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ECONOMIC INTELLIGENCE SERVICE

WORLD ECONOMIC SURVEY

FOURTH YEAR

1934-35

LEAGUE OF NATIONS

GENEVA

1935

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WORLD ECONOMIC SURVEY

Fourth Year

1934-35

PREFACE.

The present *Survey* has been prepared by Mr. J. B. Condliffe, of the Economic Intelligence Service of the League of Nations. It is the fourth of an annual series undertaken in consequence of resolutions passed by the Assembly of the League in 1930 and 1931.

While this present work by Mr. Condliffe is based mainly on the other publications of the Economic Intelligence Service, valuable assistance has been obtained from other sources and particularly from the International Labour Office. The book is intended to afford an account of recent developments intelligible to the lay reader. For more detailed information, the reader should refer to the other publications of the Service, a list of which is given on page 2.

Throughout this volume, as in other publications of the Economic Intelligence Service, the sign "—" indicates that the figure is nil or negligible, "..." that the figures are not yet published. and "." that information is not available or is non-existent. World and continental tables contain, as a rule, estimated figures for countries for which information was not available, so that they are complete and therefore comparable from year to year.

A. LOVEDAY,

Director of the Financial Section and Economic Intelligence Service.

Geneva, August 15th, 1935.

Chapter I.

A YEAR OF UNSETTLEMENT.

The Disturbing Effects of Currency Warfare.

The economic outlook at the beginning of 1935 was distinctly more confused and unpromising than it had been a year earlier. In most countries, it is true, the indices of economic activity were continuing to recover slowly; but the recovery thus registered has been well described as "superficial rather than fundamental ".[1] The economic depression had lasted for more than five years, production still remained low and there was a mass of unemployment. Such progress as had been made from the lowest depths of the depression in the middle of 1932 had not sufficed in most countries to restore the pre-depression levels of economic activity. Moreover, it was becoming increasingly apparent that the uneven rate of recovery was increasing the strain on a precariously maintained international equilibrium.

In order to gain perspective, it should be remembered that, during the earlier part of 1933, and, indeed, from the middle of 1932 onwards, there had been a worldwide tendency towards increasing production and lessened unemployment. The general nature of this upward surge of economic activity betokened a widespread revival of business confidence. The political situation was easier. There was hope of more positive measures of international economic co-operation. These facts, combined with a considerable improvement of international economic equilibrium, were manifested in both a greater demand, and higher prices, for basic raw materials, and presaged a recovery of production and trade. The depreciation of the dollar in April 1933 was a considerable blow to this revival of confidence; but economic improvement continued for some months even after the Monetary and Economic Conference adjourned in July 1933 without reaching any substantial agreement.

[1] International Labour Conference; nineteenth session: "Report of the Director", Geneva, 1935.

The economic rearmament which followed in the closing months of 1933 steadily attenuated the prospects of general recovery; and by this time there had begun to appear the divergence between expansionist policies in the countries off gold, and renewed deflation in the gold bloc. Cheap money policies, supplemented by more positive measures of reflation in many countries, led to a considerable credit expansion which was reflected in greater activity of the construction industries. A substantial building boom developed in the United Kingdom and many of the sterling countries. Despite the contraction of activity in the gold countries, therefore, there was an upward price movement and increased trade in raw materials, together with a substantial improvement in the balances of payments in most of the sterling countries. This progress continued in the early months of 1934, but about the middle of that year there was a marked hesitation of recovery even in the countries with depreciating currencies and expanding credit.

For some months after the United States abandoned the gold standard in April 1933, rapidly rising prices and increasing production in that country eased the strain on other countries that might otherwise have been expected from the depreciation of the dollar. By the end of 1933, however, the first flush of recovery in the United States was over and the definite devaluation of the dollar at a low level in January 1934 caused an immediate strain on the balances of payments of most other countries. The preceding *Survey*, which recorded economic developments up to the middle of 1934, drew attention both to the immediate drain of gold to the United States and to the dangerous situation that had been created by the renewal of international disequilibrium owing to the stabilisation of the dollar at an undervalued level.

Subsequent developments have amply vindicated this diagnosis. Throughout the latter half of 1934 and the early months of 1935, the dominating factor in the world economic situation has been the continued drain of the precious metals, gold and silver, to the United States. In attempting to summarise broadly the reactions that have followed, it is necessary to distinguish three groups of countries. In those which maintained the former gold parity, it became necessary to defend the balance of payments either by drastic policies of price deflation and cost reduction, or by fresh restrictions on imports, or by a combination of both. Thus, in France during 1934, the general level of prices was reduced by no less than 16 %, while fresh trade restrictions cut the excess of imports over exports approximately by half, from 833 to 437 million francs. In the

Netherlands, the import balance was cut from 40 to 27 million florins; in Switzerland, from 62 to 50 million Swiss francs. The two countries of the gold bloc where such measures were not effectively taken were forced, Italy into exchange control and Belgium into devaluation.

The second group of countries consists of those which maintain the nominal parity for their currencies by means of stringent exchange controls. In most of these, and particularly in Germany, imports were already greatly reduced, but some mitigation of the strain on their balances has been achieved by allowing considerable segments of the currency to depreciate. Not only for Germany, but for Hungary, Roumania and Bulgaria, an increasing proportion of trade has been conducted at depreciated exchange rates.

For the third group of countries, those whose currencies have been divorced from gold, the exchange rate is free to act as a buffer against any such drain on the external balance of payments as that imposed by the devaluation of the dollar. There is much evidence that, up to about the middle of 1934, the balances of payments in these countries had been improving. Short-term assets continued to accumulate in London despite expanding imports and increasing domestic trade. The sharp restriction of international trade, together with renewed downward pressure on their export prices, tended to check this accumulation and, simultaneously with a return of short-term capital to the United States, some of the sterling countries, particularly Australia, ran their London assets down rapidly after mid-1934. By the end of that year, there was a strain on the balances of payments, and in March 1935 a fresh wave of currency depreciation was the consequence.

In the second quarter of the year, therefore, it was evident that the sterling and allied depreciations in March, followed by the Belgian and Danzig devaluations in April, and the Mexican and Peruvian defences of their silver currencies[1] were symptomatic of a general strain on the rather precarious international equilibrium. There was little or no prospect of international trade increasing. The currencies of the gold bloc were subjected to heavy speculative attacks. There was strong pressure from financial, shipping and international commercial interests in favour of stabilisation, which was increasingly advocated as the indispensable condition for further recovery. But the general tenor of official pronouncements regarding

[1] China had been forced drastically to modify her silver standard in October 1934, when the United States' silver purchases drained currency reserves from China.

currency stabilisation on the part of the United Kingdom and the United States was very guarded.[1]

The Limits of National Recovery.

The characteristic feature of the recovery that has been proceeding slowly and unevenly since the middle of 1932 is its dependence upon national markets and national policies. In many important countries the recovery of national production has been substantial; but international trade shows little sign of revival. Commodity prices rise slowly in terms of depreciated currencies, but the downward pressure upon the important world markets for raw materials and basic foodstuffs continues. There is ample evidence, much of it of a comfortably reassuring character for those most interested in short-run, local conditions, that recovery, as measured by increasing production and diminishing unemployment, has not yet come to a standstill. Despite the incessant manœuvring for position which is characteristic of the currency and trade war that is in progress, national effort continues and brings useful results. The real dangers are two. Without a truce to currency and trade manœuvring, the limits of recovery may prove narrow. Secondly, there is the risk that, in default of an agreed, concerted effort to reach and stabilise a position of international equilibrium, there may ensue a period of successive dislocations. The attitude of watchful reluctance to take the initiative in promoting a general agreement is apt to cause a succession of depreciations and devaluations which result in first one country and then another gaining a temporary advantage. Trade and short-term capital flow to the latest point of attraction, there is renewed strain upon other currencies, and the result is a constant undercurrent of uncertainty and further constriction of trade.

The statistical evidence that is available to measure the general progress achieved in 1934 reveals substantial gains, but closer analysis supports the conclusion reached by the Bank for International Settlements that "with the passage of time, it becomes more and more clear that no fundamental, durable recovery can be hoped for unless and until a general stabilisation at least of the leading currencies has been brought about". A

[1] Cf., *e.g.*, the statement broadcast on May 13th by the Secretary of the United States Treasury, which contained, *inter alia*, the following passage:

> "Why should we be singled out and admonished that the moral duty to restore order is primarily ours? Before we make any commitments we must be sure that we shall not lose what we have just regained. We are not unwilling to stabilise. However, if the great trading nations elect to continue under the present absence of rules we are no longer at a disadvantage."

selection of this evidence is summarised in the following table:

Indices of World Production, Trade and Unemployment.
(Base: 1929 = 100.)

	Years Annual average			First quarter	
	1932	1933	1934	1934	1935
Industrial production (excl. U.S.S.R.) [a]	63	71	76	76	82
Steel production (excl. U.S.S.R.) [b]	39	53	62	60	70
Textile production [c]	88	98	98	97	...
Industrial unemployment [d]	291	274	221	246	...
Industrial employment [a]	75	78	84	81	...
Stocks of staple commodities [c]	151	143	132	143	...
Quantum of world trade [b]	74	75	77	76	77

[a] League of Nations: *World Production and Prices, 1925-1934*, Geneva, 1935.
[b] League of Nations: *Monthly Bulletin of Statistics*, June 1935.
[c] Institut für Konjunkturforschung: *Vierteljahrsheft zur Konjunkturforschung*, 10-B. 12.
[d] International Labour Office: *International Labour Review*, April 1935.

The substantial gains made in 1934 and the continuance of improvement in the early months of 1935, as compared with the corresponding months of 1934, are encouraging; though there is evidence that less progress was made after September 1934. On the average, world production increased in 1934 by more than 10 %. In many countries, indeed, the percentage of increase was much greater. Germany, Japan, Canada, all showed gains of more than 20 %; in the United Kingdom, the figure was 12 % and in the United States 4 %, while there were decreases in Belgium (2 %) and France (7 %).

Despite the recovery so far achieved, unemployment in 1934 was still more than double that in 1929. If the absorption of the unemployed should continue during the current year at the same rate as in 1934, the amount of unemployment in the world, with production back to its 1929 level, would still be 75 % greater than it was then. The conclusion is irresistible that, until some significant expansion of international trade is achieved, there will remain, despite substantial recoveries of national production, a "hard core of unemployment" in practically every industrial country.

The "New Deal" in the United States.

During 1934, reflationary policies continued in the countries off gold and there was a marked tendency for somewhat similar policies to be followed, or at least for deflation to cease,

in some of the gold countries. Both Italy and Germany had adopted policies of domestic credit expansion in 1933 and they were followed by Belgium in the middle of 1934. Even in France, where there was a pronounced deflation in the earlier part of the year, the Flandin Government which took office in November announced a policy which aimed at a cessation of price deflation. In the Netherlands there was some rise of the price-level following the rubber restriction scheme and of the introduction of protection; but deflation was renewed in April 1935 after a strong attack on the guilder.

Meantime the reflationary policies of the countries off gold, and notably the United States, were passing from the experimental to the administrative stage and the first optimistic expectations of rapid recovery were giving place to more sober calculations. The Gold Reserve Act passed at the end of January 1934, provisionally stabilising the gold value of the dollar, had closed a chapter of currency experiment. From then onwards to the time of writing, the dollar has remained stable in terms of gold and the normal procedure of the gold standard has been followed. The foreign-exchange control set up in March 1933 was finally abolished in November 1934. In August 1934, the profit resulting from the revaluation of the gold reserves, amounting to $2,808 million, was segregated into a Stabilisation Fund. In March 1935, it was announced that $675 million would be used to redeem securities that had hitherto been available as cover for national bank-notes, thus taking a step towards currency unification. As in the case of similar funds in other countries, no information is disclosed concerning the use so far made of the Stabilisation Fund. Since January 1934, therefore, the United States has operated a restored gold standard, retaining the legislative authority to carry out a further devaluation if deemed necessary, and pursuing at the same time a policy of purchasing additional silver reserves. The issuance of silver certificates based on these reserves has slightly increased the supply of currency, but otherwise there has been no currency inflation.

Government and banking authorities have, at the same time, pursued a consistent policy of cheapening credit. Rates of interest have fallen to very low levels, negative rates persisting for several months in respect of certain gilt-edged securities. The reserves held by member-banks with the Federal Reserve Banks rose steadily to a peak hitherto unknown. At the end of February 1935, they amounted to no less than $3,454 million, as compared with $2,357 million in February 1929. In addition to the credit made available by Government spending, the direct lending powers of the Reconstruction

Finance Corporation were supplemented in June 1934 by an amendment of the Federal Reserve Act giving the Federal Reserve Banks power to make direct industrial loans under certain defined conditions. The amounts thus made available to industry have not been great, but analysis shows that the legitimate demand is not considerable. While there has been some tendency for the commercial banks to be strict in their loan policies, there is, in fact, ample credit available, and the real difficulty has been a lack of credit-worthy borrowers. [1]

Meantime, however, the United States Treasury has been able to proceed with a vast programme of conversions and refinancing and has found little difficulty in placing the bonds necessary to provide for the great public expenditures that are in progress. Thus, in September and October 1934, $1,750 million of Liberty and other bonds were converted, and in December another conversion involving almost $1,000 million was successfully carried through simultaneously with the issue of $450 million of Treasury bonds and a similar amount of Treasury notes. In April 1935, the Secretary of the Treasury was able to announce that, whereas the public debt had grown from $21,000 million in March 1933 to $28,800 million two years later, the rate of interest had fallen so that the annual debt service at $800 million was much less at the latter than at the former date. The process of conversion was continued in 1935, $863 million being offered in May, of which $678 million were taken up within the first two weeks.

It was announced also that, on October 15th, the final portion of the Fourth Liberty Loan, the total of which amounted to $8,300 million, would be redeemed by another great conversion operation.

While the capital market was very slow to take advantage of the cheap and abundant credit, there was some private refinancing. In November 1934, for example, the Consolidated Gas Company of Baltimore and the Standard Oil Company of New Jersey carried through important refunding operations without any public issue, the new securities being taken up by small groups of institutional buyers. In the same month the first foreign loans (apart from Canadian loans) for some years were issued, a small amount of Argentine Treasury notes being floated, and a refunding loan being issued on behalf of Finland. In the early months of 1935, further refunding operations were undertaken and at this time public issues were made. While

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[1] Cf. Charles O. HARDY and Jacob VINER: "Report on the Availability of Bank Credit in the Seventh Federal Reserve District", Washington, Government Printing Office, 1935.

the amounts were not large, they were hailed as a symptom of greater confidence in the capital market, and, together with the private refinancing known to be in progress, constituted a step towards business revival.

Much of the hesitation of the capital market had been attributed to the stringent provisions of the Securities Act and to the severer control of the stock exchanges. Though the former had been modified in June 1934, the information demanded from, and obligations imposed upon, those responsible for floating new issues were held in many quarters to be a deterrent to financial enterprise. The increased margins and stricter limitations imposed on dealings restricted operations on the stock exchanges also, although the control proved, in practice, to be less stringent than the legislation had led operators to believe.

Apart from these factors, it is obvious that time is required for a gradual revival of business confidence after such severe losses as were experienced from the beginning of the depression to the banking crisis in March 1933. Not only is it necessary to carry through a great deal of reorganisation, eliminating unprofitable equipment, writing-down lost capital and restoring broken trade connections, but there always ensues a period during which reserves are built up and liquidity regained before extension occurs. The first stages of increasing production then tend to be financed from cash resources without resort to new issues and there is often a considerable lag before the capital market revives, even though such a revival is admittedly necessary for full recovery. There is definite evidence, however, of increasing profits in 1933 and 1934.[1]

In the United States in recent months the situation has been complicated by the somewhat uncertain evolution of the reform legislation. A social revolution of wide, if uncertain, scope and great economic importance has been proceeding. It is sufficient to mention the control of agricultural production and subsidising of agricultural prices, the reorganisation of labour relations and institution of labour legislation, impending programmes of social insurance and old-age pensions, and stricter regulation of the commodity and stock exchanges, to say nothing of vast relief and public works programmes, Government intervention in banking, housing projects, land settlement schemes, railroad reconstructions and regulation of public utilities. It is obviously impossible in a brief space even to summarise the policies which have been followed in these various

[1] Cf. a critical survey of the income-tax returns by George SOULE: " Profits under the New Deal ", in *Current History*, February 1935.

fields. There has, indeed, been a considerable and inevitable fluctuation of policy from time to time. Attention may be drawn, however, to some major aspects of policy which bear particularly upon the prospects of recovery.

In general, it seems fair to say that, as the programme has passed from the experimental to the administrative stage, it has proved more and more to be of a regulatory rather than a revolutionary character. The more novel and unorthodox experiments have tended to recede into the background. Less is heard of the commodity dollar, and monetary policy, except for silver purchases, has followed the established gold-standard practice.

In August 1934 the industrial codes were reduced from 862 to 250. At the end of the following month the National Recovery Administration itself began to be reorganised. The first Administrator, General Johnson, resigned and a process of consolidation was begun. The new head of the organisation, Mr. Donald Richberg, immediately announced the abandonment of its price-fixing activities and, with its future status under discussion by Congress in the early months of 1935, it became evident that the effort to realise recovery by forcing up wages and purchasing power was giving way to mediatory and regulatory control of industrial and labour conditions, while the scope of the codes was being limited. [1]

The summer of 1934 was marked by a succession of industrial conflicts, of which the most important occurred on the San Francisco waterfront in July and in the textile industry in September. The basic issue of most of these conflicts was the recognition of trade unions and the right of collective bargaining. Much controversy raged round the ambiguous Section 7A of the National Recovery Act, which conferred the right to organise. After intervention by the Administration in the automobile industry, a system of free choice between company unions and free unions by the workers concerned has been generally adopted. It would, however, be premature to conclude either that a final solution has been reached or that the stimulus to labour organisation and collective bargaining has yet produced its final results. Industrial conflict continues sporadically and the evolution of trade unionism, with vastly greater numbers of workers now organised in one form or another, depends greatly upon the prospects of early industrial recovery.

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[1] At the end of May, the Supreme Court declared Section 3 of the Act, upon which the code-making powers of the Administration were based, to be unconstitutional, thus depriving the whole experiment of its legal basis.

Unemployment, though falling, remained very great. Estimates of the total number of unemployed at the the beginning of 1935 ranged about the figure of ten millions, though the trade union returns indicated an improvement of perhaps 20% since the middle of 1932. It was more than ever clear that the absorption of the remaining ten millions awaited a revival of private enterprise. Meantime the total of persons in receipt of relief rose to about twenty millions. Evidently the disappearance of reserves was forcing larger numbers of workers to seek public aid. The drain, not only on Federal but on State and municipal funds, was very heavy and private charity was drying up. In April 1935, however, the Administration was granted a new appropriation of no less than $4,880 million for public works and relief expenditure. While serious conflicts of authority between Federal and State agencies had arisen in several States, the organisation of the new fund under the direct leadership of the President was pushed ahead rapidly in the second quarter of the year.

The agricultural programme, and particularly the activities of the Agricultural Adjustment Administration, has consisted, not merely of emergency measures designed to get rid of surpluses and restore prices, but of a more comprehensive attempt to reorganise American agriculture to meet the changed conditions of recent years. In his annual report for 1934, [1] the Secretary of Agriculture claimed that "the end of our period of emergency adjustments, of drastic reductions in the farm output, is coming into view". Farm prices and farm income have risen considerably, partly because of crop control, partly also because of the prolonged and severe drought in 1934. [2] Cash income from farm marketings rose from $4,328 million in 1932 to $6,000 million in 1934. At the latter figure it was higher than in 1931, but still well below the average figure of about $10,000 million in preceding years. Farmers' costs had fallen also, with tax reliefs, refinancing of debt, lower wages and lower prices of materials and implements, so that the net

[1] "Report of the Secretary of Agriculture, 1934". Government Printing Office, Washington, December 1934, page 2.

[2] The following table summarises the movements of the principal farm prices in the last three years in the United States (see *Revue de l'Institut international de Statistique*, La Haye, 1933, 1934, 1935, Livraison I).

Commodity	Dec. 1932	Dec. 1933	Dec. 1934
	$	$	$
Wheat (hard winter No. 2)	42.30	81.10	105.20
Cotton (middling)	5.80	9.90	12.80
Maize (No. 2 mixed)	23.10	47.80	93.80
Hogs	6.00	8.30	13.60
Butter	23.00	19.90	29.00
Sugar	4.10	4.30	4.30
Rice	2.00	3.90	4.90
Tobacco	9.48	13.99	20.26

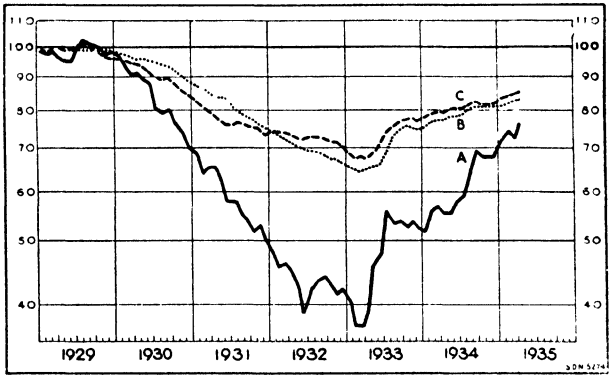
situation showed a substantial gain. The disappearance or reduction of the heavy crop surpluses indicated an improved outlook.

Agricultural and Industrial Prices in U.S.A.

(1928 = 100.)

A Agricultural products.
B Articles bought by farmers.
C Industrial products.

(Logarithmic scale.)



The substantial problems of long-term adjustment remained, however, and there was no indication that the production controls and relief payments were likely to be dispensed with. On the contrary, a long-run programme of agricultural adjustment based upon detailed research and regional discussion by farm organisations was being actively canvassed. [1] The first crop-limitation programmes were necessarily based upon past production of particular commodities; but the emphasis was passing to more complex plans, based upon local discussion, of the dynamic factors in regional agricultural organisation. The questions posed were difficult — how much of each commodity should be produced, what proportion should be allocated to different regions and how to allocate production among individual farmers. Moreover, national and regional estimates of required production necessarily depend upon international factors and upon the measures requisite for the insula-

[1] Cf. "Regional Problems in Agricultural Adjustment", Prepared in the Programme Planning Division, Agricultural Adjustment Administration, February 1935, and M. L. WILSON and H. R. TOLLEY: "Some Future Problems of Agricultural Adjustment", Department of Agriculture, December 1934.

tion of the national market. Such factors are especially important in the case of the great export commodities, particularly cotton.[1] On the other hand, social factors, such as the plight of the share-croppers in large areas of the cotton-producing States and the consequent temptation to "export soil-fertility," must be considered.

The future of agricultural production is, however, linked inextricably with that of foreign trade. The Secretary of Agriculture has repeatedly emphasised this connection.[2] The trade treaties negotiated during 1934 and 1935 must therefore be regarded as an important step towards regulation of the international, and so of the national, market. In June 1934, an important amendment to the Tariff Act conferred power on the President to negotiate reciprocal trade treaties. In pursuance of this power, treaties were negotiated with Cuba (August 1934), Brazil, Belgium (February 1935) and Sweden (May 1935), while other negotiations were in progress. In essence, these treaties follow the line of tariff bargains, the alternative of barter agreements having been rejected, while the application of the most-favoured-nation clause makes them potentially more important than their immediate application would indicate. It is impossible here to analyse the detailed bargains made, but it is clear that substantial tariff reductions have been achieved and safeguards secured against new duties or quantitative trade restrictions. Thus, the treaty with Belgium included concessions to the United States covering a third of the export items, the value of the exports affected having been over $31 million in 1929 and $16 million in 1933. The reductions of duty vary between 13 and 50 %, and on some automobile parts are as high as 80 %. The weighted average reduction is estimated at 35 %, while more favourable quota allotments were secured. For the most part the concessions are on industrial or agricultural manufactures. In return, Belgium received concessions ranging from 16 to 50 % (with a weighted average of 24 %) on items representing about a quarter of her exports to the United States. The commodities affected include a long list of manufactured and semi-manufactured products, some of which, like cement, paint materials, glass and various iron products are of particular importance to the construction industries. It is obvious that, on both sides, the treaty represents a serious effort to extend trade, and the same is true of the other agreements so far negotiated.

