tons of wheat and 1,800,000 tons of linseed will be available for exportation. These figures are subject to some slight modification, since the National Government has not yet published the official estimates of the crop. On the other hand, the prospects of the maize crop are not so favorable as was at first thought, because of the heavy damage caused by prolonged drought in some districts.

The difficulties and restrictions to which imports of Argentine chilled meat have been subject in many countries during the last year or so has caused considerable detriment not only to the freezers but also to the national stock-breeding industry, in that the profits to be made have diminished. Meat exports are on the decline and consequently the freezers have had to reduce their purchases of cattle suitable for killing. This lesser demand has produced a feeling of uneasiness among cattle-breeders, and it is supposed that for this reason the number of cattle in the country has decreased. A large area of land previously under alfalfa for the pasture of stock has been given over to agriculture; this circumstance as well as the unfavorable climatic conditions account for the fact that for a short time the number of fat cattle on the market has hardly been sufficient to satisfy even the lesser requirements of the freezers. The prices for cattle have consequently been high but, even so, the breeding of cattle is now no longer a remunerative business, despite the fact that the refinement and selection of Argentine breeds are unsurpassed and that this country is in a position to supply meat of the very finest quality to those densely populated industrial countries that require the same. All kinds of barriers are being raised and the policy of artificial restriction is gaining force in those markets to which our output should logically be sent, entailing enormous detriment to this great source of Argentine national wealth. The gravity of the situation is now such that Argentine will soon be obliged to adopt special measures to arrest this hostile attitude towards this country.

The Government is under the obligation to protect this important source of our national wealth and, should the situation not improve, will have no choice but to introduce changes of fundamental importance in its present extremely liberal commercial policy, under which all nations are considered on an equal basis, a policy which has characterized the attitude of this country in all its commercial relations with foreign nations ever since the Republic became politically independent. Should an orientation of this nature take place in Argentine commercial policy, the blame will fall on those nations that, without any imperative reasons of national welfare, attempt to restrict, and in some cases even to close, the markets for our raw materials and products of general consumption.

Railways

The prosperity that railway companies have enjoyed during recent years was maintained during the second half of 1928. The combined receipts of the railways this year show an increase over the already favorable figures of the previous year. This prosperous situation encourages the principal companies to improve and extend their systems. On account of the World War and the precarious conditions that obtained in the world finance market during the years that followed, there has been no development in the Argentine railway system during the past fifteen years. The commerce and finances of the world being once more in a normal condition, the time has now come when it will be possible to carry out the important construction programs rendered necessary by the economic development of the country and the demands for increased facilities of transport. During the last few months, the private companies have been launching vast schemes to extend their systems to the very limits of the Republic. The National Government owns over 7,000 kilometers of railway and has in hand a far-reaching program for the construction of new lines, of which a large part is already in course of execution, some by the Administration and others under contract. The National Government is constructing a total of 2,719 kilometers of track, while the sections let out under contract comprise a further 1,031 kilo-

meters, making a total of 3,750 kilometers of railway in course of construction. This represents an increase of 10% on the total railway kilometrage of the country. This great activity in railway development, which is at present observable on the part of the National Government, will increase still further in the next few months on account of the important improvements and extensions that private companies are about to begin. In addition, the Government of the Province of Buenos Aires, which exploits the Compañía General de la Provincia de Buenos Aires, is constructing various branch lines in order to improve the means of transport in certain regions of the Province. In Buenos Aires itself, the Ferrocarril Central de Buenos Aires, is constructing through its subsidiary, the Compañía Terminal Central de Buenos Aires, an underground railway across the city from west to east, which will not only provide an additional means of rapid passenger transport but will also enable this railway to penetrate into the center of the city and establish a terminus in the proximity of the port. Another underground railway, to link up Retiro Station on the Central Argentine Railway and Plaza Constitución Station on the Southern Railway, crossing the city from north to south, will be constructed shortly by the Anglo-Argentine Tramway Company. The time-limits for the construction of this line are laid down in the concession.