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[1] Cf. J. D. BLACK: "The Outlook for American Cotton", *Review of Economic Statistics*. March 15th, 1935.

[2] Cf., *e.g.*, Henry A. WALLACE: "America must choose", World Peace Foundation, 1934.

Thus, while many countries in Europe are reducing their trade to a series of bilateral bargains, the United States is pursuing exactly the opposite policy and extending to countries which have not discriminated against United States exports the offer of unconditional most-favoured-nation treatment.

During 1934, therefore, considerable progress appears to have been made towards a reorganisation of American international economic relations. The shrinkage of agricultural production and export, accompanied by efforts to expand manufacturing outlets, has coincided with monetary stabilisation and the curtailment of industrial regulation through the National Recovery Administration. The commodity balance of trade, however, remains strongly favourable, and gold and silver continue to flow to the United States. The domestic price-level and domestic production have not yet risen enough to take the strain off other countries. Certain uncompleted reform aspects of the New Deal, such as the control of the commodity and stock exchanges, legislation directed against public utility holding companies, and new banking proposals, together with incomplete business reconstruction and a vague but real fear of the consequences of mounting Government expenditures, hamper the long-awaited revival of business confidence. The usual limiting processes of administration, reinforced in this case by the judicial decisions defining and restricting the sphere of legislation, have tended to confine the new departures within narrower limits than was at first hoped or feared. Positive efforts to stimulate economic activity by public works expenditure, housing subsidies and relief payments have not produced very clear results, though the maintenance of purchasing power has averted further deterioration of the economic and social situation. Meantime the utilisation of cheap credit proceeds by the normal steps of governmental conversions followed slowly by industrial refinancing, and the foundation has been laid for a vast credit expansion in the future.

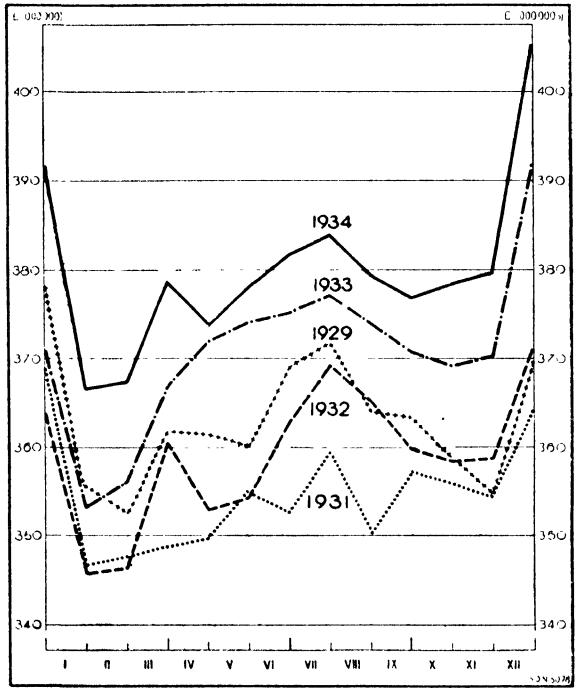
Recovery in the Sterling Area.

In the United Kingdom, the chief reliance for recovery has been placed upon balanced budgets, some relief of taxation, and above all cheap credit. In one important respect, however, both the United Kingdom and the United States have been in a similar position since they abandoned the former gold parity. Domestic credit and reconstruction policies have been safeguarded against a drain from an adverse balance of external

payments, in one case by a depreciating currency and in the other by a currency which has been stabilised at a level low enough to give room for a considerable rise of domestic prices. This freedom from external pressure is perhaps more necessary for a policy of credit expansion in the United Kingdom than in the United States, since the former is more heavily committed to a great volume of international transactions upon much more slender monetary reserves. An unstabilised currency, capable if necessary of absorbing pressures from external price and exchange fluctuations, has therefore continued to be thought necessary to safeguard the programme of domestic credit expansion.

Throughout 1934, this expansion gathered way and was reflected, not only in exceptionally low rates of short-term interest and in long-term conversions, but also in accumulating bank deposits, larger currency issues and increasing domestic trade and production, the most marked indication of which was a considerable building boom.

Bank of England Notes in Circulation.



The United Kingdom continues to be the greatest creditor nation, drawing invisible capital imports from the returns on worldwide investments, most of which have been placed in a sounder position by the economic improvement that has occurred in the countries moving within the United Kingdom's financial orbit. Despite increases of armament expenditure, the budgetary position (war debt payments having remained in suspense) was sufficiently sound to warrant further minor tax concessions in the budget of April 1935. Conversions have greatly reduced the burden of long-term debt, and short-term borrowings have been carried through at extremely low rates.

With the budgetary position thus safeguarded, it is natural that the abundance of available credit should have been increasingly reflected in domestic improvement. The balance of trade, while foreign lending remains paralysed, is less passive and there is a double stimulus to national production from the new policy of tariff protection inaugurated in 1932 and from the credit derived from the accumulation of capital resources. Purchasing power which might otherwise be transferred temporarily to other countries in the form of foreign loans has been made available locally. There is reason to believe that trade restrictions have so reduced the earning power of investments, shipping and commercial services that the balance formerly available for foreign investment has disappeared [1]; but there is no longer any drain of capital to hinder domestic recovery. On the contrary, short-term capital flowed to the United Kingdom strongly till the middle of 1934. After that date the return flow of capital to the United States exerted a considerable pressure on the London market and there was some tendency also for the sterling balances of such countries as Australia and New Zealand to be drawn upon as a result of less favourable trade balances. The Bank for International Settlements has estimated that the sterling area funds held in London increased during 1934 by £20 million, or only one-fifth of the increase in 1933. [2] The bulk of the increase was on account of India and Sweden. The Australian, Irish and New Zealand holdings fell, while the Danish overdraft increased and the Union of South Africa replaced some of her sterling assets with gold. India redeemed a loan of £15 million by using part of its sterling balances and the Union of South Africa repaid its war debt of £ $7^1/_2$ million. The chief movements therefore appear to have been a drain of short-term capital back to the United States mainly from the London balances of the raw-material-producing areas, but a

[1] League of Nations: *Review of World Trade, 1934*. Geneva, 1935.
[2] Bank for International Settlements, Fifth Annual Report, Basle, May 13th, 1935.

continued accumulation of sterling assets in London by those countries in a position to profit from the increased demands for building materials in the United Kingdom.

The substantial gains of national production in the United Kingdom itself may be judged from the following summary table.

Indices of Production in the United Kingdom 1929-1934.

(Base: 1929 = 100.)

	1932	1933	1934
General Index	83	88	99
Engineering	73	79	93
Automobiles	103	123	147
Textiles	86	91	93
Coal	81	80	86
Pig-iron	47	54	79
Steel	55	73	92
Building activity:			
(*a*) Residential	106	141	157
(*b*) Other	67	74	90

These figures clearly illustrate the effects of the cheap money policy (as distinct from public works) in stimulating the building trade, and of tariff protection in the motor-car and steel industries. They also reveal the unevenness of recovery and the distance still to be covered in such industries as coal, textiles and engineering.

The principal schemes of industrial reconstruction to combat the difficulties of the depressed industries and areas have made some progress, though chief reliance continues to be placed upon the stimulation of employment in the newer industries by such measures as cheap money. The plight of certain "distressed areas" where unemployment is concentrated was the subject of legislation passed in December 1934, following the report of a commission of enquiry. Commissioners were appointed with wide powers to organise measures of economic development and social improvement in the distressed areas, a fund of £2 million being placed at their disposal for the first year. Four main types of development are envisaged — public utility schemes, transference of population, expansion of agriculture and expansion of industry. Beginnings have been made with small settlement schemes of subsistence agriculture, the Act having granted power to acquire land compulsorily for such purposes and with the subsidising of employment provided privately or by local bodies.

Negotiations have been proceeding also in the cotton industry for the elimination of 10 million surplus spindles, and on January 4th, 1935, the President of the Board of Trade announced that the Government was prepared to guarantee £2 million to implement this scheme of the Federation of Master Cotton Spinners' Associations. A ballot was taken and it was decided to proceed with the scheme. Insufficient support, however, was received for the proposal to maintain regulated production at fixed prices and this proposal lapsed. On September 27th, 1934, the Bolton Master Spinners (mainly of Egyptian cotton) had unanimously accepted the reinforcement by legal sanctions of the existing price agreement, and similar steps had been accepted earlier (August 24th) by the Rayon Master Spinners. In August a commission reported on the herring industry, and in March 1935 an Act was passed for reorganisation and Government assistance. The tramp shipping industry was provided with a subsidy of £2 million to facilitate the scrapping of surplus tonnage and an Act for this purpose was passed on February 26th, 1935. Reorganisation continued in the agricultural field. On July 31st, 1934, a subsidy of £3 million was provided for the raising of fat cattle, and on the same date the Milk Marketing Act was passed, which also called for State subsidies. In February the report of another commission foreshadowed a marketing scheme for poultry and eggs.

During this whole period, trading agreements were vigorously extended. Three groups of negotiations may be distinguished. The debt moratorium initiated by Germany had called forth the Debt Clearing Office and Import Restrictions Act; but on July 1st an arrangement was concluded whereby the British Government agreed not to use the powers conferred by this Act, Germany agreeing at the same time to continue the Dawes and Young loan payments. Difficulties soon arose, however, with the accumulation of blocked mark balances for imports and on August 3rd, 1934, the Lancashire exporters of cotton yarns suspended exports to Germany pending some satisfactory agreement for commercial payments. On August 20th, an agreement was negotiated between the Reichsbank and the Bank of England for the payment of current imports, and on September 25th a further agreement for the gradual payment of arrears of commercial debt. The accumulation of commercial debts and difficulty in liquidating the "sondermarks" accumulated under these agreements led to their replacement on November 1st by a new "payments agreement", under which 55% of the value of German exports to the United Kingdom is earmarked for the payment of German imports from the United Kingdom. Somewhat similar difficulties arose in con-

nection with Roumania. Blocked lei on account of commercial debt had accumulated, and the Roumanian Government limited imports from the United Kingdom to 55% of the value of exports to that country, applying the remaining foreign exchange to debt liquidation. A similar agreement was made with Brazil in March 1935. These are by no means the only cases of, or the only countries concerned with, the problem of accumulating arrears of commercial debt and the hindrances to trade occasioned thereby; but they are the outstanding cases where such difficulties influenced official British trade policy.

The second group of trade agreements consisted of additions to the bilateral agreements negotiated during 1934 which were recorded in the preceding *Survey*. Agreements were made with Latvia (July), the Netherlands (August) and Poland (February 1935). In addition, the British and Polish coalowners agreed in December to a plan delimiting markets. In November, an agreement was made with the U.S.S.R. extending the terms of the trade treaty of February 1934 to include India, Newfoundland and the British colonies.

Finally, reference must be made to the continued negotiations with the British Dominions arising out of the Ottawa agreements. A formal treaty was concluded with India in January 1935, laying down the principles on which India will impose protective duties against British goods and stipulating British concessions to Indian imports. In the same month, the Irish Free State agreed to import its coal supplies from the United Kingdom and in return secured additional exports of fat cattle. An amendment to the Australian tariff in August evoked a strong protest by Lancashire cotton exporters as being against the principles of the Ottawa agreement and the duties were subsequently modified, but not sufficiently to placate Lancashire opposition. In November, negotiations concerning meat imports were reopened by the British Government in an endeavour to limit beef imports from the Dominions. Finally, the Australian Government, representing the Dominion chiefly concerned, accepted a temporary restriction of exports for three months, and this restriction was prolonged after March 31st, 1935, pending negotiations with the Dominion Ministers assembled in London for the King's Jubilee. In February, the British Government announced its desire to institute a levy on imported beef, but failed to secure the assent either of the Dominions or of the Argentine, with whom a trade treaty was in force guaranteeing a beef quota. Negotiations were still in progress on this subject at the time of writing (May 1935).

During the whole of this period, there was no further step taken after August 3rd, 1934, to lift the unofficial embargo

upon foreign loan issues. At that date the Chancellor of the Exchequer announced that no objection would be raised to loans for the Dominions, or for countries within the sterling bloc, if the latter were for the purchase of British industrial exports. As will be seen from the following table, there was a substantial revival of industrial capital flotations both for the domestic market and for the Dominions. The Austrian conversion loan, a Norwegian conversion loan and the arrangement by which the Argentine commercial debts were paid by raising a long-term loan, represented a partial lifting of the embargo.

Public Issues of Long-term Securities in the British Capital Market, 1928 and 1931-1934. [a]

£ (000,000's omitted).

	1928	1931	1932	1933	1934
New Capital Issues:					
United Kingdom:					
Government	83.8	10.7	102.7	150.8	44.1
Other	179.7	43.8	60.3	59.4	93.6
British possessions:					
Government	40.2	30.6	23.8	24.2	8.5
Other	22.9	7.9	1.8	5.0	21.5
Foreign countries:					
Government	15.9	1.7	—	5.3	—
Other	26.4	7.4	0.3	0.1	1.5
Grand Total	368.9	102.1	188.9	244.8	169.2
Conversions.					
United Kingdom:					
Government	224.0	12.0	2,479	50.8	105.0
Other		—			52.2
British possessions:					
Government		—			60.5
Other	100.0	—	31.8	172.3	—
Foreign countries:					
Government		—			24.2
Other		—			—
Grand Total	324.0	12.0	2,510.8	223.1	241.9

[a] *The Economist*, December 29th, 1934, December 23rd, 1933, December 31st, 1932.

Some lack of balance is evident from the continued depression of the basic export industries and shipping and from the relatively slow recovery in foreign trade. Domestic recovery depended largely upon the construction boom and the expansion of the newly protected industries, and there was some tendency to speculative enterprise in the commodity markets. There

appears to have been, at least till the middle of 1934, substantial support to the British economy from the rapid recovery of markets in the sterling area; but the worsening of conditions in the gold countries and the uncertain exchange situation were adverse factors particularly because of their accentuation of trade restrictions and their depressing influence on price-levels.

If attention is turned to the countries within what is loosely termed the sterling area, whose currencies have depreciated about as much, and move in the same direction as, sterling, it will be apparent that, during 1934, there was a considerable measure of recovery. The available statistics are not complete, but there is sufficient evidence of increasing production and trade, rising prices, rising share values and decreased unemployment to betoken a widespread and substantial recovery. For convenience of presentation in the table below, several countries are included which cannot properly be regarded as a part

Indices of Recovery in Countries with Depreciated Currencies. (*Percentage Increase or Decrease in 1934 compared with 1933.*)

Country	Production	Building activity	Imports Value in national currencies	Exports Value in national currencies	Share prices	Wholesale prices	Unemployment
United Kingdom	+ 12	+ 12[a] + 21[b]	+ 9	+ 8	+ 21	+ 3	− 15[c]
Australia	.	+ 45	+25	− 11	+ 17	+ 4	− 17[d]
Canada	+ 22	+ 29	+28	+ 23	+ 32	+ 7	− 18[d]
Ceylon	.	.	+24	+ 34	.	.	.
Egypt	.	.	+10	+ 10	.	+ 23	.
India	.	.	+ 9	+ 3	.	+ 2	.
Irish Free State	.	.	+10	− 4	.	.	+ 43[e]
British Malaya	.	.	+31	+ 45	.	.	.
New Zealand	.	+ 15	+23	+ 16	+ 16	+ 2	− 12[e]
Palestine	.	.	+38	+ 24	.	+ 4	.
Union of South Africa	.	+ 52	+35	− 14	.	+ 9	.
Denmark	+ 7	+ 44	+ 6	+ 0	+ 16	+ 6	− 19[e]
Estonia	.	.	+42	+ 51	.	+ 0	− 64[e]
Finland	+ 11	.	+21	+ 18	+ 24	+ 1	− 42[e]
Norway	+ 7	+ 37	+11	+ 4	+ 7	+ 2	− 1[e]
Portugal	.	.	− 7	+ 7	.	+ 8	.
Sweden	+ 22	.	+18	+ 20	+ 28	+ 7	− 13[d]
United States	+ 4	− 9[a]	+14	+ 28	+ 23	+ 14	− 13[d]
Argentine	.	+ 21[b]	+24	+ 28	.	+ 15	.
Brazil	.	+ 30	+16	+ 23	.	.	.
Chile	+ 10	+ 77	+18	+ 39	+ 5	− 1	− 58[e]
Japan	+ 14	− 5[a] + 18[b]	+19	+ 17	+ 26	− 1	− 11[f]

[a] Residential. [b] Other building. [c] Compulsory unemployment insurance statistics. [d] Trade union returns. [e] Employment Exchange statistics. [f] Official estimates.

of the sterling area, but which have participated in the recovery that was general among the countries with depreciated currencies.

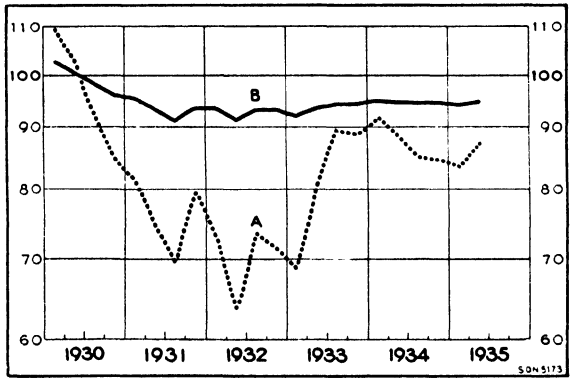
Special factors have obviously been operative in particular countries. Thus, the higher prices for tin, rubber and tea have assisted recovery in the tropical areas; Egypt has profited from cotton restrictions in the United States; Palestine has had a great inflow of new capital; in the Argentine and Brazil further currency depreciation has increased the trade values in terms of local currencies; the demand for timber resulting from the very pronounced building boom which is evident practically throughout the sterling area has greatly profited the Baltic countries. In general, however, the recovery bears all the marks of a cheap credit movement leading to increased demands and higher prices for raw materials. As may be seen from the table, the rise in wholesale prices was not very great except where fresh depreciation had occurred, as in the Argentine. In the countries where depreciation had gone furthest — as, for example, Japan and Chile — there was during the year as a whole a slight downward movement of prices.

The situation has been complicated by the developments during 1934 to which reference was made briefly in the opening section of this chapter. The figures quoted above are annual figures. They disclose evidence of substantial domestic recovery in the sterling area in that year as compared with 1933. Rising production, increasing imports, active building, improved share prices and diminished unemployed indicate freer use of credit. Behind these facts, however, there lie disquieting symptoms of renewed strain. These are perhaps best revealed in the British index of the wholesale prices of raw

British Wholesale Prices of Manufactured Articles and Raw Materials

(1930 = 100.)

A Raw materials. B Manufactured articles.



materials, which moved consistently and rather sharply downward from February 1934. Obviously, the raw-material producing countries (except those benefiting by restriction schemes) were placed again in the familiar difficulty of increasing imports and domestic expansion, based upon a preceding period of higher export prices, at a time when their export prices had again begun to fall.

There was accordingly a considerable strain on the balance of payments of many of these countries, with a consequent strain on sterling. Detailed analysis of this situation is more conveniently undertaken in a later chapter.[1] Its importance may be inferred from the following table giving an

Balance of Commodity Trade in the Sterling Area.

£ stg (millions).

Increase or decrease in 1934 compared with 1933.

Country	Imports	Exports	Balance of commodity trade		More passive balance	More active balance
			1933	1934		
United Kingdom .	+ 58.59	+ 28.26	− 258.03	− 288.36	− 30.33	
Union of South Africa	+ 16.68	− 13.05	+ 44.98	+ 15.25	− 29.73	
Australia	+ 13.23	− 9.31	+ 34.90	+ 12.36	− 22.54	
India	+ 7.91	+ 3.00	+ 22.28	+ 17.37	− 4.91	
Irish Free State . .	+ 3.53	− 0.81	− 16.14	− 20.48	− 4.34	
Palestine	+ 4.13	+ 0.63	− 8.21	− 11.71	− 3.50	
Denmark	+ 3.09	+ 0.43	− 2.99	− 5.65	− 2.66	
Norway	+ 3.33	+ 0.82	− 5.35	− 7.86	− 2.51	
Kenya	+ 0.63	− 0.07	+ 2.17	+ 1.47	− 0.70	
South West Africa .	+ 0.27	− 0.23	+ 0.39	− 0.11	− 0.50	
Tanganyika . . .	+ 0.37	+ 0.10	+ 0.78	+ 0.51	− 0.27	
Estonia	+ 0.60	+ 0.98	+ 0.36	+ 0.74		+ 0.38
Finland	+ 3.80	+ 4.18	+ 5.91	+ 6.29		+ 0.38
New Zealand . . .	+ 4.42	+ 4.90	+ 12.62	+ 13.10		+ 0.48
Sweden	+ 10.19	+ 10.71	− 0.87	− 0.35		+ 0.52
Rhodesia	+ 1.66	+ 2.41	+ 3.91	+ 4.66		+ 0.75
Iraq	+ 2.45	+ 3.98	− 3.47	− 1.94		+ 1.53
Ceylon	+ 2.82	+ 4.63	+ 1.68	+ 3.49		+ 1.81
Portugal	− 1.61	+ 0.33	− 13.55	− 11.61		+ 1.94
Canada	+ 17.67	+ 21.13	+ 46.57	+ 50.03		+ 3.46
British Malaya . .	+ 13.25	+ 20.45	+ 2.24	+ 9.44		+ 7.20
Total	+ 167.01	+ 83.47	− 129.82	− 213.37	− 83.54	

[1] Cf. Chapter VII.

apparent total of over £80 million, by which the balance of commodity trade in the sterling bloc as a whole (inter-bloc balances cancelling out) had moved adversely.

The elements contributing to this strain on the balance of payments of the sterling area are so complex as to require detailed analysis later. [1] Among them clearly must be reckoned the domestic expansion based upon cheap credit; the narrowing of the world market, and consequent fall of export prices for raw materials caused by the German and Italian import restrictions, and the defensive measures of the gold bloc, as well as the new thrust of United States trade which was indicated by the increased active balance of commodity trade for that country and the return of American capital after stabilisation.

At the beginning of 1935 it was becoming very clear that the recovery stimulated by cheap credit in the sterling countries was rather dangerously dependent upon the construction and home consumption industries without a corresponding expansion of the industries catering for export markets. The sharp depreciation of sterling in March, even though subsequently reversed as a result of the difficulties of the gold currencies in April and May, was an indication of strain on the balances of payment. There is good reason to believe that this was true, not only of the sterling bloc, but also of the South-American and Asiatic countries with depreciated currencies, and particularly of those whose chief reliance must be upon the export of foodstuffs and raw materials. The blows levelled at international economic co-operation in the latter part of 1934 were causing renewed difficulties even in the countries whose managed currencies to some extent insulated them from external disturbances. Expansion of domestic consumption and increased trade among themselves could not protect them from the adverse effects of further damage to the already broken international system.