New Foreign Capital

The great activity increasingly evident in recent months in the construction of important works and the creation of new undertakings can be attributed to the fact that the visible progress in every order of the economic life of this country attracts foreign capital to an ever greater degree, since it is realized that the Argentine is one of the best fields for investment at the present time.

Apart from the large electric power plants constructed by the Compañía Hispano-Americana de Electricídad and the Compañía Italo-Argentina de Electricidad, on sites reclaimed from the River Platte, in close proximity to Buenos Aires, North American interests have employed large amounts in

the purchase of electricity supply stations situated in the Province of Buenos Aires. They are also constructing a super-station in the Port of Zárte, on the River Paraná, which will supply power to a large region of this same Province.

The recent acquisition of the United River Platte Telephone Company, in conjunction with the previous purchase of the Compañía Cooperativa Telefónica since renamed the Compañía Telefónica Argentina, has placed almost the entire telephonic system of the country in the hands of the International Telegraph and Telephone Corporation, a North American corporation. The United River Platte Telephone Company, which occupied a predominating position in this country and enjoyed great prosperity, has thus passed from English to North American hands. At the time this operation was effected, the United River Platte Telephone Company had over 380 exchanges with nearly 200,000 instruments in use.

BANKS

(In thousand paper pesos)

Date	Discounts	Deposits	Cash Holdings
December 31, 1928	3,046,000	4,021,000	1,104,500
June 30, 1928	2,783,200	3,902,400	1,199,100
December 31, 1927	2,876,700	3,678,700	982,000
December 31, 1926	3,010,600	3,494,400	840,200

FOREIGN EXCHANGE

(Per Argentine gold peso)

	Parities	June 30, 1927	Sept. 30, 1927	Dec. 31, 1927	June 30, 1928	Sept. 30, 1928	Dec. 31, 1928
Spain	5.00	5.64	5.56	5.75	5.84	5.79½	5.86¾
London	47.62	47¾	47 15/16	47 27/32	47 9/16	47 9/32	47 11/32
New York[1]	103.64	103.55	102.90	102.80	103.55	104.70	104.45
Paris	24.63	24.65	24.74[2]	24.70[2]	24.56	24.43	24.47
Italy	18.345	17.40	17.80[2]	18.40	18.36	18.25	18.29
Switzerland	5.00	5.01	5.03½	5.03	5.01	4.96	4.96¾
Germany	4.048	4.07	4.07	4.07	4.03½	4.00¼	4.02
Belgium	6.939	6.94½	6.97	6.94½	6.91½	6.87	6.87½
Holland	2.402	2.40¾	2.42¼	2.40½	2.39¼	2.37¾	2.38¼
Rio Janeiro	8.084	8.215	8.125	8.085	8.070	7.985	8.045

[1] Gold pesos for 100 dollars.

[2] Quotations previous to the adoption of the new currency.

Clearing House

	1926	1927	1928
3rd quarter	10,110,000	10,851,000	11,497,300
4th quarter	10,524,300	11,651,000	12,174,400
Total for second six months	20,634,300	22,502,000	23,671,700

Failures

	1926	1927	1928
3rd quarter	43,157,400	37,453,800	24,427,500
4th quarter	43,846,200	53,724,200	36,624,500
Total for the second six months	87,003,600	91,178,000	61,052,000

Railways

July 1 to December 31

Railway	Receipts (in Gold Pesos) 1927	1928
State Railways		
Argentine North Central	11,823,800	13,058,200
Formosa	120,300	208,800
Eastern	179,600	246,500
San Antonio	322,400	260,500
Puerto Deseado	71,900	51,200
Comodoro Rivadavia	108,500	172,800
Total for state railways	12,626,500	13,998,000
Private Railways		
Province of Santa Fé	4,856,400	5,166,600
Cordoba Central	9,437,600	9,344,200
Compañía General de la Provincia de Buenos Aires	4,087,600	4,113,000
Buenos Aires Midland	922,800	831,100
Argentine Trasandine	565,100	576,700
Entre Rios	3,254,000	3,783,200
Argentine North Eastern	1,956,700	2,125,400
Buenos Aires Central	1,870,900	1,923,700
Buenos Aires Great Southern	31,291,700	28,882,600
Buenos Aires and Pacific	18,898,300	21,026,900
Central Argentine	33,710,900	34,920,500
Buenos Aires Western	12,611,800	12,516,000
Rosario to Puerto Belgrano	1,409,900	1,347,000
Total for private railways	124,873,700	126,556,900
Total for all railways	137,500,200	140,554,900

ECONOMIC CONDITIONS IN JAPAN IN 1928

Report by Baron Takuma Dan, Director, Mitsui and Company, Limited, Tokio

Industrial Circles

DUE in some part to notable declines in money rates, cotton spinning and weaving, silk reeling, iron and steel manufacture, shipbuilding and cement production showed relative improvements during 1928 while other industries remained depressed. Of the latter, marine transport, warehousing, coal mining, oil, sugar refining and fertilizer companies made particularly unsatisfactory showings. While readjustments of these lines proceeded fairly well during the year, an analysis shows that much still remains to be desired from the standpoint of industrial rationalization and cooperative control of markets.

Japan's productive system is by no means so capitalistic as in the principal countries of Europe and America. A long time must pass before trusts arise to monopolize industries. With the growing of industrial depression, however, competition has become more intense, causing disturbances in the markets and sharp declines in quotations, with the result that various undertakings have been forced perilously close to the danger line. Confronted with such situations, (1) flour and sugar manufacturers reached agreements to maintain prices, (2) iron and steel makers organized joint buying and selling associations, (3) cement mills instituted a sliding scale of production based on the market price, (4) electric companies formed committees to study the possibility of eliminating destructive competition and of controlling the power supply, and (5) coal, fertilizer, paper, bleaching powder, cement, muslin, silk yarn, cotton yarn and sugar makers limited production. Of these measures, limitation

of production was rewarded with relatively satisfactory results and, in certain lines of industry, the market prices were maintained by these means.

European countries do not content themselves today with restoring the conditions which prevailed before the World War. On the contrary, they are doing their utmost to adopt measures suitable to the altered conditions of the economic field and the United States has also pushed further the plans of the rationalization of her industries. In contrast to these economic activities abroad, Japan has barely entered the first stages of industrial rationalization, and conditions here are such as will demand redoubled exertions on the part of her industrialists and businessmen in the future.

Financial Circles

To stop the great financial panic of April, 1927, the Japanese Government passed a law permitting the Bank of Japan to make special advances to the banks of the nation until May 8, 1928, and guaranteeing the central bank's losses from such loans. When the loans were closed the amount thus advanced reached to a sum of 879,000,000 yen. This measure led not only to the stabilization of the financial situation but to the readjustment of the affairs of those banks which had been forced to close their doors during the panic. Of the 33 closed banks (exclusive of the Bank of Taiwan) with deposits aggregating 564,000,000 yen, all but seven, with combined deposits of but 14,770,000 yen, were readjusted. At the same time, the enormous funds lent by the Bank of Japan have caused the shifting of deposits to the large banks, trust companies and postal savings, which, in their turn, turned into idle capital. In particular, the congestion of deposits in the large banks, combined with the cautious attitude of the bankers with regard to loans to enhance the tendency of an abnormal excess of deposits over loans was largely responsible for the decline of the money rate after the panic.

The figures contained in the table given below are suggestive of the above facts.