The situation of Japan, which is not strictly a member of the sterling group, but whose currency after a considerable depreciation has since the latter part of 1933 moved approximately parallel with sterling, demands special attention. The principal economic indices during the years since depreciation

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[1] See Chapter VII.

began are summarised below:

Economic Indices in Japan, 1931-1934.
(Base 1929 = 100.)

Index	Annual average			
	1931	1932	1933	1934
Exchange rate:				
London	137	88	73	72
New York	106	61	55	64
Paris	106	61	44	39
Wholesale prices	70	73	82	81
Cost of living	75	75	80	82
Production	92	98	113	126[a]
Total imports	56	64	87	103
Total exports	53	65	87	102
Share values (Jan. 1930 = 100).	102	139	236	298
Unemployment (1930 = 100).	114	131	111	101

[a] Average January-October, 1934.

These figures connote a considerable increase of industrial prosperity. The principal factor in bringing about the increase of production and trade from the end of 1931 onwards was the depreciation of the currency, with which was associated an unbalanced budget and heavy Government expenditure. [1] Japan, indeed, provides the clearest case of industrial recovery stimulated by an expansionist policy, which in turn was made possible by currency depreciation. Externally, there has been an almost equal increase in imports and exports, with a slightly adverse movement both of the balance of commodity trade and of the balance of payments, [2] and some increase in the burden of the foreign debt, the amount of which, however, remains small and counterbalanced by Japanese investments in Manchuria.

Within Japan itself, industrial activity, both for the export market and to meet Government demands, has expanded rapidly and has afforded an opportunity to carry through a great deal of rationalisation and re-equipment. All accounts agree that the industrial expansion is due in great part to improved scientific organisation and not, except in marginal industries, to any lowering of the standard of life among the industrial

[1] Cf. Department of Overseas Trade, Report No. 604, by G. B. SANSOM and H. A. MACRAE on "The Economic Conditions of Japan, 1933-34" page 14:

"A close study of recent economic developments leads one to conclude, not that the Goverment has been enabled to float large issues by favourable economic conditions, but rather that the loan-financed expenditure of the Government has set in motion economic forces which were awaiting release and has thus produced those favourable conditions."

workers. [1] Neither wholesale nor retail prices have risen commensurately with the external depreciation of the yen. There has been some apparent decrease in wage-rates, which is explained as the result of the increasing employment of unskilled labourers in the rationalised industries. The volume of employment has risen substantially, and the total earnings slightly, presumably by greater regularity of employment.

Factory Employment and Wages in Japan [a].

(Base: 1926 = 100.)

(Yearly average.)

	Number employed	Wage-rates	Actual earnings	Factory pay-rolls
1931	74.4	91.3	90.7	67.5
1932	74.7	88.1	88.1	65.8
1933	81.9	85.1	89.2	73.0
1934	91.3	82.9	91.2	83.3

[a] *Oriental Economist*, April 1935.

The recovery in industrial production has not been paralleled by a similar recovery in agriculture, which is, indeed, in great distress. In 1934, the value of the cocoon crop fell to 198 million yen as compared with 500 million yen in 1933, while rice production, owing to adverse climatic conditions, fell from 71 million koku to 51 millions. Farming distress has necessitated tax remissions and substantial Government subsidies, together with the establishment of a guaranteed minimum price for rice; but such measures can be no more than palliatives, and the heavily indebted rural population constitutes a problem of the first magnitude. [2]

The gains from industrial development have largely been intercepted for the financing of the Government's programme. Labour has gained from increased employment, though the constant pressure of new entrants to the labour market makes it likely that employment may not continue to increase fast enough. [3] The small base upon which the unemployment statistics are calculated and the relations of industrial labourers with the agricultural community from which they are largely

[1] Cf. Federation of British Industries' "Report on Mission to the Far East August-November 1934".

[2] Mitsubishi Research Bureau: *Monthly Circular*, January 1935.

[3] Federation of British Industries Report, *op. cit.*, page 19:

"At the moment, unemployment is small, but we believe that, however successful Japan may be in industrialising herself, she is bound to be faced before long by an unemployment problem of considerable magnitude as her population increases."

drawn cause some hesitation in relying upon the published figures as a guide. Even in 1932, at the worst of the depression, the percentage recorded was only 6.8%. Some part of the agricultural distress is clearly due to lack of sufficient labour outlets.

Up till the present, the stimulation of industry has depended largely upon unbalanced Government expenditure. The receipts from greater exports have made it easier to float Government loans, which now represent a much greater proportion of bank portfolios. The Bank of Japan has been successful in transferring to the public and the commercial banks, mainly to the banks, a large part of the loans advanced to the Government. [1] During the four years ending January 1935, the Bank of Japan's advances to the Government rose from 136 million yen to 507 millions, [1] without, however, greatly increasing the note circulation, Government securities having approximately replaced the losses in the gold reserve. The national debt has risen from the relatively low figure of 6,029 million yen at the end of 1930 to 8,651 millions four years later. [2] The limits of expansion would appear, therefore, to depend upon the capacity of world markets to absorb increasing quantities of Japanese exports and upon the continued ability of the money market to absorb deficit loans. The prospect of heavier taxation in the future, or alternatively of budgetary economies, is viewed as a probable check upon industrial expansion. Thus, the representatives of the Federation of British Industries reported that "Japanese taxation is to-day comparatively low, but any considerable increase, even from a low level, will have repercussions upon the industrial and social fabric which will prove a serious drawback to Japanese industrial expansion".

The Defence of the Gold Bloc.

Many of the outstanding economic events since the middle of 1934 have been incidents in the battle fought by the countries still adhering, nominally or in fact, to the gold standard to maintain the official parities of their currencies. Faced

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[1] *Oriental Economist*, February 1935. The security holdings of the commercial and savings banks at the end of 1933 and 1934 were:

	Yen (000,000's)	
	1933	1934
Government bonds	2,710	3,278
Local Government bonds	379	381
Foreign securities	149	180
Corporate bonds	1,482	1,555
Stocks	475	511
Total	5,195	5,905

[2] Cf. Report, *op. cit.* Monthly Report on Current Economic Conditions, Tokio.

by the heavy strain on their balances of payments arising from the return flow of capital to the United States and from the trading advantage conferred by the undervalued dollar, together with the downward tendency of the sterling and allied exchanges, those countries which endeavoured to operate a free gold standard found their difficulties aggravated by the direct and indirect consequences of the effort made in many of the exchange-control countries to expand domestic production. The technical monetary position of the gold bloc countries was strong, but their economic situation was weak and became weaker. By tightening their trade restrictions, imports could be heavily reduced and the strain on their balances of payments relieved. Deflation, however, had already been in progress for several years and the amount of further price cutting and cost reductions that could be managed was limited by social resentment and by the fact that there seemed no end to the sacrifices demanded. No sooner, after a great effort, was some approach to equilibrium achieved than fresh depreciation elsewhere called for another. Budgetary difficulties added to the strain and were not helped by the increasing armaments expenditure that followed the darkening of the international horizon in the second half of 1934 and the first months of 1935. The results of this combination of pressures are only too evident in the statistical indices that are summarised in the following table. For convenience of comparison, the countries mentioned have been grouped into four categories. The first consists of the gold bloc, the second of the exchange-control countries, the third of the two countries which had devalued their currencies, and the fourth of China, whose silver currency was under a strain similar to that experienced by the gold bloc.

The only gold countries in which there was some mitigation of the depression were Poland, where deflation was wholehearted, and the Netherlands, which gained some relief from higher rubber prices and from the immediate effects of tariff protection; but in both unemployment increased and in Poland heavily. The only gold country to show an apparent decrease of unemployment was Switzerland, whose statistics are based upon cantonal unemployment insurance returns. [1] The registrations at the Labour Exchanges show only a slight fall, concentrated in the first half of the year, which was apparently due in large part to greater utilisation of the unemployed on the land. There appears, on the other hand, to have been some improvement in the countries which have devalued or partially depreciated their currencies.

[1] There was a substantial increase in these figures in the first months of 1935.

One of the remarkable features of the figures for the exchange-control countries is the consistency with which increasing imports are shown with decreasing exports. The exceptions are Hungary and Yugoslavia, in both of which special measures, similar in effect to a partial depreciation of the currency, have been taken to encourage exports. The effect of the work-creation programme in Germany is manifest both in increased production and lessened unemployment.

The same improvement of production and lowering of unemployment is shown, though less strongly, in the two countries which had devalued their currencies; but in these cases exports increased much more than imports with a consequential relief to the balances of payments.

Economic Indices in Countries with Fixed Currency Parities: Percentage Increase or Decrease in 1934 compared with 1933.

(Annual averages.)

Country	Production	Building activity	Imports	Exports	Share prices	Wholesale prices	Unemployment
Algeria	.	.	− 8	− 13	.	.	.
Belgium	− 2	− 17	− 7	− 4	− 17	− 6	+ 9[e]
France	− 7	− 11	− 19	− 3	− 21	− 6	+ 24[f]
Netherlands Indies	.	.	− 8	+ 7	− 4.6	− 6	+ 8.3
Indo-China	.	.	0	− 2	.	− 10	.
Lithuania	.	.	− 2	− 8	.	− 11	.
Morocco	.	.	− 14	+ 11	.	.	.
Netherlands	+ 1	− 14	− 14	− 2	+ 3	+ 4	+ 3[f]
Poland	+ 13	+ 89[a]	− 3	+ 2	− 3	− 6	+ 37[f]
Switzerland	.	− 31	− 10	− 1	+ 4	− 1	− 9[e]
Germany	+ 24	+ 37[b] / + 112[c]	+ 6	− 14	+ 19	+ 5	− 44[f]
Bulgaria	.	.	+ 2	− 11	.	+ 3	+ 31[g]
Spain	.	.	+ 3	− 9	+ 3	...	.
Hungary	+ 16	.	+ 10	+ 3	− 8	+ 4	− 14[f]
Iran	.	.	− 6	.	.	.	.
Italy	+ 10	+ 67	+ 3	− 13	+ 18	− 2	− 5[g]
Latvia	.	.	+ 3	+ 5	.	− 1	− 39[f]
Roumania	+ 21	.	+ 13	− 3	.	+ 2	− 41[f]
Turkey	.	.	+ 16	− 4	.	+ 4	.
U.S.S.R.	+ 18	.	− 33	− 16	.	.	.
Yugoslavia	.	.	+ 24	+ 15	.	− 2	− 4[f]
Austria	+ 10	.	+ 1	+ 11	+ 10	+ 2	− 9[f]
Czechoslovakia	+ 11	...	+ 10	+ 24	+ 6	+ 3	− 8[f]
China (excluding Manchuria)	.	+ 9[d]	− 23	− 13	.	− 6	.

[a] Car-loadings of building materials. [b] Residential. [c] Other building. [d] Average for I-XI, Nankin, Shanghai, Tientsin. [e] Voluntary unemployment insurance statistics. [f] Employment Exchange statistics. [g] Official estimates.

In view of these circumstances, it is not surprising to find that, during 1934 and early 1935, the gold countries experienced a series of financial crises culminating in May in a sustained speculative attack on the currencies and in domestic flights of capital. The outstanding incidents are marked by the movements of Central Bank rates, though it is significant that Belgium, which ultimately devalued its currency in April, did so without raising the bank rate. [1]

It is convenient first to deal with developments in the exchange-control countries, and particularly in Germany, since these passed into a critical stage at the beginning of the period covered by this *Survey* and exercised a considerable influence on the international situation. The external aspects of the German "new economic policy" may be briefly summarised as a virtually complete suspension of debt transfer, increasing rigidity of import controls, partial depreciation of the currency and the use of the exchange freed from debt service, supplemented by barter agreements, to secure raw-material supplies. The import of raw materials was the vital link connecting the external and internal aspects of policy. From the domestic point of view, the new programme consisted of plans for rearmament and at the same time for "work-creation", designed to reorganise, re-equip and reabsorb the labour force that had suffered from so prolonged and severe unemployment. The attack on unemployment was mainly based upon a considerable expansion of domestic credit, but at the same time far-reaching

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[1] *Central Bank Rates of Discount: Increases and Decreases July 1934 — May 1935.*

Increases

	%
1934:	
September, Danzig	3-4
November, Italy	3-4
1935:	
April, Netherlands	2½-4½
May, Danzig	4-6
May, France	2½-6
May, Switzerland	2-2½

Decreases

	%
1934:	
July, Netherlands Indies	4½-4
July, Yugoslavia	7-6½
August, Belgium	3-2½
September Estonia	5½-5
October, Spain	6-5½
November, Australia	4½-4¼
November, Netherlands Indies	4-3½
December, Finland	4½-4
December, Portugal	5½-5
December, Roumania	6-4½
1935:	
January, Chile	4½-4
February, Austria	4½-4
February, Yugoslavia	6½-5
March, Italy	4-3½
May, Belgium	2½-2

Unchanged.

	%		%		%
Union of South Africa	3½	Greece	7	Peru	6
Albania	7½	Hungary	4½	Poland	5
Germany	4	India	3½	United Kingdom	2
Bulgaria	7	Japan	3.65	Sweden	2½
Canada	2½	Latvia	5½	Czechoslovakia	3½
Denmark	2½	Norway	3½	Turkey	5½
U.S.A. (New York)	1½	New Zealand	4		

measures of reorganisation were attempted in accordance with the new authoritarian philosophy of the Government.

The regulation of national economic activity proceeded by a series of decrees rapidly centralising the effective direction of policy in the Reichsbank, which controlled monetary policy internally and externally. The combination of the offices of President of the Reichsbank and Minister of Public Economy from August 1934 onwards symbolised this unity of control. Enormous power was given to the Minister by an empowering Act passed in July 1934 which, *inter alia*, enabled him to take decisions, if necessary, in violation of existing legislation. The regulation of economic activity proceeded rapidly by the prescription of price-controls, the rationing of raw materials and, on occasion, of foodstuffs, the compulsory cartellisation of certain industries, the regulation of entry into the various industries and professions, the dismissal of young people and of those, including married women, holding more than one position, the shortening of hours and redistribution of employment, the regulation of profits, measures to control and coordinate economic undertakings and investments of all kinds, the encouragement of domestic substitutes for imported raw materials, prohibition of the opening of new retail establishments, banking reorganisation, the registration of craft-workers, prescription of work-books equivalent to industrial passports, and finally, on March 30th, 1935, the expansion of the German Labour Front to include the "Organisation der gewerblichen Wirtschaft" in a single national body for the control of production, trade, private finance and all social and labour issues connected therewith. In a word, the whole economic activity of the country, in its labour, trading, production and financial aspects, was placed under centralised, authoritative control and detailed regulation.

The financial aspects and, indeed, the larger economic effects of this new policy, together with the heavy expenditure on work-creation programmes and rearmament, are difficult to analyse and cannot yet be adequately weighed. The immediate funds for the Government's expenditure have been provided in large part by short-term advances, which, however, have been distributed widely among financial institutions, private businesses and individuals. The note issue of the Reichsbank now rests almost entirely upon Government securities; but the expansion of circulation has not been great. The reserves of institutions and individuals have likewise come to consist in great part of Government securities. The law governing profit distribution directs all profits above a regulated minimum to be invested in such bonds. The revision of the tax system

also operates, according to the new principles of Government, in favour of the lower income-tax payers according to the size of their families and against large-scale enterprises. There have been, in addition, conversions with some indirect elements of compulsion and levies and subscriptions the extent of which is not ascertainable. It is clear that Germany has mobilised for immediate purposes a great part of her capital resources, and, in so doing, has necessarily effected a substantial re-distribution of real income.

The inevitable counterpart of this comprehensive national economic regulation has been equally comprehensive and effective regulation of external trade and finance. The transfer moratorium upon external debt has been supplemented by detailed import controls and vigorous efforts to promote exports by trade and barter agreements. Exports, however, have fallen. Certain additional exports against raw materials have been obtained by barter agreements which have been concluded and which, incidentally, have gravely impaired former trade connections; but the net effect has been a heavy fall in exports. In the second quarter of 1935, the need of imported raw materials, like the short-term financing of domestic expansion, was causing a good deal of concern to those responsible for the direction of the German economy.

The international effect of this virtual isolation of the German market, and the very similar though less important consequences that flowed from the extension of the clearing system in many other European countries, is considered later in connection with international trade. [1]

The evolution of the corporative state in Italy briefly referred to in the preceding *Survey* was further advanced in October 1934. Twenty-two great corporations have been created to regulate economic life. At the same time, there has been centralised financial control by the Government through the Industrial Reconstruction Institute. The policy of national economic expansion which is responsible for the rapid increase of industrial production has, however, been accompanied by a growing strain on the external balance of payments. Despite the close regulation of economic enterprise and the measures taken to reduce hours [2], the gradual elimination of women and young persons from industrial employment in certain lines, and extensive relief and public works, unemploy-

[1] Cf. Chapter VI.
[2] In December 1934, Italy adopted the 40-hour week, wages being proportionately reduced.

ment has not been greatly reduced and exports have fallen heavily. In November 1934, a sharp fall in the gold and foreign assets reserves of the Bank of Italy caused the bank rate to be raised. The fall continued, and early in December steps were taken for the impounding of credits held abroad. Italy thus joined the group of countries practising exchange control, and this control was supplemented in February by a system of import licensing which in April and May was entrusted to a newly created office for the regulation of imports in accordance with the available foreign exchange.

Meantime, the other countries of the gold bloc had been making strenuous efforts to defend their currencies. Poland, throughout the depression, has deflated *pari passu* with the depreciation of her competitors' currencies, the main instrument of deflation being the tax system. During 1934, the Netherlands found some relief from the improvement in the markets for colonial produce, including rubber; but deflation continued, masked in some degree by the effect of tariff protection upon the price-levels, and was intensified in April 1935. Switzerland also deflated slowly and was helped by increased exports under her clearing agreements, particularly with Germany, and, to some extent, by the great reduction of German exports to many European markets. In both these countries, however, as well as in France and Belgium, the underlying economic situation remained weak, as the events of March-May 1935 were to prove.

Belgium, during 1934, suffered heavily, and her international situation as an importer of raw materials and an exporter of finished products, her dependence upon foreign trade, and the plight of her colony in competition with other raw-material-producing areas, rendered her particularly vulnerable as world markets shrank. Deflation had been vigorously pursued in the early years of the depression. As fresh depreciations occurred, each successive deflationary effort became more painful, and not only were the social costs difficult to face, but the banking situation became strained. In August and September 1934, therefore, a new policy was launched which virtually abandoned deflation and endeavoured to free the banks from the burden of their frozen assets, while cheapening credit. An existing semi-Government bank was expanded into an institution capable of taking over the frozen banking assets, and the commercial banks were faced by legislation with the necessity of choosing between deposit and industrial banking. The discount rate was lowered and a definite effort was made to cheapen credit and revive business activity. Depression continued, however, and distrust of the currency, within and without the

country, was expressed in a series of speculative attacks. These culminated in April 1935 in a drain of gold and a threatened banking crisis of sufficient magnitude to force a sudden devaluation. Subsequent economic developments are considered in later chapters of this *Survey*.

The Belgian difficulties were paralleled in many respects in the other gold countries except Poland. In France, the Netherlands and Switzerland, the supporters of devaluation became more numerous, even though the official attitude remained firm. In July 1934, a compaign was launched in Paris which gathered strength as the months went by. While definite campaigns were not in evidence in Switzerland or the Netherlands, resistance to deflation grew stronger, and in the early months of 1935 the *initiative de crise* launched in the former was very like the earlier Belgian programme of work creation, debt reduction and wage maintenance. There was no doubt, also, of the difficulty encountered by deflationary measures in France. In September, the French Government, which had continued the policies of budgetary deflation and trade restrictions (mainly by quota bargaining), and had thereby facilitated the considerable cost reductions that were carried through in private industry, appealed for extensive measures of constitutional reform, which would, *inter alia*, enable it to pursue its programme. After some weeks of political uncertainty, the Government fell and was replaced by another which laid stress upon the cartellisation and rationalisation of industry, a gradual return to economic liberty involving mainly a reduction of agricultural subsidies, the replacement of quotas by tariffs, measures to relieve unemployment by raising the school age and repatriating foreign workers, and domestic credit expansion.

At the same time, efforts were renewed to stimulate reciprocal trade among the gold-bloc countries. A meeting held at Geneva in September had borne some fruit in concessions incorporated in subsequent trading agreements, and another meeting was held at Brussels in December to investigate the possibility of further steps in that direction.

In pursuance of its new policy, the French Government announced its intention of replacing the import quotas by tariffs before the end of 1936. In December, also, a beginning was made at rationalising the wheat market and the wine industry. France appeared as an exporter of wheat, nine million quintals being set aside for export, four millions for denaturing and six millions to constitute a national reserve. The intention was to leave the market free as from July 1935. At the same time, measures were taken to restrict wine production. In January, a change occurred in the government of the Bank

of France, which was widely interpreted as a prelude to more liberal credit policies based upon increased issues of Treasury bills. The Government's proposals for the compulsory reorganisation of depressed industries were finally voted at the end of March. The financial programme announced in January, based on credit expansion, was intended to avoid the necessity for any public loan issues during 1935. It was announced, also, that a programme of consitutional reform would be submitted during the year.

From January to March, various elements of this broad policy were carried into effect. Measures aiming at a reduction of unemployment were approved, authorisation was given for the issuance of 15 milliard francs of Treasury bonds, industrial reorganisation made some progress, in certain cases with State assistance, and the Bank of France agreed to grant loans against certain public securities. Economic conditions continued, however, to be very difficult; there was greater resistance to wage reductions and a fresh wave of speculation against the currency. The Belgian devaluation in April inevitably increased distrust of the other gold currencies. A very considerable speculative attack was launched first against the Dutch florin, which was vigorously defended by official measures against speculation and in support of the exchange, including a raising of the bank rate by 2%. The Swiss franc also came under attack and the Swiss bank rate was raised by ½%. Speculation was reinforced by flights from the currency in both cases; but the attack was apparently diminishing towards the end of May, when the revelation of French Treasury difficulties and political uncertainty created an even greater distrust of the French franc. In the feverish crisis that ensued, the Bank of France raised its rate of discount three times in little more than a week from 2½% to 6%. There was a heavy drain of gold from the Bank of France for export and hoarding, despite the repeated interventions of the British Equalisation Fund. The Government, failing in its attempt to secure extended powers from Parliament, resigned on May 30th. The subsequent development of this crisis, which is in full swing as these pages are being written, is summarised in later chapters of this *Survey*.[1]

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[1] Cf. Chapters VII and IX.

Chapter II.

THE MOVEMENT OF PRICES IN 1934-35.

Wholesale Prices in Diverging Currencies.

Until sterling depreciated in the third quarter of 1931, the movement of wholesale commodity prices in most countries was fairly consistent both in direction and in magnitude. Prices were falling everywhere and in most countries at about the same rate. Even in 1931, however, national prices were beginning to diverge. Some countries, such as Australia and the Argentine, had already allowed their currencies to depreciate and gold prices were therefore diverging from price-levels in national currencies.

By the end of 1934, currency depreciation was widespread and there was a growing disparity in gold prices. The Japanese index was only 28%, while the German was 74%, of its 1929 level measured in gold. Between these extremes, the other countries were fairly evenly distributed, the gold-standard countries clustering at the upper end, and certain raw-material-producing countries at the lower end, while there was another grouping of countries with depreciated currencies rather below the centre of the scale.

There was an even wider dispersion of the price-levels measured in national currencies, when compared with the base period 1929. Among the countries whose currencies had depreciated in terms of gold the greater number had experienced, since 1931, relatively stable prices in terms of their national currencies, but in a fair number wholesale prices had risen, and in one or two others — *e.g.*, India — they had fallen substantially. The following table summarises these various price movements.