	Bank Deposits (Tokio City Banks)		Money Deposited in Trust Companies	Postal Savings
	5 Leading Banks	Other Banks		
End of 1927	1,142,076,000 yen	610,305,000 yen	709,987,000 yen	1,523,037,000 yen
End of 1928	1,280,415,000 "	679,615,000 "	1,008,887,000 "	1,742,781,000 "

Loans and Deposits of Banks (Tokio city banks)

	Deposits	Loans
End of 1927	1,752,381,000 yen	1,676,945,000 yen
End of 1928	1,960,030,000 "	1,642,930,000 "

Foreign Trade

Since 1925 Japan's trade volume has been declining. The figure for that year was the largest ever recorded and the decrease must be taken as evidence of economic deflation in this country and abroad. In 1925, trade volume for Japan proper was 4,878,000,000 yen. In 1927 it had fallen to 4,171,000,000 yen, while 1928 recorded a further loss of 7,000,000 yen, the figure being 4,164,000,000. During these three years, exports dropped 334,000,000 yen and imports 379,000,000 yen.

Foreign trade in 1928 showed exports of 1,971,689,000 yen and imports of 2,192,858,000 yen, and the unfavorable balance of 221,169,000 yen when compared with 1927 showed an increase of 34,333,000 yen. Exports dropped 20,628,000 yen and imports rose 13,705,000 yen. Analysis of last year's trade by months shows that, although the export trade grew better from January to May as compared with the corresponding period of the preceding year, it fell off sharply in June, while the usual decline in imports did not attain the proportions which might have been expected. Therefore, the excess of exports which features Japan's trade for the last half of every year did not attain its customary proportions. As a matter of fact, ten-day reports began to show excesses of imports as early as November, an almost unprecedented happening.

The causes of this adverse balance of 221,169,000 yen were (1) wide fluctuations in foreign exchange and (2) dullness in the export trade to the East Indies and South Sea Islands. This inactivity may be traced to (a) the boycott of Japanese goods by Chinese merchants in those districts,

(b) diminution in purchasing power in those lands because of poorer returns from rubber and (c) higher customs tariffs in India.

Thus, foreign considerations hampered the development of the export trade last year. According to the figures for the first 11 months of the year, exports to Europe and South America gained over 1927 but those to the United States and other countries fell. There were striking declines in the exports to India and South Sea Islands—a decrease of 21,400,000 yen for British India and 34,000,000 yen for French Indo-China, the Straits Settlements, the Dutch East Indies, the Philippines and Siam, or 58,000,000 yen in all.

Exports to the United States declined 17,500,000 yen due mostly to a decline in the value of raw silk exports. These declined by 10,781,613 yen in value while gaining 23,858 piculs in quantity, the 1928 figures being 687,464,451 yen and 513,847 piculs. At the same time raw cotton imports from the United States declined by 97,637,244 yen and 2,488,058 piculs, registering 245,926,093 yen and 3,871,600 piculs, so that Japan's trade balance with the United States was more favorable than in 1927.

What was rather unexpected was the increase in exports to China (including the Kwantung Leased Territory and Hongkong) of 48,000,000 yen. It must be borne in mind, however, that exports to China in 1927 showed declines of 82,000,000 yen and 150,000,000 yen from 1926 and 1925, respectively, so that Japan still has a long way to go to recover the ground lost by reason of the unhappy relations existing between the Empire and the neighboring republic.

ECONOMIC CONDITIONS IN JAPAN IN 1928

Report of Baron Koyata Iwasaki, President, Mitsubishi Company, Tokio

General Survey

ECONOMIC conditions in Japan during the year 1928 were characterized by a gradual recovery from the financial crisis which in the spring of 1927 overwhelmed many of the smaller banks and a few larger institutions throughout the country. The difficulties engendered by the crisis reached their outward termination on May 8, 1928, when the period during which special advances were made to closed and other weak banks by the Bank of Japan expired. The total amount of advances thus granted under emergency law was 879,430,000 yen, including 191,500,000 yen advanced to banks in the Island of Taiwan (Formosa). Any loss up to 500,000,000 yen will be refunded to the Bank of Japan by the Government in the form of bonds. The uneven distribution of funds, which was partly responsible for the crisis, has, however, been accentuated to the detriment of the smaller banks owing to the remarkable increase of deposits in the large banks, trust companies and post offices. A new banking law, making for stricter control of banking institutions, and a judicious policy on the part of the financial authorities supported by the first-class banks of fostering the amalgamation of small banks into larger units, should in time restore the balance and prevent the recurrence of such disturbed credit situations as prevailed during the crisis of 1927.