Indices of Wholesale Prices in National Currencies and in Gold.

(Base: 1929 = 100.)

Country	End of 1931		End of 1934	
	National currency	Gold	National currency	Gold
Germany	.	76	.	74
Hungary	.	82	.	69
Latvia	.	67	.	69
Austria	86	72	84	66
Czechoslovakia	.	77	76	63
Switzerland	.	73	.	63
Italy	.	68	.	58
Poland	.	73	.	55
France	.	70	.	55
Bulgaria	.	66	.	55
Belgium	.	67	.	55
Netherlands	.	60	.	54
Egypt	78	54	84	51
Peru	.	91	100	50
Un. of South Africa	.	83	82	49
U.S.A.	.	72	81	48
Finland	94	63	92	47
Greece	.	79	110	47
China	117	66	95	46
United Kingdom	78	54	76	46
Sweden	79	55	82	46
Norway	82	57	84	46
Canada	74	61	74	45
Denmark	79	55	90	44
Estonia	.	73	71	43
New Zealand	90	57	90	43
Australia	79	44	81	39
India	70	49	62	38
Chile	78	45	78	37
Argentine	97	59	102	36
Japan	69	60	82	28

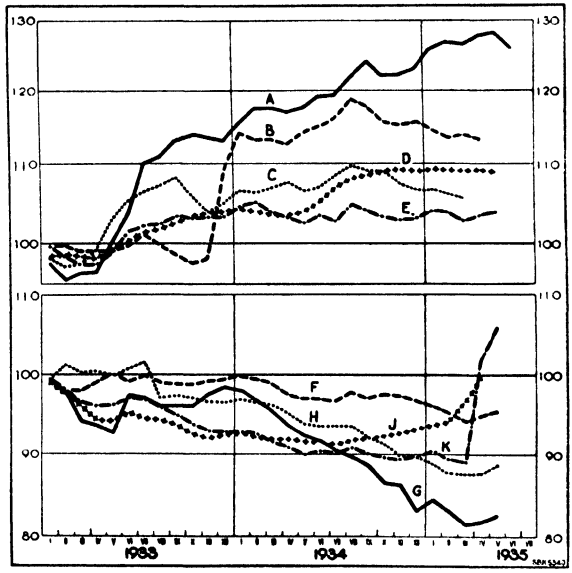
During the year 1934, the tendency for prices to fall in the gold countries and rise in the non-gold countries was accentuated. This is clearly brought out in the following diagram. Such movements tended to reduce the divergence between the gold price-levels referred to above; but further currency depreciation in the countries off gold partly counteracted this tendency. Thus, while gold prices fell 16% in France during 1934, they also fell by 8% in the United Kingdom and Sweden, by 9% in Australia and by 10% in Japan. In other words, the price deflation in the gold countries went some distance towards restoring equilibrium between the gold price-levels; but its effect was largely counteracted by fresh currency depreciation in the countries off gold. The general upward tendency of

national price-levels in the depreciated currencies was, however, significant. In 1934, for the first time in the depression, gold prices in France fell more than in the United Kingdom and Japan.

Wholesale Price Indices.

(December 1932 = 100.)

A. United States.
B. Argentine.
C. Australia.
D. Germany.
E. United Kingdom.
F. Switzerland.
G. France.
H. Poland.
J. Italy.
K. Belgium.



In order to show more clearly the nature of these price movements, the following table has been constructed, giving the lowest point of the price decline and the extent of recovery in the price-levels of various countries since that time.

It will be seen from this table that wholesale prices were still falling in March 1935 in six countries, all of which remained on the gold standard; in seven others, the recovery of prices was less than 10%, in eleven others less than 25%, in six others less than half, of the fall since the beginning of the depression. In only eleven was the recovery more than half of the previous fall and in only four was the rise from the lowest point more than the fall to that point.

The relative stability of the price-levels from March 1934 to 1935 is very noticeable. In twenty-one countries, prices rose by percentages ranging from 0.1 to 21.5%; in nineteen

The Recovery in Wholesale Prices.
(Base: 1929 = 100.)

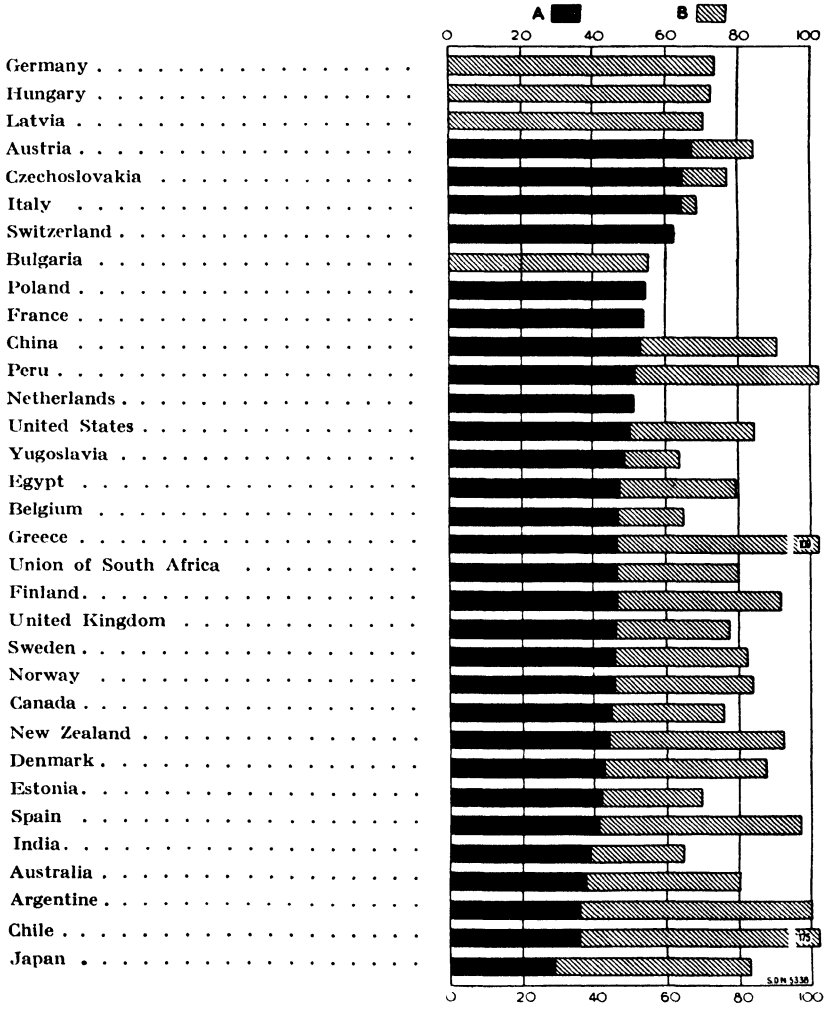
Country	Low point of depression		March 1934	March 1935	Percentage change March 1934 to March 1935	Rise from low point as % of fall to low point from 1929
	Date	Index				
Chile	X.1931	74	175	175	− 0.1	389
Greece . . .	VIII.1931	78	107	110	+ 2.7	147
Peru.	IV.1932	88	99	103	+ 3.7	123
Argentine . .	X.1933	87	100	101	+ 0.3	105
Mexico. . . .	V.1932	81	95	95	− 0.7	72
Egypt	V.1933	56	68	83	+ 21.5	61
Finland . . .	IX.1931	81	92	92	—	58
Denmark. . .	VIII-IX.1931	73	86	88	+ 2.3	56
United States .	II.1933	63	77	83	+ 7.6	55
Spain	V.1933	93	99	97	− 2.2	54
Japan	VI.1932	67	80	84	+ 3.7	51
New Zealand .	I.1933	85	90	92	+ 1.9	45
Portugal . . .	V.1933	81	94	87	− 6.9	35
Hungary . .	IX-XI.1933	58	61	70	+ 14.9	29
Sweden . . .	III-IV.1933	75	80	82	+ 2.7	29
Norway . . .	IX.1931	79	82	85	+ 3.3	28
Canada . . .	II.1933	66	75	76	+ 0.4	27
Australia . . .	II.1933	74	81	80	− 0.5	24
Roumania . .	IX.1933 / II-IV.1934	54	54	65	+ 20.4	24
Germany . . .	IV.1933	66	70	73	+ 5.0	22
Un. of S. Africa	X.1932	75	90	80	− 8.3	20
Czechoslovakia	I.1934	71	73	76	+ 5.1	19
China	IV.1934	91	92	92	− 0.2	18
Turkey . . .	V.1934	46	48	56	+ 15.4	18
Austria . . .	I.1931	81	87	84	− 3.4	17
United Kingd.	III.1933	72	77	76	− 1.3	13
Latvia . . .	XII.1931	67	69	72	+ 3.6	13
Italy	VI-VII.1934	64	65	67	+ 3.2	10
Bulgaria . . .	I.1934	51	53	55	+ 4.0	9
India	III.1933	58	62	62	− 1.1	8
Estonia . . .	IV-VI.1933	68	75	70	− 6.8	8
Albania . . .	V.1934	49	50	53	+ 6.8	8
Yugoslavia . .	XIII-IX.1933	60	63	63	− 0.5	6
Netherlands .	III-IV.1933	50	55	52	− 5.7	4
Danzig. . . .	VIII.1934	64	65	65	+ 0.1	3
Indo-China .	III.1935	63	67	63	− 6.0	—
Switzerland .	III.1935	61	64	61	− 5.0	—
Belgium . . .	III.1935	54	56	54	− 2.9	—
Poland. . . .	III.1935	54	60	54	− 9.1	—
France	III.1935	53	63	53	− 15.0	—
Netherl. Indies	III.1935	45	46	45	− 2.9	—

the index declined from 0.1 to 15%, and in one there was no net change. In twenty-five of the forty-one countries, the degree of change was less than 4%, and in eighteen of the twenty-five it was less than 3%. During the year, a significant, if slight, downward movement began in several of the

countries with depreciated currencies — in Australia, the Argentine, Denmark, Egypt, Norway, Portugal, and the United Kingdom. The annual figures obscure this development, which only began to be manifest in the latter half of the year and appeared to end in the first quarter of 1935.

The various national price-levels in May, 1935, as measured both in national currencies and in gold, are shown in the diagram.

Indices of Wholesale Prices
in May 1935 as Percentage of the 1929 average.
A. Gold. B. National currency.



In this diagram, gold prices are shown in black and price-levels in national currencies are hatched. Where, as in Germany, the nominal parity is maintained but transactions in foreign currencies are restricted, the bars are hatched also. The countries whose gold prices are highest in relation to the pre-war level are mostly those which utilise exchange controls. In most of these countries expansionist monetary policies have recently been followed.

No attempt is made at this point to examine the difficult problem of price-levels compared with existing exchange parities. It is more convenient to deal with this problem in a later chapter.

The monthly movements of the price-levels since the beginning of 1934 are summarised in the next table.

The Movement of Wholesale Prices 1934-35.

(Base: 1929 = 100.)

	1934												1935			
Country	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	I	II	III	IV
rgentine	101	100	100	100	101	102	103	105	104	102	102	102	101	100	101	100
ustralia	81	80	81	82	81	82	82	83	83	83	82	81	81	80	80	80
ustria	84	85	87	86	85	85	85	85	83	83	84	84	84	84	84	84
elgium	57	57	56	56	55	56	55	56	55	55	55	55	56	55	55	62
anada	74	75	75	74	74	75	75	76	75	75	75	75	75	75	75	76
hile	171	172	175	178	178	183	183	184	183	179	178	178	180	177	175	174
hina	93	94	92	91	91	92	93	96	93	92	94	95	95	96	92	92
zechoslovakia	71	73	73	72	72	76	75	75	75	76	76	76	76	77	76	77
enmark	87	87	86	85	85	85	86	89	90	90	91	90	90	90	88	88
gypt	65	68	68	65	70	72	77	79	88	85	83	85	86	86	83	79
stonia	75	76	75	74	73	73	71	71	69	70	70	71	71	71	70	68
rance	65	64	63	62	61	60	60	59	58	57	57	55	56	55	53	54
ermany	70	70	70	70	70	71	72	73	73	74	74	74	74	74	73	73
ungary	59	61	61	62	69	67	65	67	69	68	69	69	71	71	70	71
ndia	64	63	62	63	64	64	63	63	63	63	62	62	67	64	62	62
ndo-China	69	69	67	66	66	66	66	67	68	63	64	63	63	63	63	63
taly	66	65	65	65	64	64	64	64	65	65	66	65	65	66	67	69
apan	80	81	80	80	80	79	79	80	82	83	82	82	83	84	83	83
etherlands	56	56	56	56	54	54	54	55	54	54	54	54	55	54	53	53
etherlands Indies	46	47	46	46	45	45	45	45	45	46	45	45	45	45	44	44
ew Zealand	90	90	90	90	90	90	90	90	90	90	90	90	90	91	92	92
orway	81	82	82	83	83	83	83	85	85	85	85	84	84	84	85	84
oland	60	60	60	59	58	58	58	58	57	57	56	56	55	54	54	54
ortugal	90	91	94	96	94	91	90	88	87	87	88	88	88	88	87	86
weden	80	80	80	81	81	81	81	81	81	81	82	82	82	82	82	82
witzerland	65	65	64	64	63	63	63	64	63	63	63	63	63	62	61	62
nited Kingdom	78	78	77	77	76	77	76	78	77	77	77	77	77	77	76	77
.S.A.	76	77	77	77	77	78	78	80	81	80	80	81	83	83	83	84
ugoslavia	63	63	63	63	64	65	62	61	63	63	62	62	64	64	63	63

The downward movement of wholesale prices continued in the gold countries — Belgium, France, the Netherlands and Netherlands Indies, Indo-China, Poland and Switzerland. Elsewhere, despite some hesitation in many countries in the latter part of 1934, the movement was generally upward. In Italy, Germany and Czechoslovakia, the United Kingdom and most of the countries of the sterling group, as well as in Japan and the United States, the level was substantially higher in April 1935 than it had been a year earlier. The main excep-

tions were the Union of South Africa, Estonia and Portugal; but there was no apparent diminution of business activity in these countries. In May 1935, the British index reached its highest level since the abandonment of the gold standard. The upward movement was most marked during 1934 in Egypt, Roumania, Turkey, Hungary, the United States, Albania, Czechoslovakia and Germany. In general, prices rose more in the exchange control countries — *e, g.*, Roumania, Turkey, Albania and Germany — than in the countries of the sterling *bloc*. This appears to be due in great part to the bidding-up of prices, particularly of raw-material prices, under the clearing system, which has stimulated bilateral trading between these countries on a somewhat artificial basis.

Apart from the movements of the average, it is of some interest, particularly at the present time, to examine briefly the movements in the prices of individual commodities. This is not an easy task in view of the great discrepancies that have arisen between the prices in national markets even for important basic foodstuffs and raw materials. Fluctuating exchange rates and trade restrictions have isolated national markets to an increasing extent so that remarkable price differences have arisen. The United Kingdom, despite recent trade restrictions, still provides the nearest approach to a world market and, in the following table, the prices of a series of important commodities are calculated on a sterling basis. The fact that the currencies of most of the countries which are the principal exporters of the commodities reviewed fluctuate closely with sterling gives greater significance to sterling quotations as the most reliable general index.

A glance at this table shows not only the wide range of movement among these commodity prices during 1934 and the first half of 1935, but also the importance that must be attached to the direct action of Governments in causing the most marked price increases. Of the thirteen commodities the price of which rose in this period by more than 10%, there were seven — oats, rubber, jute, cotton, wheat, rice and bacon — in which various forms of restriction, either of production or of exports, were in operation either internationally or in important markets, or in which the British agricultural marketing schemes raised sterling prices. The international rubber agreement, assigning export quotas and restricting further planting except for experimental purposes, came into force on June 1st, 1934. Jute prices rose largely under the influence of the Indian Government's scheme for the reduction of acreage planted. The United States Government restricted cotton acreage and also, in effect, pegged the domestic price at 12 cents per pound.

Changes in the Sterling Wholesale Prices of Certain Commodities. [a]

Commodity	Lowest point as % of 1929	Dec. 1933 as % of 1929	Dec. 1934 as % of 1929	May 1935 as % of 1929	Percentage change Dec. 1933-May 1935
Flax	41.8	56.6	97.0	109.1	+ 92.9
Silver	50.8	76.4	99.8	138.5	+ 81.3
Oats	60.0	60.0	76.2	85.7	+ 42.9
Rubber	17.7	42.5	61.3	58.2	+ 36.9
Jute	46.1	49.6	57.3	65.1	+ 31.4
Cotton	37.7	52.1	70.4	67.7	+ 30.0
Lead	47.6	50.6	50.6	64.8	+ 28.0
Wheat	43.7	44.5	48.7	55.5	+ 24.5
Flour	53.3	57.3	61.3	67.8	+ 20.9
Cocoa	56.2	56.2	67.5	67.5	+ 20.0
Rice	47.4	50.9	57.9	60.5	+ 19.0
Bacon	51.6	71.3	76.5	84.2	+ 18.1
Pig-iron	78.4	83.1	91.7	91.7	+ 10.4
Linseed oil	43.2	61.4	60.0	66.2	+ 8.0
Petroleum	75.0	75.0	79.2	79.2	+ 5.6
Sugar	76.9	81.3	81.3	85.7	+ 5.4
Coffee	44.1	44.1	45.0	45.9	+ 4.1
Copper	34.1	41.9	36.7	42.5	+ 1.4
Tin	49.8	112.5	112.7	113.7	+ 1.0
Steel rails	97.1	97.1	97.1	97.1	± 0
Timber	79.2	81.3	81.3	81.3	± 0
Coal	97.1	97.1	97.1	97.1	± 0
Hides	41.3	54.3	43.3	56.5	± 0
Iron bars	99.0	99.0	99.0	99.0	± 0
Butter	57.4	66.7	80.7	66.0	− 1.0
Tea	44.9	89.0	85.8	87.4	− 1.8
Spelter	40.5	60.3	47.6	58.8	− 2.5
Beef	62.1	81.0	86.2	75.9	− 6.4
Hemp	37.1	40.7	38.5	37.8	− 7.1
Maize	39.2	50.7	56.1	46.1	− 9.1
Cement	82.6	97.3	87.0	87.0	− 10.6
Mutton	51.8	75.0	78.6	66.1	− 11.9
Silk	25.7	37.1	32.3	31.1	− 16.1
Wool	26.7	56.7	36.7	43.3	− 23.5
Barley	63.0	93.3	84.9	70.6	− 24.3
Percentage of sterling depreciation		32.7	39.6	40.3	.

[a] League of Nations *World Production and Prices, 1925-1934*, Geneva, 1935.

Wheat prices were pegged in the chief producing countries and the international agreement limiting exports continued in force even though the Argentine exported quantities greater than its original quota. Imports of wheat were restricted into most of the European markets, while in the United States, Australia and Canada domestic prices were, by various procedures, guaranteed at levels above the world price. Drought in the United States also contributed to the rise of prices, partly counteracted by a

substantial increase in European production. The rice market was sustained by Government action in Japan and also by a short crop in that country. The sterling price of bacon was affected by the British marketing scheme and that of oats by the measures taken to encourage production in the United Kingdom.

If to these seven commodities are added those which were "sympathetically" affected by the control of related commodities and by direct Government action to raise prices, as in the case of silver, it is clear that the major price increases were caused by official intervention in the various markets. Among the six commodities which rose less than 10%, there were another five in which controls were operating — petroleum, sugar, coffee, copper and tin. It seems reasonable to conclude, therefore, that the principal reason for the slight rising tendency of average wholesale prices in sterling has been restriction of the supply of important commodities, rather than an increase of demand. There is indeed good reason to believe that, apart from drought and from the effect of Government intervention and of producers' agreements, powerful deflationary factors are still in operation. In addition to the deflation still proceeding in the gold countries and the influence of increasing trade restrictions, the effect of currency depreciation "has been more potent as a deflationary (price-lowering) instrument in foreign markets than as an inflationary (price-raising) instrument in the domestic market of the depreciating country".[1]

Of the commodities mentioned above, flax rose most, partly because of heavy purchases by German buyers and also because of a rapid increase of demand in Russia and some tendency for greater local consumption in the Baltic producing countries. The other principal uncontrolled textiles, wool and silk, fell sharply in 1934, in the former case because of reduced demand owing to German and Italian import restrictions and in the latter because of the failure of the United States' demand for Japanese silk and the competition of artificial silk.

Among metals, the price of pig-iron rose in the United Kingdom by just over 10%; but steel rails and iron bars remained steady at the controlled price. Lead was in demand during 1934-35 and rose substantially. Spelter also rose in the first half of 1935 despite the failure of the Zinc Cartel. The copper agreement held up prices despite heavy pressure in the latter part of 1934 caused by fears of heavier Chilian and African production combined with reduced German purchases. The price of tin, which had doubled since the introduction of the international agreement in October 1933, was maintained, though consumption fell substantially.

[1] *World Production and Prices, 1925-1934*, page 101.

At the end of May 1935, the sterling prices of silver, tin and flax were well above their 1929 levels, and pig-iron, iron bars, steel rails and coal only slightly below it; but all the other commodities remained substantially below their 1929 prices, the lowest being silk (31.1%) and the highest tea (87.4%), cement (87.0%), oats and sugar (85.7%).

During the year, the International Tea Committee reduced export quotas. The influence of controls and subsidies was clear also in oats and sugar, and in the next commodities on the list -- bacon (84.2%) and timber (81.3%). Cement, formerly a controlled commodity, was undercut during 1934 by producers outside the combine.

The Lag in Retail Prices and the Cost of Living.

It is well known that retail prices are always more sluggish than wholesale and, in such a pronounced fall in the price-levels as occurred from 1929 onwards, retail prices and the cost of living naturally fell more slowly and much less than wholesale prices in every country. The same lag has been in evidence since prices in many countries began to rise again. The following brief table shows this very clearly:

The Percentage Rise in Wholesale and Retail Prices in Certain Countries from the Lowest Point of the Depression to the End of 1934.

(National Currencies.)

Country	Wholesale prices	Retail prices
Chile	140	54
United States	29	13
Japan	24	16
Denmark	24	10
Peru	14	3
Union of South Africa	13	3
Canada	12	3
Germany	11	5
Australia	10	2
Sweden	10	1
Czechoslovakia	8	0
Norway	7	3
United Kingdom	6	4

The following table has been compiled in order to show the relative stability of the retail price index-numbers. It is calculated upon the basis of 1929 = 100; but the post-war currency disturbances make almost any post-war period that might be chosen a dangerous base for international comparisons. Thus, before 1925, most of the currencies were not stabilised.

After 1925, the British price-level was under deflationary pressure and, after 1928, French retail prices rose slowly towards equilibrium with the undervaluation of the franc.

Indices of the Cost of Living in Various Countries.

(National Currencies.)

(Base: 1929 = 100.)