The advance of so large a sum of emergency loans created a certain danger of inflation. Several measures were adopted including the public offering of loans by the Government and the sale of Government securities by the Bank of Japan, thanks to which the note circulation was kept in proper bounds. The circulation of funds created by these emergency loans could not but have a far-reaching influence on

the money market. The market was overwhelmed by idle money which, in view of the prevailing depression, could not be absorbed within the country. Rates of interest declined to an unprecedented extent, and there was an outflow of funds to foreign countries which again and again frustrated the natural tendency of Japanese exchange to regain parity. Cheap money rates led to activity in the issue market, new issues including Government and municipal bonds and debentures, reaching an amount of 2,769,375,000 yen during 1928, a figure which has no precedent in the financial history of Japan.

The readjustment of business enterprises made fairly good progress, but, with few exceptions, rentability was lower and no signs of improvement were visible. Curtailment of production was the rule in most of the important industries. Rationalization was, however, successfully carried out in some industries, and many large enterprises were benefited by a reduction of their interest charges, as the abnormally low interest rates made it easy for sound companies to effect conversions of outstanding loans.

There has been no pronounced development in the movement of stock exchange quotations during the whole year. It is a welcome fact that a major speculative outbreak which might easily have developed on the mere basis of easy money conditions has been sternly and successfully discouraged by the leading financiers of the country.

Agriculture and Fisheries

According to an official report published by the Department of Agriculture and Forestry, the actual crop of rice in 1928 amounted to 60,302,780 koku, a decrease of 1,799,761 koku as compared with the bumper crop of the preceding year, but an increase of 2,300,051 koku over the past five years' average, as may be seen from the following table:

Year	Koku
1924	57,170,413
1925	59,703,784
1926	55,592,820
1927	62,102,541
1928	60,302,780

The succession of two heavy rice crops, although a desirable fact from a general viewpoint and a favorable corrective influence as regards the external trade of the country, has been a source of embarrassment to the farming community, as it has unduly lowered the price level of the commodity. Rice quotations have persistently declined since September, in spite of government measures to maintain prices, the average for December reaching 28.56 yen as against 31.08 yen for December, 1927.

Cocoon crops in 1928 have been large, but not so remunerative as in the years prior to 1927, the total value suffering from the less satisfactory position of raw silk.

COCOON CROPS, 1924 TO 1928

	Spring Cocoons		Summer and Autumn Cocoons		Total	
	Quantity	Value	Quantity	Value	Quantity	Value
	Kwan	Thousand Yen	Kwan	Thousand Yen	Kwan	Thousand Yen
1924.....	39,477,760	268,061	34,340,682	283,617	73,818,422	551,679
1925.....	42,927,307	445,616	41,872,489	378,638	84,799,796	824,255
1926.....	44,198,106	381,188	42,570,777	280,215	86,763,037	661,405
1927.....	46,228,627	307,987	44,633,932	188,945	90,862,559	496,932
1928.....	49,561,743	314,595	44,297,140	237,088	93,858,883	551,684

Although less obvious to the outside world than as a source of raw silk, this country occupies a leading position in the fisheries of the world. During 1928 the negotiations with Russia relative to Japanese fishing rights in Russian waters have been successfully concluded. The last few years have seen a great expansion in the sale of aquatic products, notably canned crab and salmon, to all parts of the world. Of late there has been a distinct tendency towards the utilization of larger boats, modernization of fishery methods and consolidation of capital resources through the financial participation of important business interests in Japan.