Country	1930	1931	1932	1933	1934
Union of South Africa	98	94	90	88	89
Australia	95	85	81	78	80
Austria	100	95	97	95	95
Canada	99	90	82	78	79
Czechoslovakia	100	96	94	93	92
Denmark	95	90	90	93	97
Egypt	98	91	87	83	84
Estonia	89	89	80	75	74
Finland	92	84	84	82	80
France	105	102	95	94	93
Germany	96	88	78	77	79
Greece	88	87	92	99	101
Hungary	91	86	83	77	76
India	92	74	73	68	65
Irish Free State	97	91	89	86	86
Italy	97	89	86	82	79
Japan	86	75	75	80	82
Lithuania	86	78	66	56	53
Netherlands	96	90	84	83	83
Norway	97	92	90	89	89
Peru	96	89	85	84	85
Portugal	95	84	83	83	83
Rhodesia, Southern	100	96	92	87	87
Roumania	99	71	59	55	53
Spain	103	107	103	99	102
Sweden	97	94	92	90	91
Switzerland	98	93	86	81	80
Turkey	92	87	85	76	75
United Kingdom	96	90	88	85	86
United States	96	87	78	75	79
Yugoslavia	91	84	76	65	61

From 1929 to 1934, the cost of living fell most in Lithuania (47%), Roumania (47%), Yugoslavia (39%), India (35%), Estonia (26%). In all these agricultural countries, as well as in Turkey (25%), Hungary (24%), Finland (20%), Southern Rhodesia (13%), and in some of the gold countries, Italy (21%), Switzerland (20%), Czechoslovakia (8%), and France (7%), the cost of living was still falling in 1934. Elsewhere, the cost of living was rising in 1934 and, in Denmark, Greece and Japan, it had been rising since 1931. Information concerning other countries for which statistics on a pre-war basis are not available is included in the following table, which may be compared with

the similar table of wholesale prices in the preceding section. It will be seen that nowhere has the rise of retail prices been commensurate with the recovery in wholesale prices.

Movement of the Cost of Living in 1934-35.
(Base: 1929 = 100.)

Country	Low point of depression		March 1934	March 1935	Percentage change March 1934-March 1935	Rise from low point as % of fall to low point from 1929
	Date	Index				
Chile	II.1932	87.8	125.0	126.8	+ 1.4	319.7
Greece	II.1932	84.8	100.0	100.8	+ 0.8	105.3
Denmark	VI, IX, XII.1931 VI.1932	89.0	94.8	98.8	+ 4.2	89.1
China	V, VI.1934	91.3	91.7	97.1	+ 5.9	66.7
Japan	X.1931	71.4	82.1	82.6	+ 0.6	39.2
U.S.A.	IV.1933	71.5	78.5	82.4	+ 5.0	38.2
Egypt	X.1933	80.1	82.8	85.4	+ 3.1	26.6
Peru	II-IV.1933	81.9	83.6	85.9	+ 2.8	22.1
Germany	IV.1933	75.2	77.8	79.4	+ 2.1	20.4
Norway	I-III.1934	87.3	87.3	89.8	+ 2.9	19.6
Un. of South Africa	I.1933	85.7	88.6	88.3	− 0.3	18.2
Irish Free State	V.1933	84.1	86.4	86.9	+ 0.6	17.6
Roumania	IX.1933	51.8	53.0	59.6	+ 12.5	16.2
New Zealand	V, VIII.1933	79.3	80.1[a]	82.1[a]	+ 2.5	13.5
Portugal	VI.1932	80.6	81.6	83.1	+ 1.8	12.9
Sweden	III, VI, XII.1933 III.1934	90.0	90.0	91.2	+ 1.3	12.0
U.K.	IV, V.1933	82.9	84.8	84.8	± 0	11.1
Canada	IV, V.1933	76.7	79.5	78.9	− 0.8	9.4
Hungary	XI.1933	73.8	75.3	76.1	+ 1.1	9.8
Estonia	X.1934	71.8	76.1	74.4	− 2.2	9.2
India	III.1934	62.4	62.4	65.8	+ 5.4	9.0
Czechoslovakia	I.1935	91.1	91.4	91.9	+ 0.5	9.0
Finland	VI.34	78.9	80.1	79.9	− 0.2	4.7
Yugoslavia	X.1934	58.8	62.6	60.4	− 3.5	3.9
Latvia[b]	I.1935	67.0	70.0	68.0	− 2.9	3.0
Indo-China	VII-IX.1934	68.1	70.8	69.0	− 2.5	2.8
Danzig	IX.1934	75.4	76.4	75.5	− 1.2	0.4
Turkey	III.1935	69.0	76.7	69.0	− 10.0	—
Bulgaria	III.1935	62.9	67.8	62.9	− 7.2	—
Poland	III.1935	61.6	67.4	61.6	− 8.6	—
Austria	III.1935	93.5	94.4	93.5	− 1.0	—
Belgium	III.1935	74.9	79.3	74.9	− 5.5	—
France	I-III.1935	88.8	94.6	88.8	− 6.1	—
Lithuania	III.1935	46.5	56.4	46.5	− 17.6	—
Netherlands	III.1935	81.4	84.3	81.4	− 3.4	—
Switzerland	III.1935	78.9	80.7	78.9	− 2.2	—

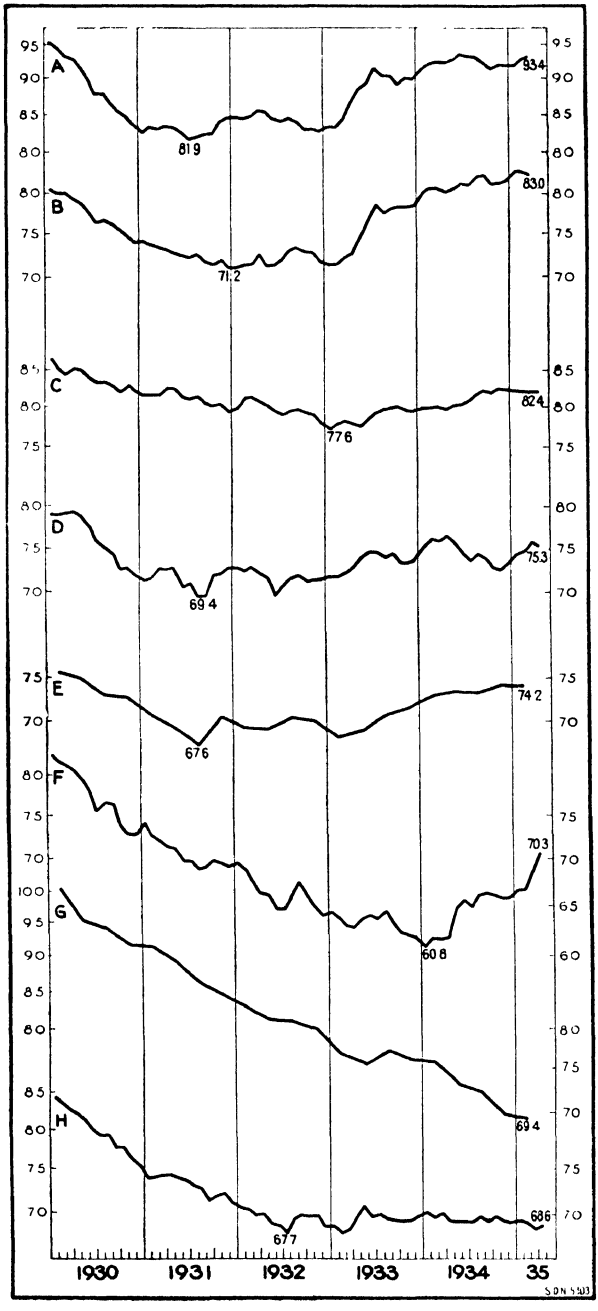
[a] Figures given for February.
[b] Base: 1930 = 100.

It is important to notice that the currency depreciation and devaluation of recent years has not been accompanied by a commensurate rise in the cost of living. Where monetary inflation occurred, wholesale prices rose, though not enough to equal the external currency depreciation, while retail prices rose appreciably but much less than wholesale prices. In countries which pursued cheap-money policies the same phenomena were present, but in less marked degree. For example, in March 1935, the gold value of sterling had fallen by over 40%, but the cost of living had risen only by 2.2%. The New Zealand currency in March 1935 was worth less than 50% of its pre-depression gold parity; but the cost of living had risen only by 4% from its lowest point in the depression. It was possible for wholesale prices to rise substantially in the countries where depreciation occurred before the cost of living rose in sympathy. That this tendency for retail prices to lag was general may be inferred from the following table:

Currency Depreciation and Movements of Wholesale Prices and Cost of Living.

Country	Percentage appreciation of gold in March 1935	Net percentage rise from low point of depression to March 1935		Date at which low point was reached	
		Wholesale prices	Cost of living	Wholesale prices	Cost of living
Chile	304.2	136.5	44.5	X.1931	II.1932
Greece	133.4	41.0	18.9	VIII.1931	II.1932
U.S.A. . . .	69.0	32.7	15.2	II.1933	IV.1933
Canada . . .	70.6	13.0	2.7	II.1933	IV, V.1933
Sweden . . .	84.0	9.5	1.3	III, IV.1933	III, VI, XII.1933 III.1934
Czechoslovakia	20.0	8.1	0.9	I.1934	I.1935
New Zealand .	116.0	7.9	3.9	I.1933	V, VIII.1933
U.K.	72.2	5.0	2.2	III.1933	IV, V.1933
Austria . . .	28.1	4.0	0	I.1931	III.1935
Estonia . . .	71.3	3.9	3.6	IV-VI.1933	X.1934

The greater rise of wholesale than of retail prices in the countries with depreciated currencies tended to bring the index-numbers back to their pre-depression relationships in those countries. Where deflation continued, as in some of the gold-standard countries, the cost of living continued to fall more slowly than wholesale prices, so that the gap between the index-numbers widened. The diagram on the following page clearly brings out these movements for a number of countries.



Ratio of Wholesale Prices to Cost of Living.

(Pre-war base.)

A. Canada.
B. U.S.A.
C. Germany.
D. United Kingdom.
E. Sweden.
F. Italy.
G. France.
H. Switzerland.

When prices began to rise in late 1932 or early 1933 in the countries with depreciated currencies, the pre-depression relationships were approached once more; but in Italy until 1934, and in France until the latest date available, the gap widened In Switzerland from the middle of 1932, both wholesale and retail prices have declined slowly at about the same rate, so that the relationship between them has not greatly changed.

The Reduction of Price Disequilibria.

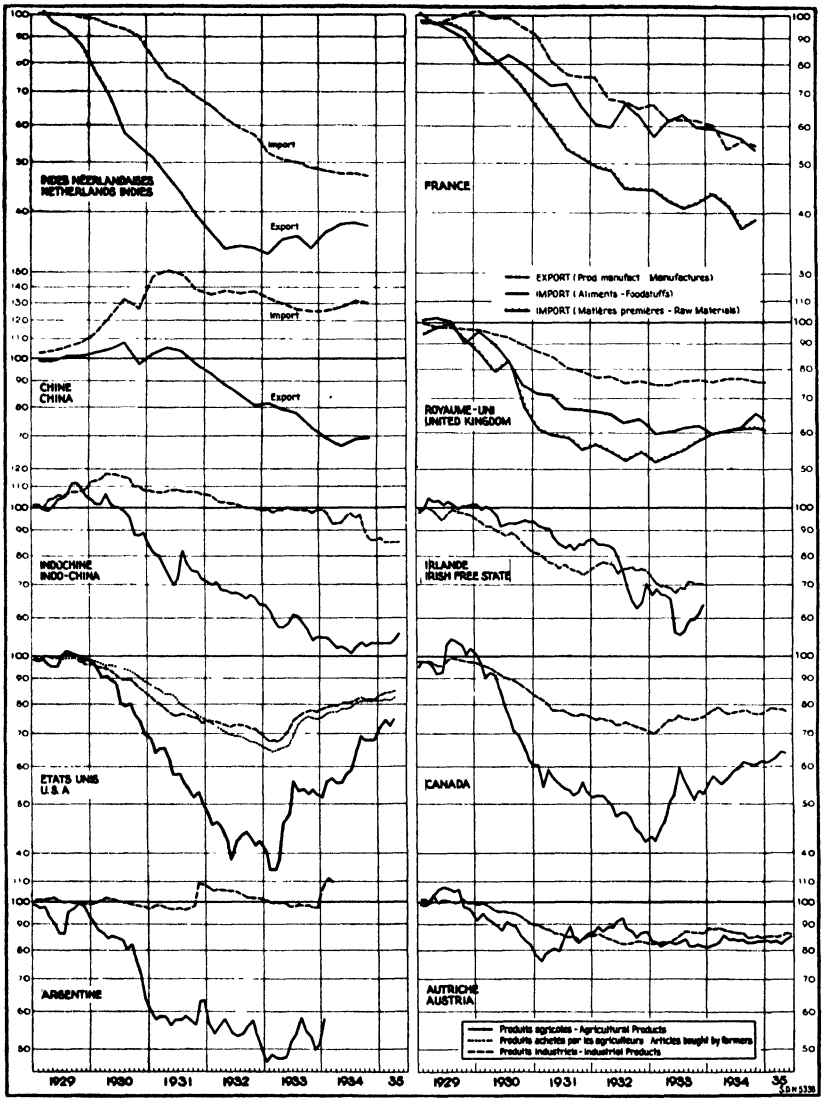
Not only the general direction of price movements, but also the relationship of individual prices and groups of prices needs examination. Sufficient evidence of widely differing movements of individual prices has been adduced in the preceding section. Has the net result of these movements been to increase or reduce the disequilibria between important groups of prices that have been a characteristic feature of the depression and have presented great obstacles to recovery ? Necessarily, the analysis which follows is concerned with prices in national markets. It is not possible to make such an analysis on an international basis — the discrepancies between national markets are too great. The whole problem of international price disequilibrium must be reserved for treatment in a later chapter.

The discrepancy between agricultural and industrial prices in various countries may be considered first. The following diagrams indicate how these prices have been moving. It will be seen that, during the earlier years of the depression, the gap tended to widen almost universally because agricultural prices fell heavily. Since the beginning of 1933, however, there has in many countries been a noticeable tendency for the gap to close. The exact turning-point differs somewhat from country to country, as also does the degree to which the indices have drawn together. The most marked recovery of agricultural prices has taken place in the United States, but the discrepancy between agricultural and industrial prices has clearly been reduced since the beginning of 1933 also in the Netherlands Indies, the United Kingdom, Canada, Italy, Germany, Hungary, Norway, France (where agricultural prices had formerly fallen less than industrial), and Yugoslavia.

The improvement appears to have been slight in the Argentine, Finland, and Belgium. In the last-named country, the indices reveal a sharp improvement in the middle of the year, followed by an almost equally sharp decline of agricultural prices in late 1934 and early 1935. In China, Indo-China, the

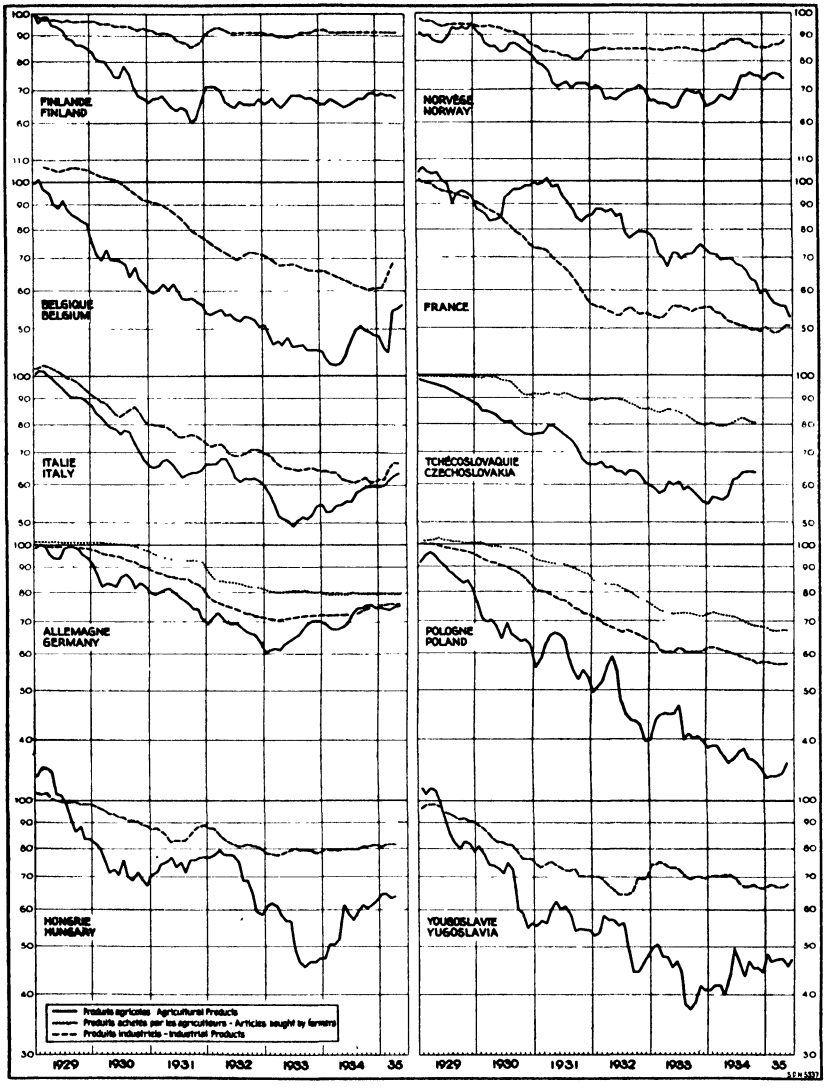
Agricultural and Industrial Prices.

(1928 = 100.)



Agricultural and Industrial Prices.

(1928 = 100.)



Irish Free State, France, and Poland, prices moved to the disadvantage of the agriculturists. In the Irish Free State, this is explained by the trade war with the United Kingdom. In China, the price of silver rose, the exchange rate moved adversely, and imported manufactures cost more, while agricultural prices fell. In the other countries, the deflation of gold prices caused a greater fall in agricultural than industrial prices. As remarked above, however, the fall of agricultural prices in France went some distance towards reducing the disequilibrium, since agricultural prices had remained high in that country.

It will be noticed that, while the disequilibrium between agricultural and industrial prices was reduced during 1933-34 in most countries, and especially in those which were off the gold standard and where in consequence deflation had ceased, agricultural prices still remained low in comparison with 1929. This is further demonstrated by the following table:

Indices of Agricultural and Non-Agricultural Prices.

Country	Index number of	Percentage change Jan. 1934-Jan. 1935	Indices in Jan. 1935 as % of 1929.
U.S.A.	Prices received by farmers . .	+ 39.0	73.3
	Prices paid by farmers . . .	+ 7.7	82.4
	Farm products	+ 32.2	74.0
	Non-agricultural commodities	+ 5.2	83.6
Canada . . .	Canadian farm products . .	+ 11.0	60.9
	Fertilisers	— 0.5	81.9
	Consumers' goods other than foods	— 1.2	84.2
Italy	National agricultural products	+ 9.5	62.0
	Industrial products.	...	...
Germany . . .	Agricultural products . . .	+ 8.0	77.0
	Industrial products.	+ 3.2	72.3
United Kingdom. .	Agricultural products	+ 2.6	81.3
	Manufactured products . . .	...	...
Irish Free State . . .	Agricultural products	— 0.1	60.0
	Industrial products.	...	...
Poland. . . .	Agricultural products	— 11.9	46.2
	Goods bought by farmers. .	— 6.2	67.1

The contrast between developments in Poland, where no special measures were taken to raise agricultural prices, and in

the United States may be pointed out. In the latter, agricultural prices rose by 100% from the low point of the depression in February 1933 to April 1935, while the prices paid by farmers rose by 28%. The depreciation of the exchange raised the prices received in dollars for agricultural exports; restriction schemes and subsidies were in operation also and, finally, the bad drought of 1934, which continued in the spring of 1935, caused a further sharp advance of prices. Despite reduced production, farm income rose by approximately 20% in 1934.[1]

The disequilibrium that has persisted between the prices of raw materials and those of manufactured goods is — largely — another aspect of the disparity between agricultural and industrial prices. Agricultural production was not reduced in the early stages of the depression, but prices fell heavily. Manufactured prices were relatively better sustained, but production fell.

Price Indices of Raw Materials and Manufactured Goods in Certain Countries

Country	Percentage change January 1934-January 1935		Price indices in January 1935 (Base: 1929 =100)	
	Raw materials	Manufactured goods	Raw materials	Manufactured goods
United States . . .	+ 19.5	+ 6.3	78.6	84.0
Canada[a]	+ 6.4	+ 1.0	66.6	79.2
Sweden	+ 3.7	+ 0.9	83.0	81.7
Germany[a]	+ 2.1	+ 4.6	69.6	75.8
Italy	+ 1.6	— 4.0	51.5	60.9
United Kingdom . .	— 6.7	+ 0.1	85.7[b]	94.7[b]
Belgium	— 7.0	— 8.0	54.0	57.3
Poland	— 10.7	— 5.0	56.3	60.2

[a] The raw-material indices include some partly manufactured goods.
[b] Base: 1930 = 100. No statistics are available for 1929.

Unfortunately, statistics are not available for many countries; but those that are available indicate a rather confusing set of developments during 1934. The prices of raw materials rose faster, or fell less, than those of manufactured goods in the United States, Canada, Sweden, Italy and Belgium; but the reverse was true in Germany, the United Kingdom and Poland. In the latter countries, the disequilibrium increased

[1] For more detailed treatment of price movements in various countries, cf. League of Nations *World Production and Prices, 1925-1934*, Geneva, 1935.

during 1934. It is apparent, however, that in all countries, except Sweden and the United States, the discrepancy remained considerable.

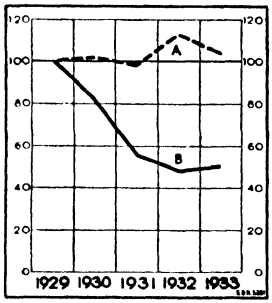
Finally, attention must be drawn once more to the very different movements of the prices of investment goods and consumption goods. It has been repeatedly pointed out in previous *Surveys* that the high and inflexible prices of investment goods, maintained in part by monopolistic controls, has proved a serious obstacle to recovery. The problem is due in fact largely to the increasing difficulty of securing cost adjustments in the case of commodities produced by large-scale enterprise necessitating the investment of large amounts of capital and therefore the incurring of heavy, fixed overhead charges. It is aggravated, however, by the monopolistic controls exercised over the prices of certain important raw materials and by monopolistic practices on the part of many cartellised manufacturing industries.

The inflexibility of investment goods as compared with consumption goods is illustrated in the diagrams below, comparing the production and prices of agricultural commodities in Canada with the production and prices of Canadian agricultural implements, which, from the farmers' point of view, are investment goods.

Canadian Agricultural Commodities.

A. Production.
B. Prices.

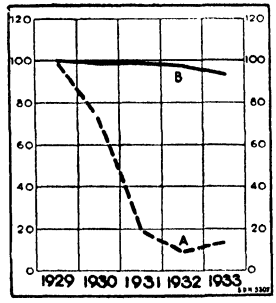
(1929 = 100.)



Canadian Agricultural Implements.

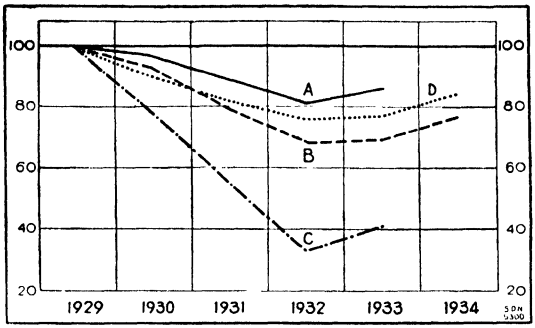
A. Production.
B. Prices.

(1929 = 100.)



The movements of the prices of investment and consumers' goods in other countries for which statistics are available are summarised in the following diagrams.

Capital Goods and Non-Durable Consumers' Goods: Prices and Production in the United States.



(1929 = 100.)

A. Production of consumers' goods.

B. Prices of consumers' goods.

C. Production of capital goods.

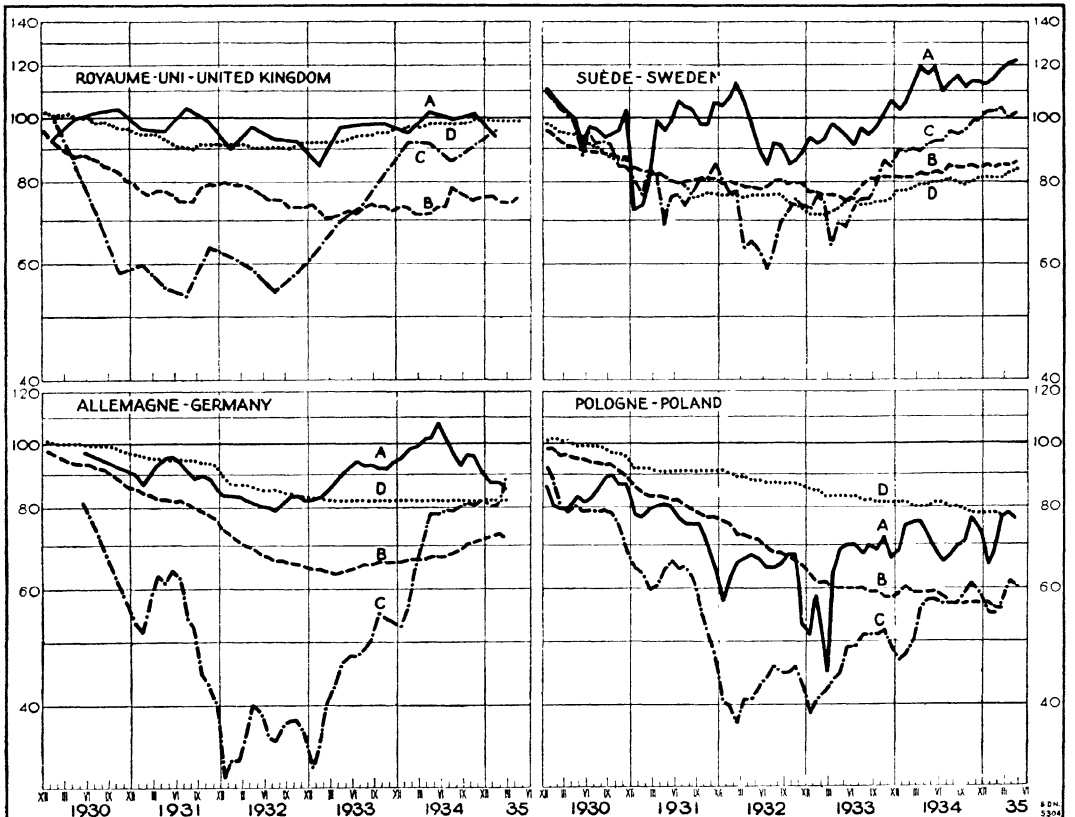
D. Prices of capital goods.

The relative inflexibility of the prices of investment goods during the depression is clearly illustrated. It is evident, however, that, wherever deflation has ceased, as it has in all the countries for which statistics happen to be available, except Poland, the upward tendency of the price-level in the last two years has gone some distance towards reducing the discrepancy between the prices of producers' and consumers' goods. In Poland, on the other hand, the prices of consumers' goods continue to fall, while those of producers' goods remain at a much higher level. The greater apparent flexibility of the prices of investment goods in Sweden is due to the fact that many of these goods are exported from Sweden and therefore must meet competition in the world market.

In the United States, as in most other countries, the greater rise of consumers' goods prices, in continuation of the tendency noted in last year's *Survey*, further reduced the discrepancy between them and the prices of producers' goods. In 1934, however, the greater part of the rise occurred in the raw materials for human consumption, mainly foodstuffs, largely because of the widespread drought in many States. The costs of processing were again greater in consumers' goods than in producers' goods; but this was not so marked as in the previous year.

Prices of Producers' and Consumers' Goods in the United States.
(Base: July 1929 = 100.)

	December 1933	December 1934	Percentage change Dec. 1933 - Dec. 1934	February 1935
Goods destined for capital equipment:				
Raw	74.6	77.6	+ 4	77.7
Processed	82.9	85.1	+ 3	84.9
Total	80.9	83.3	+ 3	83.2
Goods intended for human consumption:				
Raw	58.7	70.0	+ 19	73.9
Processed	77.5	82.8	+ 7	85.4
Total	70.1	77.6	+ 11	80.9



Prices and Production of Certain Categories of Goods.

(1929 = 100.)

A. Production of consumers' goods.

B. Prices of consumers' goods.

C. Production of capital goods.

D. Prices of capital goods.

Building costs are of particular importance in the recovery stage of a depression. It was shown in the *Survey* for 1933-34 that there was a marked tendency during 1933 for the prices of building materials to fall. The resistance they had shown and the discrepancy that had arisen between them and the average of wholesale prices were much reduced in that year, except in the gold-standard countries, where deflation was still proceeding, and in the U.S.A., where building prices remained high.

During 1934 there was, in the countries off gold, and particularly in the United States, a rising tendency of wholesale prices so that the discrepancy between building prices and average wholesale prices was further narrowed. In the United States, this narrowing took place in 1934 for the first time during the depression. There was also a sharp break in the prices of building materials in some countries, notably in Czechoslovakia. Building costs are calculated for several countries and the following table summarises the information available concerning them.

Building Costs in Certain Countries at the End of Each Year, 1929-1934.[a]

(Base: December 1928 = 100.)

	1929	1930	1931	1932	1933	1934
Austria	100	111	111	101	101	101
Belgium	120	120	106	92	86	.
Canada	100	95	90	84	87	80
Czechoslovakia	96	92	85	83	80	60
Denmark	98	100	98	91	92	96
Germany	102	94	84	71	73	76
Hungary	98	94	88	73	75	75
Sweden	100	99	94	90	92	90
United Kingdom	101	97	95	92	90	90
United States:						
Associated General Contractors	100	99	97	80	83	89
Engineering News Record	100	97	86	76	91	96

[a] *Source:*

Austria: *Monatsberichte des österreichischen Instituts fur Konjunkturforschung.*

Belgium: Figures calculated in the Secretariat on the basis of building material prices and wages of the building industry in Brussels. Banque nationale de Belgique, *Bulletin Mensuel.*

Canada: *Review of Business Statistics.*

Czechoslovakia: *Statistical Year-Book.*

Denmark: *Statistiske Efterretninger* (Building costs of small-farm buildings only) — Yearly averages compared with September 1928.

Germany: *Statistisches Jahrbuch — Konjunktur Statistisches Handbuch.*

Hungary: *A Majyar Gasdasajkutato.*

Sweden: *Svenska Handelsbanken — Index.*

United Kingdom: *The Economist.*

United States: *Survey of Current Business.*

The table which follows shows for a number of countries the relative movements of average wholesale prices and the prices of building materials, together with rates of interest and wages of building operatives. The downward movement of interest rates and building wages, together with the tendency for the disequilibrium between the prices of building materials and average prices to disappear, is very clear in all the countries concerned except Belgium and, as far as interest rates are concerned, Italy.

Building Costs in Certain Countries at the End of Each Year, 1929-1934, and in March 1935.

(Base: December 1928 = 100.)

A. Prices of building materials. B. Average wholesale prices. C. Building wages. D. Long-term rate of interest. E. Building activity.

Country	Item	1929	1930	1931	1932	1933	1934
Union of South Africa .	A	98	98	94	86	88	90
	B	94	83	83	73	83	83
	C [a]	100	100	98	89	89	88
	D	103	99	112	86	79	67
	E [b]	118	105	123	68	97	147
Austria	A	103	103	102	87	87	87
	B	97	84	88	85	85	86
	C	112	114	114	108	101	93
	D	100	99	112	102	99	91
Canada	A	100	87	81	77	82	83
	B	101	82	74	68	73	75
	C [b]	106	109	105	96	85	83
	D	107	98	113	107	103	79
	E [b]	122	97	67	28	21	27
Czechoslovakia	A	94	86	74	71	66	49
	B	91	79	73	69	68	73
	C [b]	100	100	100	100	99	77
	D	101	98	111	112	110	97
	E [b]	110	61	79	86	44	...
Germany.	A	102	85	75	66	70	76
	B	96	84	74	66	69	72
	C [c]	107	107	97	73	73	70
	D	106	99	.	105	93	89
	E [b]	129	100	46	31	37	51
Hungary	A	97	91	84	70	71	75
	B	79	67	73	60	53	62
	C [b]	102	101	96	80	82	76
	D	108	107	.	305	190	154
	E [b]	71	53	43	28	35	34
Italy	A	102	94	79	73	70	71
	B	92	74	66	60	56	56
	C [d]	93	99	89	88	85	80
	D	106	104	98	92	78	84
	E [b]	145	127	77	66	77	129

[a] November.
[b] Annual average.
[c] July in 1929-1932 and January in 1933, 1934.
[d] July.

Country	Item	1929	1930	1931	1932	1933	1934
Japan	A	84	65	62	79	79	84
	B	89	70	66	80	76	79
	C [b]	86	73	62	65	.	.
	D	98	108	117	96	89	90
	E [b]	.	.	.	100	74	87
Sweden	A	99	97	88	81	85	85
	B	92	81	77	75	76	79
	C [b]	100	100	100	100	100	96
	D	97	89	104	87	80	65
	E [b]	102	133	135	123	99	124
United Kingdom . . .	A	101	96	95	90	88	87
	B	96	79	77	73	77	77
	C	100	97	96	93	90	90
	D	107	98	102	76	76	60
	E	110	117	101	117	155	173
United States	A	99	89	79	74	89	89
	B	98	83	72	66	74	80
	C [c]	102	106	107	91	90	...
	D	98	95	111	94	100	84
	E [b]	68	41	34	13	13	12

[b] Annual average.
[c] May 15th.

In examining these figures, it seems clear that building activity after a lag tends to follow any considerable movement in the long-term interest rate. Unfavourable movements of other building costs — as, for example, the sharp rise in the price of materials in Japan 1932, or the rise of wages and materials in the United States in 1933 and 1934 — may check building activity. The statistics for Sweden and the United Kingdom, however, go to show that a considerable rigidity of both the prices of materials and wages is not necessarily an obstacle to building activity if there is a sharp fall in the long-term interest rate.

The Function of the Price System.

In the first section of this chapter, attention was drawn to the influence of Government action to bring about rising prices either for particular commodities or for commodities in general. It was pointed out that many of the most substantial increases in commodity prices in recent months had been caused by schemes for the restriction of production or the regulation of markets for basic products. In addition, it has been necessary to point out the different movements of prices in countries where the currencies have depreciated and in those where the gold standard has remained in force.

Government action both in the monetary field and in reinforcement of production controls and marketing regulation

is a new phenomenon, at least in its present extent. Never before have so many Governments intervened so actively to protect particular producers or to regulate the functioning of the price system. It is of some interest, therefore, to consider the results of such intervention.

These results extend far beyond the limited field of prices which is the subject of consideration here. The regulation of prices not only affects the organisation of production and the reactions of consumers, but also raises important political questions concerning the functions of government which are beyond the scope of this volume. At every stage of the economic process under free enterprise, from production through exchange to consumption, the continuous comparison of relative prices provides the main criterion by which decisions can be taken. Not only is production, sale and consumption organised in this way, but the distribution of income is also achieved in the course of price bargaining. The continuous comparison of all sorts of prices and rewards for services, including the profits of enterprise, is therefore the central function of any economic system that is based upon individual judgment and choice of occupation and enjoyment. The preferences of consumers and the costs of producers are expressed in monetary terms. There is a constant process of shifting on the margins of occupational groups and of industries. The prices determined in the course of this complex bargaining, and in particular the profits to be gained in organising economic activity, largely determine the kind of production undertaken and the direction of consumption.

There is, at all times and in every country, an important and developing basis of law and social custom upon which even the most individualistic of economic systems is built. No modern system of production and distribution could exist except upon a basis of contract enforceable at law. The social conceptions which determine not only the basic legal relations, but also, to an increasing extent, the customary relations of the various economic groups participating in economic activities, not only differ from country to country, but also change from time to time. The natural tendency of society, as the public interest in economic affairs is aroused, is to extend the range of regulation and define more strictly the limits of individual freedom.

Before the depression, it was easier to compare prices than it is now. Comparison was facilitated by the stability of international exchanges, a greater measure of freedom of trade and much less political control of production, monetary and trade policies. The free competition assumed for theoretical economic analysis

was never in fact achieved; but there was sufficient freedom to enable the international price system to function as the principal regulator of world production and trade. It did so by reason of the continuous adjustment of production, trade and consumption to the shifting conditions of the markets as expressed by the changing relations of different sorts of prices. The difficulties in the way of such adjustment were considerable: there were lags before new production could be undertaken or new channels of consumption opened up; there was lack of communication between markets resulting from ignorance of changing conditions elsewhere; there were costly transport and political and social obstacles to interchange of products; and, above all, there was the growing difficulty of adapting large-scale production processes, often buttressed by monopolistic controls, to demands that — with rising income-levels — were becoming more capricious. The increasing difficulty of securing adequate flexibility of production is, indeed, regarded by many economists as one of the main causes of the breakdown that led to the present depression. There were so many elements of rigidity, particularly of production costs, that the burdens of adjustment to changing national and international conditions of demand and supply were thrown in increasing degree upon narrower segments of economic activity until the fluctuations of their prices finally proved unendurable.

The catastrophic fall of commodity prices in general, and of raw-material prices in particular, with which the depression was ushered in was regarded as the cause, rather than the last link in a chain of causes, of the disorganisation of production and trade that rapidly ensued. This disorganisation has been described in previous numbers of this *Survey*. Not only were the equilibria between costs and prices destroyed in innumerable particular forms of production, but the more fundamental equilibria upon which the functioning of the economic system depends were also destroyed. Capital costs became too high and investments had to be written off or down, wage-levels also were reduced either directly or indirectly through unemployment, national budgets were unbalanced as revenues fell and expenses increased or did not decrease enough, international markets were torn apart by the effects of fluctuating exchanges and increased trade restrictions, and international debts became frozen. There was in consequence a sudden and drastic curtailment of world production and even more of world trade. The impoverishment which resulted was unevenly distributed among the nations and between individuals within each nation; but the world as a whole, despite increasing productive capacity, became poorer in terms of real goods and services. The

co-ordination of different parts of the economic mechanism having been impaired, the machinery functioned much less effectively.

In these circumstances, it was natural that strong demands should arise for the maintenance, and where necessary restoration, of individual prices and national price-levels. The extreme difficulty and suffering involved in bringing down to the new levels those prices which by their entrenched position, their contractual basis or customary inertia had remained high, obviously suggested an effort to restore the previously existing equilibria and raise again those prices which had fallen. Such measures fall into two broad categories, the specific attempts to control prices of particular commodities or groups of commodities, and the general attempts at manipulating monetary policy so as to cause a general upward price movement which might be expected to exert its chief influence on those prices which had fallen most heavily, or at least to put an end to deflation which threatened to cause such prices to fall further.

If the former category is put on one side for the moment, it is of some interest to consider the results of the various measures so far taken to raise national price-levels. There has been no concerted international effort in this direction. On the contrary, the variant monetary and credit policies so far adopted, by leading to further strains on the precarious equilibrium between national price systems, have led to a constant narrowing of the world markets for important commodities and thereby caused a steady deflationary pressure upon their prices.

Nor have monetary and economic policies in those countries which have abandoned the attempt to maintain their currencies at the former gold parity been always consistently directed towards an effort to raise the average level of prices. Most of them have combined external depreciation with an effort to make domestic credit abundant and cheap; but many elements of both credit and general economic policy have been directly or indirectly of a deflationary character. Thus the building-up of larger gold reserves, the reduction of the fiduciary issue, and the strict budgetary policies pursued in the United Kingdom have tended to keep domestic prices from rising. In Germany, which maintains the nominal gold parity only by drastic import and exchange restrictions while promoting a large proportion of her external trade at depreciated exchange levels, there has been a firm control of domestic prices. In Japan, also, national policy has minimised the rising tendency of domestic prices. In most cases, an effort to reap international advantages from exchanges depreciated below the

levels at which national prices rest has exerted a steady deflationary influence on prices in world markets.[1]

The net results in these countries up to the end of 1934 may be summarised in the following table:

Movement of Average Wholesale Commodity Price-Levels.

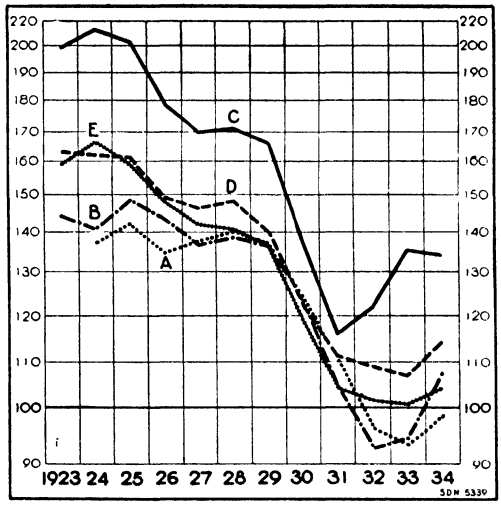
Country	Average 1925-1929	Lowest point [a] of depression	1934
United Kingdom	100	62	65
Germany.	100	68	71
Japan	100	65	76
Sweden	100	72	77
United States	100	66	76

[a] 1932 for all countries except Japan (1931).

The Movement of Wholesale Prices, 1923-1934.

(Base: 1913 = 100.)
Logarithmic Scale.

A. Germany.
B. United States.
C. Japan.
D. Sweden.
E. United Kingdom.



[1] Cf. the recovery in prices shown by the following table with the external depreciation of the currencies in question at the end of 1934:

	Price recovery from lowest level %	Depreciation from gold parity %
United Kingdom	5	40
Germany (Registered Marks) . .	4	32
Japan	17	66
Sweden.	7	44
U.S.A.	15	41

To put these figures in another form, the average level of commodity prices in the United Kingdom had, by 1932, fallen 38%, and in 1934 remained 35%, below the average level in the years 1925-1929. The greatest recovery of domestic prices was in Japan, where the index fell in 1931 to 35%, and had recovered in 1934 to 24%, below 1925-1929. The upward movement was, however, more rapid in the United States, where, in the two years 1933-1934, the index recovered from 34 to 24% below that of 1925-1929. The upward movement during 1934 and the early part of 1935 was also stronger in the United States than elsewhere. Cheap-money policies were followed in all these countries, and the relatively small extent of the price recovery is evident. On the other hand, it is probable that, during the depression period, there has been a considerable adjustment of costs to the lower levels of prices ruling, while the monetary policies so far pursued have laid the foundations for a large credit expansion later on. Time is an essential factor in all such circumstances, and delayed action, or a delayed result, is always likely to produce a situation in which the cheap and abundant credit made available is fully used only after painful cutting-down of costs has made it largely unnecessary, if not dangerous.[1] In the meantime, the varying degrees of currency depreciation and the trade restrictions with which they have been associated have led to wide discrepancies between the prices of important commodities in different national markets.

If attention is now turned to more specific attempts at maintaining, or raising, the prices of particular commodities, the story obviously becomes more complicated. Many sorts of prices have been controlled, by different methods and by different forms of organisation. There are important cost elements, particularly long-term interest rates, which have been sheltered by their contractual status, enforceable at law. Those countries which have made a direct or indirect attack upon this problem, either by compulsory reductions of interest rates or by loan conversions, have benefited greatly by a reduction of the price-cost discrepancy. Where such methods have not been possible, the widening of this discrepancy has either put further pressure upon productive activity or, in many cases,

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[1] Cf. A. C. PIGOU: "Economics in Practice", Macmillan, 1935, Ch. IV. Cf. also Bertil OHLIN: "Economic Recovery and Labour Market Problems in Sweden — Part II", *International Labour Review*, May 1935, pages 682-3: "While it seems to be beyond dispute that the policy of budget surpluses during good years and deficits during the depression had a stabilising influence on economic conditions, it is also evident that the concentration of the loan expenditure in 1934, when industry and trade were well on their way out of the depression, was unfortunate. The new policy should have been begun two years earlier and preparations made for it in advance. In 1934, the time was ripe for a gradual reduction in public works rather than an increase."

has forced suspensions or defaults of debt service — a striking and important example of the unfortunate results that flow from maintaining particular prices at levels out of relation with the average. The ensuing shock to confidence and credit paralyses the market and renders difficult new financial transactions such as are needed for any significant restoration of production. Even when healthier conditions are restored to particular national markets, international disequilibrium remains and capital is diverted from foreign to domestic uses.

Wage-rates also are slow to adjust themselves, especially when their customary inertia is buttressed by powerful trade-union organisation and pressure upon them is reduced by substantial unemployment benefits. It may well be agreed that wages are low enough and that the maintenance of standard rates is important, but, in default of a recovery in general purchasing power and therefore in commodity prices, the natural corollary of wage-rates that have not fallen with other prices is substantial unemployment. Except where conditions of private and public employment and of income distribution have been altered, the potential supply at the given price is greater than the demand.

In the case of commodity prices, groups of producers, either by their own action or by enlisting the support of Governments, have been able to maintain or to push up particular price groups. Such results are easier to obtain by direct action in the case of a comparatively simple commodity: for example, some of the basic industrial raw materials such as tin, aluminium, zinc and copper. The large-scale methods of production necessary for the extraction and refining of these materials, together with their geographical concentration in certain limited areas, place their control firmly in the hands of powerful groups, agreement between whom is relatively easy. Even here, however, the organisation of production, export and prices has proved difficult by reason of varying national costs and has been further complicated by national policies such as the duty imposed upon zinc entering the United Kingdom, the copper code and the increased copper duty in the United States, and the import restrictions imposed by Germany. There was a stage of the depression, indeed, when international cartels seemed to be breaking down; but, after laborious negotiations, most of them were reorganised in 1933 and 1934 and their control of prices has been responsible for some of the largest increases of commodity prices in the last two years.

Raw materials and basic foodstuffs such as rubber and wheat, whose production and export may be partly organised by large-scale proprietary or co-operative enterprise, but are

liable to meet competition from a multitude of small, unorganised producers in various countries, are obviously more difficult to control. Government intervention, involving international agreement among at least the main producing countries, becomes necessary and this leads to awkward general problems in the planning of international trade and the balancing of payments between countries very differently placed in respect of the importance to them of the commodities in question. An agreement was finally reached among the principal producers of rubber in May 1934 and this has succeeded in raising prices, but not in disposing of surplus stocks. The Wheat Agreement entered into shortly after the Monetary and Economic Conference in the middle of 1933, on the other hand, encountered great difficulty in the allocation of export quotas and, despite the reduction of stocks (to which bad crops have greatly contributed), prices have not yet reached the level at which the importing countries agreed to reduce their import restrictions.

When international agreement has not been reached, national controls, either of production or prices or of imports, tend to disorganise world markets by handicapping the controlled producers in competition with their uncontrolled competitors. This is notably the case with such commodities as cotton in the United States, the domestic price of which has been maintained at levels higher than the price in world markets. Where, as in those European countries which have enlarged the tariff and quantitative protection afforded to agriculture, domestic production has been maintained, or encouraged at price-levels out of relation to world markets, the price discrepancies have been accentuated. The producers in countries of surplus production have experienced a downward pressure upon their prices because of restricted outlets, while the higher domestic prices in the protected countries have not only placed some of them in the embarrassing position of piling up stocks that can be exported only at a loss, but, by maintaining and even increasing the cost of living, have also adversely affected their competitive position in respect of other exports.