EXPORT OF AQUATIC PRODUCTS, 1924–28 (APPROXIMATE FIGURES)

Year	Yen
1924	30,874,124
1925	39,345,192
1926	41,139,355
1927	45,438,551
1928	46,644,517

Industries

As a symptom of the relative inactivity of industries during 1928 may be mentioned the prevalence of output restrictions in many of the major branches. Conditions were comparatively favorable in the silk, cotton, iron and steel, copper and cement industries, but coal, petroleum, sugar and the fertilizer industries were depressed. A statistical calculation, based on the most important industries and taking into consideration the normal annual progress of production over a number of years in this country, shows the following results:

Date	Normal Progression	Real Index	Difference
Average for 1927	134.72	131.87	− 2.85
1928 Jan.	139.55	121.46	−18.09
Feb.	140.29	125.41	−14.88
Mar.	141.04	138.80	− 2.24
Apr.	141.78	136.68	− 5.10
May	142.52	137.31	− 5.21
June	143.27	131.59	−11.68
July	144.01	146.63	+ 2.62
Aug.	144.76	144.14	− 0.62
Sept.	145.50	142.18	− 3.32
Oct.	146.24	150.80	+ 4.56
Nov.	146.99	147.19	+ 0.20
Dec.	147.73	157.35	+ 9.62

Monthly ratio of normal increase, 0.744.

The agitation for increased iron and steel duties has now subsided, as the better position of the iron works during the latter half of 1928 has improved the prospects of assuring the development of this industry without resorting to a higher tariff.

In spite of the depressed condition of the fertilizer market, Japanese interests in Manchuria and in this country have been active in promoting an expansion of production, notably in sulphate of ammonia, which will eventually lead to a greater degree of national self-sufficiency in this important industry.

Shipping has been severely depressed throughout the year 1928. A world-wide surplus tonnage made competition particularly keen and had a depressing influence on freight rates. While this may be said to have been the common experience

of all the leading shipping countries, Japanese shipping was specially affected by a strike of maritime workers which, although lasting only a few days, resulted in an increase of wages and, therefore, of operation costs for shipowners. The anti-Japanese boycott movement in China also affected some lines unfavorably. The fundamental handicap under which Japanese shipping is laboring and which has, now, happily, universally been recognized, is the fact that, although Japan ranks as the third country in point of total tonnage, a large part of that tonnage is too old to compete effectively with the new ships of other nations. The recognition of this situation has led to large expansion programs by the leading shipping companies and to uncommon activity in Japanese dockyards, but on account of sharp competition, orders have not been very remunerative to shipbuilders. The abundant supply of funds at cheap rates has greatly stimulated the provision of new tonnage. Ships in course of construction at the end of 1928 totalled 156,083 tons, as compared with 71,957 tons at the close of the preceding year.

Banking and the Money Market

The year 1928 has been a lean year for Japanese banks, with profits shrinking as a result of the accumulation of idle funds. Deposits with first-class banks were greatly in excess of advances and this tendency was even shared by the smaller banks, although in their case both deposits and advances showed a reduction because of the concentration of funds in the large banks. Throughout the whole year the returns of the Bank of Japan showed a large increase in the balances held on account of private banks which reflects the difficulties encountered by banking institutions in finding an outlet for their surplus funds. Banks were, therefore, compelled to consider the reduction of interest rates on customers' deposits as a self-protecting measure, the reduction eventually taking effect on February 1, 1929.

The tendency towards amalgamation of banks has been accelerated by the financial crisis of 1927, as will be seen from the steadily diminishing number of banks at the end of each year:

Year	Commercial Banks	Savings Banks	Total (Including Special Banks)
1924	1,629	136	1,799
1925	1,537	133	1,704
1926	1,420	124	1,578
1927	1,283	113	1,428
1928	1,023	100	1,155

The course of money rates was of a decidedly unprecedented character. The lowest rate of interest recorded during the year for day-to-day loans was 1.46 per cent, while the rate of 1.82 per cent recorded towards the middle of December, just prior to the yearly settlement, clearly foreshadows a continuance of exceptionally easy money conditions for some time to come. These low rates in contradistinction to the rising tendency in the principal money centers abroad testify to the abnormal situation in the Japanese money market caused by a plethora of surplus funds.

Foreign Trade

The foreign trade of Japan proper for the year 1928 amounted to 4,168,269,000 yen as against 4,171,470,000 yen for the year 1927. Exports were 20,363,000 yen lower and imports 17,161,000 yen higher than in the preceding year. The excess of imports for Japan proper amounted to 224,360,000 yen. To this must be added the excess of imports for Taiwan (Formosa) of 24,438,000 yen and the excess of imports for Chosen (Korea) of 86,003,000 yen, making a total excess of imports for the Empire of 334,801,000 yen. Altogether foreign trade has not developed as satisfactorily as could be presumed from the export figures until April, 1928. Lower prices for raw silk and the unsatisfactory state of affairs in China explain the retrogression. The anti-Japanese movement has not seriously affected Japanese exports to China, as may be seen from the slightly higher figure for the year 1928, but it, nevertheless, acts as a preventive to the natural development of trade with that country.

The Gold Embargo

The erratic movement of Japanese exchange, which adversely affects the economic situation and especially foreign

trade, has aroused public opinion to the necessity of returning to a gold basis with the least possible delay. The entire body of bankers in Tokio and Osaka as well as Chambers of Commerce have submitted resolutions to the Government calling for an urgent removal of the gold embargo. There are grounds for assuming that the Government would be ready to yield to the universal clamour for abolition were it not for the fact that circumstances are now not quite so favorable as a few months ago. The development of foreign trade has been unfavorable of late, and negotiations with China are again at a deadlock. The long drawn-out difficulties are much to be deplored. They act as an irritant and discourage the quick return to a gold basis which would enable the country, economically, to turn a new leaf. There exists no doubt, however, that cordial relations with China will eventually be restored in accordance with the direction of public opinion in this country. The successful solution of these difficulties and a favorable turn in the external trade will, it is to be hoped, make it expedient to restore the gold standard as early as possible.

Labor Conditions

The prolonged economic depression has had a noticeable influence upon working conditions during the year 1928. There has been a tendency towards slightly longer working hours, a reduction of wage rates and a remarkable diminution of labor disputes, the latter caused by a weakening of the labor movement. In contradistinction to this passive attitude in the economic field, the political movement among workers has been greatly stimulated by the General Election in the early spring, the first election under universal suffrage held in this country.

There are no statistical publications available concerning the total number of workers engaged in all industries, but the following statement, compiled by the Social Affairs Bureau of the Home Department, shows the figures for factory workers, miners, transport workers and free laborers:

Type of Workers	End of December, 1926	End of June, 1927	End of June, 1928
Factory workers	2,098,000	2,137,000	2,116,000
Miners	297,000	295,000	298,000
Transport workers	410,000	422,000	453,000
Free laborers	1,836,000	1,821,000	1,895,000
Total	4,641,000	4,676,000	4,763,000
Male	3,100,000	3,122,000	3,205,000
Female	1,541,000	1,554,000	1,558,000

As will be seen, the total number of factory workers showed a tendency to diminish in 1928 as a result of rationalization measures carried out in factories. A confirmation of this tendency is clearly shown by the monthly employment index compiled by the Bank of Japan.

INDEX OF EMPLOYMENT IN FACTORIES
Monthly Average for 1926–100

Month	1927			1928		
	Male	Female	Total	Male	Female	Total
Jan.	99.4	95.9	97.6	96.4	85.6	90.9
Feb.	99.1	95.6	97.3	96.5	85.1	90.7
Mar.	98.5	95.6	96.7	96.4	84.7	90.4
Apr.	98.9	96.7	97.8	96.8	85.2	90.9
May	98.3	94.3	96.2	96.6	84.6	90.5
June	97.7	92.3	94.9	96.7	84.0	90.2
July	96.8	90.4	93.9	96.9	85.3	89.9
Aug.	96.9	89.6	93.2	96.3	82.2	89.6
Sept.	96.9	89.9	93.2	97.9	83.0	90.3
Oct.	96.8	88.9	92.8	98.3	83.0	90.5
Nov.	96.8	88.5	92.5	98.0	82.6	90.1
Dec.	96.6	87.3	91.8	98.2	82.4	90.1

The monthly average of actual working hours for the year 1928 was 9.54 hours, as compared with 9.51 hours for 1927.