Action in the monetary field and in support of international cartels by no means exhausts the directions in which Government intervention in the price system has been extended during the depression. On the whole, it would appear that up to the present the direct quantitative control of production or limitation of exports, supplemented by tariffs, quotas and subsidies, has been more effective in raising commodity prices than the more indirect methods of monetary policy, though the full effects of the latter may yet lie in the future. The efforts made

to support or to raise particular groups of prices in certain areas have already evoked important reactions in production, trade and consumption. Any policy which influences the price of a commodity without at the same time controlling all sources of production and rationing consumption is bound to meet with such reactions. In a fully authoritarian State, these may perhaps be ignored or set on one side; but, in default of co-ordination by international agreement, the result of completely centralised planning of prices and production must be an equally complete control of external trade and finance and this is likely to lead to progressive national isolation or autarchy.

In most countries the system of free enterprise still works, however hampered it may be by monopolies and economic friction. Partial intervention in the price system in such circumstances leaves scope for private initiative both in production and in consumption. If the price of a particular commodity is raised, consumption tends to fall off and alternative sources of supply or substitutes are sought. Thus the consumption of tin has decreased considerably since the International Tin Committee was successful in raising the price, the production of wheat has increased greatly in high-cost areas as a result of tariff protection and quotas, the virtual guarantee by the United States Government of cotton prices above the world market price has called forth a considerable amount of new production in countries like Brazil, the copper agreement has protected high-cost producers from the full force of competition from rich new veins of ore in such areas as Northern Rhodesia and the Belgian Congo. Examples might be multiplied, but these are sufficient to illustrate the fact that the consequences of the price-raising policies recently followed are likely to be very far-reaching. It would be premature to attempt any judgment as to the permanence of the shifts of production and consumption induced by the attempts to raise prices, or of the net cost which they are likely to entail; but it is already evident that the international price disparities and the new vested interests that have been created will place obstacles in the way of any tendency to return to freer international specialisation.

Chapter III.

THE ADJUSTMENT OF AGRICULTURE.

A Fall in World Production.

Agricultural production in the world as a whole declined in 1934 for the first time in many years. The index compiled by the Economic Intelligence Service of the League of Nations, which measures the quantity of world agricultural production, fell by 3%.[1] It is true that the non-inclusion of certain important agricultural products such as fruit, dairy produce, hides and skins, for which statistics are as yet inadequate, somewhat exaggerates the extent of this decline because the consumption of these products is increasing. On the other hand, population continues to increase at the rate of some 1.2%, or perhaps more, each year and there is no reason to believe that habits of consumption have changed violently during the past year. The amount of food and agricultural raw materials produced in 1934 was less than in any year since 1927, though population has increased meanwhile by perhaps 8-10%.

The greater part of this decline took place in the United States, though bad weather in Asia, Oceania and parts of Europe also reduced the index numbers for those areas. The full extent of the reduction is shown in the following table, which compares the index numbers for the last three years with those of 1928, the year of record agricultural production before the depression:

Indices of World Agricultural Production.
(Base: Annual average 1925-1929 = 100.)

Continental area	1928	1932	1933	1934
Europe, including the U.S.S.R. .	102	106	110	110
Europe, excluding the U.S.S.R.	102	110	110	109
North America	104	100	90	79
Latin America	105	100	* 105	106
Africa	103	108	112	116
Asia	103	102	106	102
Oceania	106	126	119	117
World, including the U.S.S.R. .	103	104	104	101
World, excluding the U.S.S.R. .	103	105	103	99

[1] The statistical material summarised in this section has been drawn from the League of Nations *World Production and Prices, 1925-1934*, Geneva, 1935.

If these statistics are further analysed, it will be seen that, in the production both of foodstuffs and of raw materials, but particularly of the latter, the drought and restriction of production in the United States played the greatest rôle in 1934.

Index Numbers of World Production of Foodstuffs and Agricultural Raw Materials, 1928-1934.

(Base: Annual average 1925-1929 = 100.)

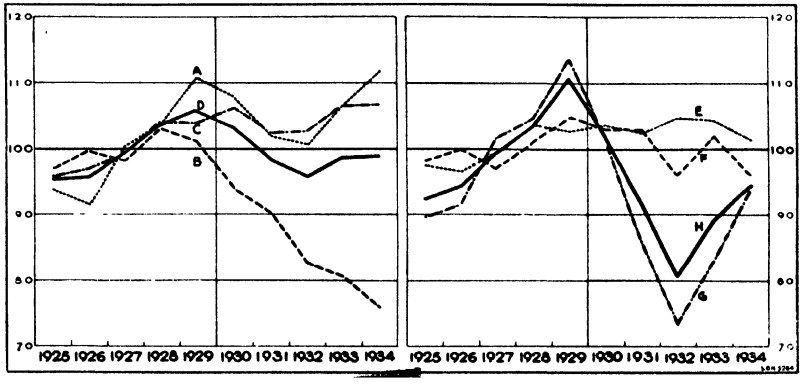
Continental area	Foodstuffs				Raw Materials			
	1928	1932	1933	1934	1928	1932	1933	1934
Europe, includ. the U.S.S.R.	103	106	111	111	96	98	100	98
Europe, exclud. the U.S.S.R.	103	111	112	111	89	87	87	84
North America	106	102	90	81	97	86	90	70
Latin America	106	101	105	104	101	95	109	123
Africa	103	112	112	119	103	99	110	109
Asia	102	104	106	101	105	99	106	103
Oceania	106	131	123	120	106	115	110	112
World, includ. the U.S.S.R.	104	105	104	102	101	96	102	96
World, exclud. the U.S.S.R.	104	107	104	100	100	95	100	94

The following diagram has been drawn to show the changes both in the territorial division of primary production and in the main classes of commodities produced. The primary production which is charted on the left-hand side of the diagram includes not only agricultural, but also mineral and forest raw materials, the production of which also decreased most in the United States. The curves on the right-hand side give the main groups of primary production for the world as a whole.

World Primary Production by Main Territorial Divisions and Chief Classes of Commodities.

(Base: Annual average 1925-1929 = 100.)

A Europe, including the U.S.S.R.
B North America.
C All other continental groups.
D World.
E Foodstuffs.
F Raw materials of farm origin.
G Raw materials of forest and mineral origin.
H All raw materials.



The result of the sharp contraction of agriculture in the United States has been to reduce the share of the North-American continent in world primary production, while, on the contrary, the share of Europe increased very considerably, more indeed, compared with 1925-1929, than the combined increase in the share of all the other continental areas — Africa, Asia, Latin America and Oceania. The rapid expansion of production in the U.S.S.R. has contributed greatly to this development. During 1933 and 1934, the reorganisation of agriculture along collective lines was carried much further. By the end of 1934, about 74% (15,800,000) of all peasant households were installed on collective farms, which accounted for 85% of the area sown or planted. With increased quantities of fertilisers, more machines, and favourable weather conditions, record crops were produced in 1933 and, although crops declined in 1934, it is stated that harvesting losses were reduced and the "real crops" increased. The decline in live-stock was also checked during 1934.[1]

Apart from this increase of production in Soviet Russia, an increase which extended to mineral and forest as well as agricultural products, the share of industrial Europe in world agricultural production increased substantially. Behind the shelter of tariffs and other forms of protection there has, in recent years, been a considerable development of agricultural production in the great industrial countries which formerly were the chief markets for the surplus exports of the agricultural countries both in Europe and elsewhere. Total European production fell somewhat in 1934, but American production fell more. The contraction of American agriculture as a result of Government policy, aided by drought, combined with a fall in other exporting areas, was great enough to cause a fall in world production as a whole. Later sections of this chapter will be devoted to further examination of these developments by which the world market has been, at least temporarily, relieved by decreased production in the main agricultural exporting countries.[2] In the following chapter, attention is drawn to the complementary development by which industrial production has increased in the agricultural countries. Not only the drought and the restriction schemes of the Agricultural Adjustment Administration in the United States, but also the restriction of animal products exported from South America, Denmark and other European countries, coffee valorisation in Brazil, jute restriction in India, unfavourable economic conditions in China and reduced outlets for the agricultural exports of

[1] The abolition of bread cards as from January 1st, 1935, is an indication of more abundant food supplies.

[2] Agricultural production in Latin America rose slightly in 1934.

Central and Eastern Europe must be considered, together with international restriction schemes for such commodities as wheat, rubber, sugar and tea.

One important indication of market adjustment is the substantial reduction in the stocks of important commodities. Statistics are not very comprehensive, but the following table is sufficient to show the reduction that has taken place in 1934:

Stocks of Staple Agricultural Commodities on April 1st, 1929-1935.

Commodity	Unit (000's)	1929	1932	1933	1934	1935
Wheat: visible supply	met. tons	13,526	16,215	15,720	14,506	12,127
Sugar: ,, ,,	,,	6,289	9,237	9,045	8,175	8,187
Coffee: ,, ,,	,,	942	2,214	1,614	1,867[a]	1,554
Cotton: ,, ,,	bales	6,749	9,623	9,796	8,868	6,881
Cotton: mill stocks[b] .	,,	5,294	4,608	4,542	5,268	[c]
Rubber: world stocks .	met. tons	270[d]	656	659	681	738
Tea: U.K. stocks . .	,,	118	106	138	125	133

[a] 1.V.
[b] 1.II.
[c] Excluding Germany, 4,771; corresponding figure for 1934, 5,003.
[d] 1.I.

It will be seen that, while stocks of wheat, coffee and cotton fell substantially during 1934, there was an increase in the stocks of rubber and tea, while the accumulated sugar stocks did not decline. In the last three commodities, international marketing agreements were in force. In the first three, vigorous measures to restrict production were taken in two of the main producing countries — Brazil and the United States.

Mention has already been made of the increased production in recent years of certain foodstuffs, statistics in regard to which are inadequate. There is no doubt that the demand for, and with it the production of, vegetables, fruit, dairy produce, poultry and eggs, have greatly increased; but none of these important foodstuffs can be included in the indices of production cited above. The greatest decrease of production has been in grains and especially in "fodder cereals" such as oats, barley and maize. There is a tendency for cattle foods made of vegetable-oil materials to take the place of these grains, and in 1934 the drought in the United States affected the fodder crops very severely. The shortage of feed stimulated the slaughtering of live-stock.

Index Numbers of World Production (excluding the U.S.S.R.).

(Base: Annual average 1925-1929 = 100.)

	1930	1932	1933	1934
Bread crops and rice . .	106	107	108	99
Meat	103	107	108	112
Milk	106	111	113	...

Further information concerning the developments of the past year in important areas of production and in respect of particular important commodities is given in the following sections. It is evident that the agricultural situation in the world as a whole was somewhat relieved in 1934 by the effects of the severe drought in the United States and by various measures taken to restrict production. One result of the lessened supply and higher price of agricultural produce was to encourage the further use of manufactured animal foods and raw materials — oilcake in place of "fodder cereals" and artificial silk instead of cotton. At the same time, a further impetus was given in many, but not all, areas to the production of commodities towards which demand is shifting, such as dairy produce and fruit.

THE PROTECTION OF AGRICULTURE IN INDUSTRIAL COUNTRIES.

The post-war agricultural crises derive directly from the disorganistion of agriculture in the period of hostilities. Despite the emphasis generally laid upon the necessity for maintaining farm production as a measure of economic defence in case of sudden attack, the experience of the last war is clear proof that no nation can in fact rely in such an emergency upon its own supplies of raw materials and foodstuffs. The drain of man-power for the armies is itself sufficient to cripple agriculture in the belligerent countries. In order to meet the abnormal war demands there was a vast expansion of agriculture in the countries outside Europe. The United States, for example, greatly extended its production of wheat. When the war ended and agriculture was gradually restored on the battlefields, it was necessary to seek a new balance of production. Not only had new lands been broken in, but agriculture had been mechanised and there were great advances also in the application of the natural sciences to agricultural production. A sharp agricultural crisis caused some shrinkage of production in 1920-21. For a time, the demands of the impoverished belligerent countries were sufficient to consume what was left of the new production. Restoration proceeded but slowly, and it was not till Soviet Russia again entered the export

market that the full severity of competition was felt. Contraction of supply was avoided for a time by the Governments of some of the great surplus exporting countries withholding stocks from the market; but, as the depression deepened after 1929, these efforts broke down. The private agricultural pools also broke down and the view is strongly held that the pre-depression schemes for controlling wheat, sugar, rubber and coffee were bound to fail even if depression had not supervened.[1]

World agricultural production increased rapidly until the exceptionally good harvest of 1928 was responsible for surplus stocks which are still a burden to the market. Even before this period, agricultural protection had increased in several European countries. The worst currency disorders were passed by 1925 and production was resuming its normal course. Germany in that year regained her tariff freedom and used it to protect her agriculture. Italy began its "battle of the grain" and other countries stiffened their protective tariffs. By 1929, European agriculture was fully restored and there had been no diminution, but further increases, of production outside Europe. The first signs of pressure on the world market were sharp falls of prices affecting particularly the export surpluses of the agricultural exporting countries. It was evident that adjustment had to be made somewhere or it would be forced by a great fall of prices, increasing consumption and eliminating high-cost producers.

In the somewhat similar period that followed the opening-up of the grasslands in North and South America and, later, in Australia and New Zealand, in the 1870's and 1880's, the traditional agricultural methods of Europe were severely tested. Those countries, such as the United Kingdom and the Netherlands, which allowed free access to the agricultural exports from these new areas lost a great part of their own agriculture. Specialised production survived, but farming was a much shrunken industry before a new equilibrium was reached. Most of the European countries, however, hastily reverted to protection and shielded their peasant producers from the intense competition of the new supplies.[2]

When Europe was threatened again during the recent depression by a flood of imported foodstuffs and raw materials at low prices, the tariff barriers that had been erected since 1925 proved insufficient. Not only were they hastily raised, but new protective devices were invented also. The German tariff on wheat,

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[1] J. W. F. Rowe: "Artificial Control Schemes and the World's Staples", *Index*, April 1935.

[2] Cf. League of Nations Economic Committee's "Considerations on the Present Evolution of Agricultural Protectionism", Annex II (document C.178.M.97.1935.II.B).

for example, was raised on six occasions during the year 1930. More effective than these tariff changes, however, were the quotas, milling regulations, veterinary quarantines and similar quantitative restrictions. Even in normal times, the mass production, high organisation and mechanical methods of extensive farming in new countries can easily compete with the more expensive European production. Australian shearers working with rapid precision in a well-organised shed, using electrically-driven machinery, are highly paid, but their output is so great that the cost of shearing each sheep is very low. New Zealand butter produced by the ton daily in thoroughly mechanised factories can undersell that of Europe even though land values and wages are high and the product must be transported halfway round the world. When prices fell heavily in the world markets after 1929, most of these surplus-exporting countries were driven off the gold standard. When the United Kingdom also went off the gold standard, their currencies depreciated further. By the end of 1931, the Australian pound had fallen almost to half its former gold parity. In terms of the gold currencies, the price of Australian wheat and wool, already very low, was cut in half. Some of the European exporting countries depreciated their currencies to the same level. The importing countries raised their defences higher and insulated their markets almost completely. Still production increased and the export surpluses were concentrated upon the constantly narrowing free market until even the United Kingdom, Belgium and the Netherlands took steps to control their imports.

In the latter stages of the depression, therefore, a sharp divergence appeared between the sheltered agriculture of the importing countries in Europe and the unsheltered agriculture of the exporting countries. Finally, as will be shown in the following section, the burden of adjustment was thrust mainly upon the latter. Not only for economic, but also for political, military and social reasons, the European countries were not willing to see their agriculture destroyed. By extreme protection, and also by subsidies and other measures of State aid, the most strenuous efforts were made to maintain both prices and production. On the whole, these efforts were successful. Prices have not fallen much and production has increased in many directions. The economic stability of agriculture in these countries is, indeed, in sharp contrast with the plight of their manufacturing export industries.

It is not necessary to describe here the methods of protection that were used or to analyse further the international price disturbances that were induced. A recent publication of the League of Nations has covered the whole subject in sufficient

detail.[1] The price of wheat in France is three times the price in England. Butter costs over three times as much in Switzerland as New Zealand butter brings in the London market. The price of sugar is almost five times as high in Germany as in the world market.[2]

Meantime, production at high cost continues to increase in these sheltered areas. Between 1928 and 1934, the production of wheat increased by over 20% in the "importing countries" of Europe, but fell off by a third in the Danubian region and by 18% in the four principal exporting countries overseas. The production of barley was maintained in importing Europe, but declined by almost a third in the main exporting areas. That of oats fell by about 20% in Europe; but by over 40% overseas. The import of beef and veal into the "importing countries" has fallen by more than half, and that of cattle by over three-quarters since 1929. Imports of butter, on the other hand, have increased.

It is not possible to get up-to-date estimates of agricultural income for many countries; but the following table has been compiled from various sources. It so happens that the only countries where agriculture is a sheltered industry for which statistics of farm income in 1934 are available are Germany and Switzerland. Compared with 1929, farm income in those countries has fallen less than 20%. In England and Wales in the worst year of the depression (1932-33) the fall was less than 20%, and in Sweden it was only 12½%. These losses compare very favourably with those sustained in the great exporting countries. In 1934 compared with 1929, farm income, even measured in depreciated currencies, had fallen by 33% in the Argentine, 40% in the United States, and over 50% in Canada. It is clear that the fall in agricultural income was least in those countries where farming is a sheltered industry producing mainly for the home market, greater in those countries which produced manufactured food products such as meat and dairy produce,[3] and greatest in those, such as Canada and Hungary, which exported mainly grains and vegetable raw materials.

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[1] League of Nations, Economic Committee's "Considerations on the Present Evolution of Agricultural Protectionism", Geneva, May 20th, 1935 (document C.178. M.97.1935.II.B).

[2] In an address to the International Conference of Agricultural Economists at Bad Eilsen in August 1934, Dr. Laur claimed that, but for Government intervention, the price of milk in Switzerland would be 12 francs par 100 kilos instead of 19, the price of pigs 75 centimes per kilo live weight instead of 1.60 francs, of cattle 60 centimes instead of 1.20 francs, of wheat 12 francs instead of 36 francs for the average yield per hectare, and of eggs 7 francs instead of 12 per 100 kilos.

[3] *E.g.*, Australia, Denmark, the Netherlands and New Zealand.

The Value of Farm Production and Farmers' Income, 1929-1935.[a]

A = Agricultural net revenue: value of products of the farm sold or retained for home use, less amount of crops retained for cattle-feed or seed.
B = Value of products sold off the farm.
C = Agricultural income; remuneration of the farmers and their families' labour and capital, taxes paid, etc.

(National currency (000,000's))

Country		Currency unit	1929	1932	1933	1934
Argentine [b]		P. peso	2,168	1,288	1,121	1,438
Canada	A	$ C.	1,034	489	510	569
Denmark [c]		Krone	1,195	813	854	805
Finland [d]	A	Markka	4,281	5,512	5,160	5,500
France [d]	A	Franc	83,700	58,000	56,000	42,000
,,	C	Franc	44,800	26,500	26,000	17,000
Greece	A	Drachma	8,463	[e] 11,827	...	...
Hungary	A	Pengö	1,660	1,019	744	1,053
,,	B	Pengö	1,336	633	620	...
Irish Free State	B	£ Stg.	45.4	...	26.7	24
Japan [f]	B	Yen	1,572	1,018	1,452	[g] 977
Netherlands	A	Guilder	986	594	650	...
Poland [d]	A	Zloty	[h] 10,415	4,300	...	...
Roumania [i]	A	Leu	96,563	47,829	40,982	...
,, [d]	A	Leu	59,187	25,326	23,417	...
Spain [d]	A	Peseta	9,748	10,415	...	...
Sweden	A	Krona	1,059	920	945	...
Switzerland	A	Franc	1,479	1,262	1,220	1,228
United States	A	$	11,917	5,143	6,256	7,163
,,	C	$	7,800	3,300	3,900	...

(000,000's)

Country		Currency unit	1928-29	1931-32	1932-33	1933-34	1934-35
Australia [j]	A	£ A	223	147	149	161 [k]	...
Engl. & Wales	B	£	221	183	182	...	...
Estonia		Kroon	221	140	116	136	...
Germany	A	RM.	14,045	9,889	8,727	9,946	11,094
,,	B	RM.	10,228	7,350	6,409	7,466	8,227
,,	C	RM.	5,816	4,700	3,750	4,310	...
New Zealand	A	£ N.Z.	67	39	40	51	..

[a] SOURCES: Argentine — *Annual Trade Statistics.*
Australia — *Production Bulletin*, No. 27, 1934.
Canada — *Monthly Bulletin of Agricultural Statistics*, March 1930-1935.
Denmark — *Statistika Efterretningar*, January 1935.
England and Wales — *Agricultural Statistics 1930*, Part 2, and *1933-34*, Part 1.
Estonia — *Annuaire de la Statistique Agricole 1934.*
Finland — *Annuaire statistique 1934.*
France — *Revue d'Economie politique*, May-June 1930-1935.
Germany — *Institut für Konjunkturforschung Wochenbericht*, June 5th, 1935.
Greece — International Institute of Agriculture: *Agricultural Conditions 1932-33.*
Hungary — *Journal de la Société hongroise de statistique, 1934*, Part 1; *Magyar Statistikai Szemle*, April 1935.
Irish Free State — *Statistical Year-Book, 1935*; *The Economic Journal*, September 1934; *The World Agricultural Situation in 1933-34*, International Institute of Agriculture, Rome 1935, page 317.
Japan — K. PRITSHAW: "Die Japanische Landwirtschaft in der Krise", *Der Deutsche Volkswirt*, April 5th, 1935.
Netherlands — *Economish Statistiche Berichten*, June 19th, 1935.
New Zealand — *Monthly Abstract of Statistics*, May 1935.
Poland — *Petit Annuaire de statistique*, 1934.
Roumania — *Buletinul Statistic al Roumâniei*, April 1933.
Spain — *Anuario Estadistico de España*, 1931.
Sweden — *Vierteljahrsheft zur Statistik des Deutschen Reichs, Erstes Heft*, 1931.
Switzerland — *La Vie économique suisse*, February 1935.
United States — Department of Commerce, *Survey of Current Business*, January 1935, and the *Conference Board Bulletin* of March 10th, 1935.

[b] Value of total exports, 95% of which were agricultural products.
[c] Value of agricultural exports.
[d] The meat and dairy production is represented by the value of the home-grown fodder consumed by those industries, a figure which is of course too low.
[e] The drachma depreciated heavily in 1932.
[f] Three principal crops only. [g] Estimates based on crop forecasts. [h] 1928.
[i] Aggregate gross amount of agricultural, pastoral and dairy production.
[j] Value added by agricultural production plus aggregate value of pastoral and dairy production.
[k] Estimated upon the assumption that the rise from 1932-33 to 1933-34 equalled that given in the *Economic Record Supplement*, March 1935, page 41.