Fixed wages in factories have displayed a tendency to decline for years, but actual earnings, or wages plus premiums and allowances, have increased because of the greater efficiency of the workers.

WAGE INDEX (RATES OF WAGES)

Monthly average for 1926 ..... 100.0
Monthly average for 1927 ..... 99.9
Monthly average for 1928 ..... 99.1

ACTUAL EARNINGS IN FACTORIES

Monthly average for 1926 ..... 100.0
Monthly average for 1927 ..... 102.1
Monthly average for 1928 ..... 105.4

There has been a gradual decrease of labor disputes for the past three years as shown by the following statistics of the Social Affairs Bureau:

Period	Number of Disputes	Number of Workers Affected
1926 first half	489	35,236
second half	670	90,658
1927 first half	560	47,012
second half	450	33,477
1928 first half	370	39,217
second half	381	41,549

It is well nigh impossible to ascertain the total number of unemployed in Japan owing to the undeveloped condition of trade unions. The only figures available are those of the statistical reports of labor exchanges throughout the country which are necessarily incomplete. The total number of workers and free laborers registered at these exchanges has kept fairly constant at about 100,000 during the year 1928, but this figure only represents a part of the total, as, owing to the family system peculiar to Japan, many workers return to their families and relations in the provinces when out of work.

The affiliation of labor in trade unions has not yet made great progress in Japan, and the number of unions and their membership have actually decreased during 1928. The percentage of organized workers in relation to the total industrial population was only 6.3 per cent.

Date	Number of Trade Unions	Number of Organized Workers
End of December, 1926	488	284,739
End of December, 1927	505	309,493
End of June, 1928	489	303,098

It is unlikely that this weakening of trade unionism represents more than a passing tendency brought about by the acute economic depression. In considering the infantile stage of trade unionism and the comparatively undeveloped state of social legislation, it should be borne in mind that labor conditions in Japan are essentially and traditionally different from conditions prevailing in the industrialized West. The absence of far-reaching labor laws is tempered by the family system as well as by a system of welfare institu-

tions which, in the case of large and successful industrial and business enterprises, probably surpasses in many directions any social legislation conceivable at the present time. While there should be no desire among enlightened employers to prejudice the greatest possible extension of legislation necessary for the protection of workers, it should also be their bounden duty to foster the traditional relationship of the past and maintain the fine loyalty of the Japanese worker. This can be done through attuning old welfare institutions, where these have become inelastic and stereotyped, to modern conditions, giving greater appreciation to individual merit. It will then be possible to maintain in this country that social solidarity for the common weal which, happily, promises to become the meeting ground of the enlightened section of employers and employed in the more industrialized countries of Europe and America.

TABLE OF CONVERSION

Foreign currencies were converted into dollars at the following rates of exchange:

Argentine, par, 96.48 cents per gold peso;
Australia, par, $4.86 per pound sterling;
Austria, par 14.07 cents per schilling;
Belgium, par, 2.78 cents per franc or 13.9 cents per belga;
Brazil, par, 11.96 cents per paper milreis;
Chile, par, 12.17 cents per gold peso;
Colombia, par, 97.33 cents per gold peso;
Czechoslovakia, 2.96 cents per crown;
Denmark, par, 26.8 cents per crown;
France, par 3.91 cents per franc; pre-war par, 19.3 cents per franc;
Germany, par, 23.8 cents per reichsmark;
Great Britain, par, $4.86 per pound sterling;
Japan, 45.8 cents per yen;
Mexico, 47.2 cents per peso;
Netherlands, par, 40.20 cents per florin;
Russia, par, 51.46 cent per ruble;
Sweden, par, 26.8 cents per krona;
Switzerland, par, 19.3 cents per franc.