There has been a considerable adjustment of agricultural costs in practically every country. Not only have prices of industrial manufactures fallen (though in most cases not as much as those of agricultural products), but there has also been a great variety of measures passed to relieve farmers, particularly of their debt burdens. It is impossible in a brief space to describe these measures, which in one form or another have been adopted in almost every country. In general, they have aimed at relieving farm indebtedness either by conversion of farm mortgages, by forced reductions in mortgage interest, or by moratoria on debt payments. For example, in Belgium a law was passed in July 1933 empowering the courts to postpone mortgage debt payments. From June 1933, auction sales of farmers' property were suspended in Czechoslovakia. In the United States there was a great deal of re-financing of farm mortgages by new Government agencies, and the Frazier-Lemke Act (later declared unconstitutional) imposed a virtually complete moratorium of farm indebtedness. In Italy and Germany there was wholesale conversion of farm mortgage debt. Interest rates of 6% or more were cut to 4½% by the German law of January 24th, 1935. In Italy, the rate was fixed at 4% in August 1934. Such conversions mainly affected mortgage bond issues and the amounts directly concerned were not large. The general lowering of the rate of interest, however, combined with the legal facilities offered to farmers to make new debt contracts, gave a great measure of relief. An interesting example of large-scale adjustment is provided by the New Zealand legislation of 1934-35. The main features of this legislation are the provision of machinery under the Rural Mortgagors' Final Adjustment Act for the legal reduction of farm debts above the basic values to be determined by judicial tribunals, and the consolidation and widening of State-lending activities by the creation of the Agricultural Mortgage Corporation.[1] The former provides legal processes analogous to bankruptcy without involving the debtor in total loss of his farm. The latter concentrates the lending activities of the Government under the control of a public utility corporation.

Information is available concerning the profits of farming for certain countries. As in the preceding table, it is only the trend of development in each country that can be compared. The systems of accounting differ widely and comparisons between the countries are invalid.

[1] Cf. Rural Mortgagors' Final Adjustment Act, 1934-35 (25 Geo. V, 1934-35, No. 50), and Mortgage Corporation of New Zealand Act, 1934-35 (25 Geo. V, 1934-35, No. 42), also "The Rural Mortgagors' Final Adjustment Act, 1934-35: Explanatory Memorandum", Government Printer, Wellington, 1935, and Rt. Hon. J. G. Coates: "Mortgage Finance: Proposals for Reorganisation", Wellington, November 1934.

Farm Accounts in Certain European Countries.[a]

(Returns in national currencies per hectare.)

A = Gross return. B = Net return. C = Net return as percentage of book value.

Countries		Currency	1928-29	1931-32	1932-33	1933-34	1934-35
Importing Countries:							
Germany (Wurtemberg) . .	A	RM.	594	392	385	433	...
	B	„	52	— 42	3	44	...
Norway	A	Krone	...	548	550	...	...
	B	„	...	16	39	...	...
	C	%	...	0.4	1.4	2.0	[b]
Sweden	C	%	...	0.1	2.0	2.7	...
Switzerland	A	Franc	1,259	1,173	1,072	...	...
	B	„	187	126	2	...	...
	C	%	...	...	—	1.42	1.50
Exporting Countries:							
Denmark	A	Krone	843	546	567	558	619
	B	„	151	— 28	61	73	99
	C	%	6.2	— 1.2	2.9	3.5	...
Estonia	A	Kroon	119	84	72	83	...
	B	„	9	— 5	— 1	14.3	...
	C	%	2.3	— 1.2	— 0.2	3.8	...
Finland	A	Markka	2.859	...	2,211	...	...
	B	„	374	...	445	524	...
	C	%	3.5	...	4.4	5.3	...
Netherlands	A	Florin	505	272	257	288	...
	B	„	48	— 73	— 28	18	...

[a] Source: Germany — Württ. Landwirtschaftkammer in Stuttgart, *Landwirtschaftliche Betriebsverhältnisse.*
Norway — Det kgl. Selskap for Norges vel, *Tidsskrift for det Norske Landbruk.*
Switzerland — *Annuaire statistique,* 1930-1933. *La Vie Economique,* 1935.
Denmark — Landökonomisk Driftsbureau, *Reguskabsresultater, 1932-33.*
Estonia — *Annuaire de la Statistique agricole,* 1934.
Finland — *Annuaire statistique,* 1930-1934.
Netherlands — Department van Economische Zaken: *Verslagen en Mededeelingen van de Directie van der Landbouw 1935,* No. 2.
See also International Institute of Agriculture: "The World Agricultural Situation in 1933-34", Rome, 1935.

[b] Above 2%.

The preceding table is unfortunately not as complete or as up to date as might be desired, but the information given is sufficient to show that a considerable recovery has taken place, greater in the importing than in the exporting countries. The statistics given above reflect a more favourable position than those collected by the Royal Commission on the Dairying Industry in New Zealand, the country whose exports compete most directly with those of the European countries cited. The Commission came to the conclusion that, in 1934, "at least 50% of the dairy-

farmers of the Dominion are, in varying degree, unable at the present time to meet their financial commitments ".[1]

The improved financial condition of agriculture in most countries is due, not only to Government assistance in reducing costs of production by such means as interest reductions, but also to direct subsidies on a scale that is unprecedented. Both importing and exporting countries, with few exceptions, have subsidised agricultural production or at least certain branches of it. The only notable case in which such subsidies have been used to restrict production is that of the United States. Elsewhere, particularly in the importing countries, large subsidies have been granted as well as greatly increased protection, in order to maintain or increase production. Many exporting countries also have subsidised certain branches of production. There is, in fact, a veritable network of subsidies and special advantages granted for such important commodities as wheat, sugar and butter. The markets in these commodities, cut up as they are into non-competing areas by reason of trade restrictions, are rendered more artificial by the widespread use of bounties and subsidies. This problem is illustrated in the next section, with reference to the bounties on butter production in various countries.

The burden thus imposed upon national budgets is very considerable. Agricultural subsidies constitute one of the greatest difficulties in balancing the budgets and reducing the industrial costs of the gold-standard countries. It is difficult to get adequate statistics concerning this problem, since in many cases the expenditure from the central budget is paid through local authorities. In Switzerland, for instance, the subsidies paid in recent years have greatly increased.

Federal Subsidies in Switzerland, 1929-1934.[a]

Francs (000,000's).

Year	Total	Agricultural
1929	77	22
1930	95	36
1931	120	39
1932	139	49
1933	193	91
1934	[b](211)	...

[a] Oesterreichisches Institut für Konjunkturforschung, *Monatsbericht*, June 1935.
[b] Rapport du Conseil Fédéral à l'Assemblée fédérale sur sa gestion en 1934, page 211.

In the United Kingdom, a recent estimate gives the following annual amounts paid to farmers as subsidies for certain types of

[1] " Report of the Dairy Industry Commission ". H. 30, Government Printer, Wellington, 1934.

production in 1934. Since this estimate was made, fresh subsidies, notably for beef production, have been authorised.

Annual Agricultural Subsidies in the United Kingdom.[a]

	£		£
Sugar	3,250,000	Milk	1,500,000
Wheat	4.500,000	Beef	3,000,000

[a] Midland Bank, *Monthly Review*, August-September 1934.

These estimates for Switzerland and the United Kingdom are quoted merely to illustrate the burden that has been imposed on the taxpayers of a great many countries. Such payments, in addition to the extraordinary measures of protection granted in recent years to the sheltered agriculture of industrial countries, tend to become permanent. Direct Government payments are frequently replaced by marketing schemes and similar devices which shift the financial burden from taxpayers to consumers; but in the meantime the industry expands, a vested interest is created, and it becomes more difficult to withdraw the assistance granted. The subsidy on beet sugar in the United Kingdom is a good illustration. After subsidies amounting to £39,500,000 in ten years, the industry employs 32,000 workers, and the proposal made by a Royal Commission in 1935 to withdraw the subsidy met with strenuous opposition. Wheat grown in the United Kingdom receives a guaranteed price for a specified quantity; but the quantity grown is increasing and the price therefore falls. The English Milk Marketing Board also is faced with the problem of increasing supplies and has had to buy off competition from Scottish producers, who are subject to a separate board. The marketing scheme for hops had to be amended in July 1934 to provide against further increases in production. Agriculture is not a simple industry, but a collection of industries, and the policy of Government regulation and subsidies leads to shifts of production among these industries involving the demand for new subsidies.

In other industrial countries, where agricultural protection has been further developed, its effects are even clearer. The industry gradually adjusts itself to the changed conditions. National production expands while total consumption contracts. In other words, demand and supply are adjusted at the new price-levels. By the time this has been achieved there is an apparent necessity for fresh protection, the previous measures having defeated their own purpose. Thus, in France in 1934, the amount of wheat grown was so great that France exported (at the low world-market prices) 9 million quintals (more than any other

European country), besides constituting a national stock, and "denaturing" 4 million quintals. The Government purchases necessary to carry out these operations are estimated to cost at least 1,500 million francs.

The Economic Committee of the League, after surveying these problems, has recently pointed out that "over-protection inevitably leads to over-production. Recent experience shows beyond all shadow of doubt the inevitable character of these consequences. Directly over-production takes root in a country, the whole machinery of protection, set up and maintained at such cost, ceases to function. Prices drop and it becomes necessary to have recourse to increasingly burdensome and increasingly artificial methods (creation of stocks, carrying forward, fixing of minimum prices, various more or less highly developed forms of planned economy, etc.) which, as a rule, simply aggravate the situation and increase the discontent of the agricultural producer.

"It may be noted, further, that even a very small excess of production over consumption is sufficient to bring about a drop in prices out of all proportion to the actual excess."[1]

There is evidence that excessive agricultural protection, while stimulating national production, has reduced consumption, in some countries, in precisely those commodities where an expansion is desirable. The German statistics may be used to illustrate these facts. A recent calculation has shown that a growing proportion of the country's food supply is being provided by national agriculture, but this is mainly because of a considerable reduction in the calorimetric value of the food consumed, despite increasing population.[2]

Consumption of Foodstuffs in Germany 1929-1932.

	Total consumption of foodstuffs. Calories (000,000,000's)	National production	
		Allowing for imported fodder %	Without allowing for imported fodder %
1929.	83	78	85
1932.	78	81	88

Since 1933, the struggle for agricultural self-sufficiency has been intensified and a fundamental reconstruction of farming along national lines is in progress. The discrepancy between the prices of agricultural products in Germany and the world market has considerably widened and consumption of certain products has fallen.

[1] League of Nations, Economic Committee's "Considerations on the Present Evolution of Agricultural Protectionism", page 11 (document C.178.M.97.1935.II.B).

[2] Dr. Hans V. D. DECKEN: "Die Selbstversorgung Deutschlands mit Nahrungsmitteln", Berichte über Landwirtschaft 88, *Sonderheft* (1933).

The following summary table shows how great the fall in the consumption of fats has been in recent years:

Per Capita Annual Consumption of Agricultural Products in Germany.

Commodity	Unit	1929	1932	1933	1934
Butter	lbs	15.9	16.3	17.6	15.3
Margarine	lbs	17.3	17.6	13.0	12.3
Lard	lbs	8.1	8.1	7.6	6.7
Total fats	lbs	41.3	42.0	38.2	34.3
Eggs	Number	...	120	101	99
Beef and veal	lbs	43.0	37.2	36.1	40.7
Mutton and lamb	lbs	1.5	1.4	1.5	1.3
Pork	lbs	67.5	68.1	70.1	77.5
Other meats	lbs.	1.8	1.2	1.3	1.2
Total meats	lbs	113.8	107.9	109.0	120.7

The increased consumption of meat in Germany in 1934 forms a notable exception to the general trend.

As a result of this increased consumption, there has been some decline compared with 1933 in numbers of pigs and cattle.

Numbers of Live-stock in Germany 1929-1934.[a]

(000's.)

	1929	1932	1933	1934
Calves under 3 months	1,512	1,484	1,678	1,354
Young cattle from 3 months to 2 years old	5,422	5,964	5,980	6,013
Oxen and bulls 2 years old and over	743	866	878	728
Cows and heifers 2 years old and over	10,356	10,825	11,202	11,070
Pigs	19,944	22,859	23,890	23,125
Sheep	3,480	3,405	3,387	3,482
Goats	2,625	2,503	2,585	2,489

[a] *International Review of Agriculture*, February 1935, page 138.

This has been the result of increased slaughtering, as shown in the following table the effect of which would be to reduce the live-stock industry and thus to diminish requirements of imported foodstuffs. During 1934, the sale of live-stock for slaughter was encouraged by the difficulty of obtaining imported foodstuffs and by a poor harvest reducing the supply of fodder in Germany.

Slaughter of Live-stock in Germany 1929-1934.[a]

(000's.)

	1929	1932	1933	1934
Cattle	3,989	3,527	3,454	3,987
Calves	4,579	4,430	4,397	5,048
Sheep	1,562	1.557	1,549	1,401
Goats	338	222	249	281
Pigs	17,252	19,002	18,360	19,414

[a] League of Nations *Statistical Year-Book 1934-35*, page 80.

It is important to note that consumption is most elastic, and has therefore been most reduced, in the case of such commodities as butter, eggs and (except in Germany) meat. These are the products which demand elaborate processing methods.[1] The normal trend of consumption with rising standards of living is away from the simpler foods to these more expensive and more nutritious foodstuffs. The United States Department of Agriculture has recently calculated the acreage needed to produce a given number of calories.[2]

Acreage needed to produce 1,400,000 Calories of Certain Foodstuffs.

	Number of acres		
	Crop	Pasture	Total
Potatoes	0.76	—	0.76
Corn meal	0.79	—	0.79
Wheat flour	1.45	—	1.45
Milk	2.35	1.60	3.95
Pork and lard	3.70	0.70	4.40
Beef (dressed)	11.30	2.50	13.80

Thus reduced consumption of costly agricultural products is not only a setback from the point of view of nutrition, but also reduces the demand for agricultural land, labour and capital. With rising standards of living, consumption was moving from the cheaper foods to a more abundant and varied diet, calling for greater amounts of land, labour and capital in their production. The policies recently followed in many countries are driving consumers back from meat, fruit, vegetables and dairy produce to bread and potatoes. This is bad nutrition, and, moreover, restricts the market for these more costly agricultural products. The interests of consumers and agricultural producers are in fact closely linked and neither are well served by excessive protectionism, which fosters production of the simpler foods at increasing costs instead of encouraging abundant and varied consumption of the better foods at decreasing cost.

[1] Cf. *Econometrica*, March 1935, which contains a bibliography of the growing literature on this point.

[2] United States, Department of Agriculture: "Land Utilisation and the Farm Problem", 1930.

In view of these facts, it is not surprising to find that the increased self-sufficiency of agriculture in the European "importing countries" has not in fact absorbed the workers thrown out of employment by the crippling of the export industries. The Economic Committee of the League has drawn attention to the importance of the decline in urban consumption. "Town-dwellers and industrial workers, in particular, whose income is daily declining, are gradually forced to reduce their consumption of meat, butter, eggs, etc. Then, protection notwithstanding, there is a weakening of prices which is not, however, accompanied by an increase of consumption. It will simply be the sign of the progressive decline of the national economic system."[1] There has been no gain of agricultural employment to offset such weaknesses. In the United Kingdom, between 1932 (when protection came into force) and 1934, agricultural production increased by 10%, but agricultural employment declined by 1%. In Germany, between 1925 and 1933, the volume of agricultural production increased by 27%, but agricultural employment declined by 4%. In 1934, it is true, national policy has sent a great number of workers back to the land in Germany; but it is clear that the expansion of agriculture and greater agricultural self-sufficiency so far achieved have not absorbed the unemployed.

Adjustment in the Exporting Agricultural Countries.

At the beginning of the depression, falling prices and accumulating stocks of agricultural foodstuffs and raw materials forced the exporting countries into severe economic difficulties. The cereal harvest of 1928 was exceptionally abundant and the grain markets were weak throughout 1929. Agricultural raw materials such as wool were next to feel the strain; but the prices of animal foodstuffs such as meat and butter were relatively well sustained until 1930. As always in such circumstances, there was a considerable shift from the less to the more prosperous types of farming, but by 1931 animal farming was also in distress. The widespread currency depreciation that took place at the end of 1931 and the new trade restrictions that were immediately imposed created a situation where some measure of agricultural adjustment in the exporting countries was rendered imperative.

To a certain extent in the area of free import, low prices encouraged greater consumption.[2] The increasing production of

[1] League of Nations Economic Committee's "Considerations on the Present Evolution of Agricultural Protectionism" (document C.178.M.97.1935.II.B).

[2] Cf. *World Economic Survey, 1933-34* pages 64-67.

dairy produce, for instance, was consumed at lower prices. The fact that consumption, where not prevented by excessive protection of local agriculture, increased most in the case of commodities of elastic demand might have brought a considerable measure of relief to the agricultural situation. The number of countries which allowed greater imports and lower prices to encourage larger consumption was, however, too small to solve the whole problem. In the United Kingdom, the Netherlands and Belgium, the increase of consumption was fairly considerable. Despite some agricultural protection in all these countries, prices of foodstuffs remained relatively low. The statistics for the United Kingdom, for example, may be contrasted with those previously given for Germany.

Per Capita Annual Consumption of Foodstuffs in the United Kingdom 1929-1934.[a]

Commodity	Unit	1929	1932	1933	1934
Butter	lb.	17.8	21.8	23.5	25.2
Margarine	lb.	12.9	9.2	8.4	7.9
Lard	lb.	8.6	8.2	9.1	9.1
Total fats	lb.	39.3	39.2	41.0	42.2
Eggs	Number	...	150	149	152
Beef and veal	lb.	70	64	63	...
Mutton and lamb	lb.	28	31	34	...
Pig meat	lb.	40	49	48	...
Total meats	lb.	138	144	145	...

[a] League of Nations, Economic Committee's "Considerations on the Present Evolution of Agricultural Protectionism" (document C.178.M.97.1935.II.B).

One of the characteristic features of the depression, however, has been a continuous narrowing of the free market open to the export surpluses of agricultural produce. In the earlier years of the depression, these surpluses increased as the agricultural exporting countries endeavoured to right their balances of payments by increasing their production for export. The most marked development occurred in the case of dairy products, the production of which was increased also by the shift from cereal to animal farming referred to above. Since dairy-farming is mainly carried on by small peasant farmers, there was a special inducement for Governments to encourage its extension. As will be shown later, a great variety of bounties and subsidies were instituted. World production increased

rapidly, as shown in the table below; but, as the export surplus was concentrated more and more upon the free market in a few countries, even those countries began to take measures to check the flood of imports. The production of milk increased so rapidly in most countries that milk-marketing schemes intended to regulate and maintain the price became general. Statistics of world production are not very satisfactory, but an index has been calculated upon the basis of the statistics that are available.

Production of Milk and Dairy Products 1929-1934.[a]

(Base: Average 1925-1929 = 100.)

Country	Milk				Milk products			
	1929	1932	1933	1934	1929	1932	1933	1934
Germany[b]	101	115	118	...	.	(88)	(93)	...
Belgium[c]	102	109	110	...	(100)	(107)	(116)	.
Denmark	107	117	115	...	111	116	115	113
Estonia	107	134	131	132	128	134	107	...
Finland[d]	90	101	99	...	(113)	(124)	(116)	...
Irish Free State	.	.	.	.	(109)	(94)	(104)	...
Latvia[e]	.	.	.	.	133	166	140	140
Netherlands	.	.	.	.	106	99	102	102
Norway	97*	108	109*	...	107	127	131	...
Sweden	.	.	.	.	116	125	128	...
Switzerland	100	103	107	...	93	108	121	122
United Kingdom	103	108	112	114	.	.	.	.
Canada	99	110	110	112	94	111	111	115
United States	104	107	107	...	105	108	106	104
Australia	102	130	135	...	101	121	131	...
New Zealand	116	139	152	...	118	149	160	...
World	103	111	113	...	.	.	.	.

[a] League of Nations, *World Production and Prices, 1925-1934.*
[b d] Milk products: base [b] 1930, [c] 1929, [d] 1928.
[e] Butter exports.
* Provisional figures.

Even this incomplete table is sufficient to show the rapid increase of production that occurred before 1932 and the slackening of the rate of increase after that year. The greatest increase was in New Zealand, but there was substantially greater production also in several other exporting countries — Australia, Canada and Latvia, for example. In the countries of protected agriculture also, milk production has increased. Production has fallen in recent years, mainly in Denmark.

Up till recently the British Dominions, secure in the right of free entry to the greatest importing market, the United Kingdom, have not been forced to restrict, but on the contrary

have expanded their agricultural production. They form a notable exception to the general rule that, in recent years, the adjustment of agricultural world markets has taken the form of restricting production in the principal exporting areas. The agreements reached at Ottawa in the summer of 1932 secured for them an expanding market in the United Kingdom at a time when markets elsewhere were rapidly contracting. By agreement with the United Kingdom, temporary restrictions have now been imposed upon the export of butter and certain kinds of meat, but the quotas fixed are approximately equal to the greater quantities exported in recent years. Since the British market, particularly for animal products, is of overwhelming importance for the Dominions, there has as yet been no necessity for them to restrict production. Though the prices of certain exports, particularly butter, have remained low, the Dominions have enjoyed a sheltered market. Their chief competitors have been handicapped by tariffs and quotas not only in this market, but even more in other markets.

Production for export in many other areas has not been restricted except by the effects of low prices and reduced demand. Later in this section, attention is drawn to the great number of agricultural commodities the production of which is controlled either by national or by international agreement. For the most part, production is thus restricted in the exporting areas which are, *prima facie*, the areas of cheapest production. But there are many commodities and many countries which remain outside the scope of such restriction agreements. In them, production and export has been checked by low prices. The Chinese peasant, the South-American farmer, or the producer of vegetable oils in tropical colonies, has found his standard of living reduced by the breakdown of world trade. To some slight extent, production in these unsheltered areas has benefited in the last year or two by taking advantage of the market improvement resulting from restriction schemes in more developed countries. A notable example is provided by the increased export of wheat from the Argentine in 1934. There has also been some development of industrial activity in the richer agricultural countries; but for the most part their farmers have been forced back to more primitive ways of living.

One characteristic form of Government intervention has been the widespread use of bounties or subsidies designed to enable producers to export at lower prices than can be obtained in the home market. Such bounties are clearly discriminatory among the producers, and their broad effect is to transfer purchasing power from the home to the foreign consumer or taxpayer. An early example of this form of export bounty may be found

in the Paterson scheme in Australia, by which the production of butter for export was subsidised.[1] In the later years of the depression, a network of such bounties affecting sugar, bacon, meat, eggs, cheese, butter and other products came into force in a great number of countries.[2]

The payment of bounties accentuates the divergence between prices of important commodities in different national markets. The following table gives, in Swiss francs per kilogramme, the average retail price of butter in the leading towns of certain importing and exporting countries in October 1934.

Average Retail Price of Butter, October 1934.[a]

(Gold francs per kg.)

Importing Countries.		*Exporting Countries.*	
Canada	1.70	Estonia	1.03
United Kingdom	1.72	New Zealand	1.40
United States	2.24	Finland	1.77
Czechoslovakia	2.27	Denmark	1.79
Belgium	2.75	Poland	1.80
Italy	3.03	Yugoslavia	1.87
France	3.55	Australia	1.90
Germany	3.79	Latvia	1.93
Spain	3.79	Sweden	2.05
Switzerland	4.75	Hungary	2.10
		Norway	2.20
		Irish Free State	2.34
		Austria	2.36
		Netherlands	3.48

[a] *International Labour Review*, March 1935.

The prices in exporting are naturally lower than those in importing countries, but in many of the former they are higher than in the chief importing market, the United Kingdom. Differences of quality must be taken into account, but even allowing for this factor the disintegration of the world market is obvious. Besides the usual method of paying a bounty on exports from the proceeds of a levy on butter supplied to the home market,[3] bounties are paid from the proceeds of import duties, or of certain consumption taxes, or from the general revenue of the Government.[4] Latvia provides an example of the costliness of such subsidies in recent years. In 1924, butter exports amounted to 3,666 tons valued at 14 million lats. In

[1] *Commonwealth Year-Book*, annually.
[2] Cf. *Index*, February 1935.
[3] It is usually necessary to supplement such bounties by an import tariff on foreign butter and levies on butter substitutes.
[4] Bounty schemes were in force in Australia, Austria, Czechoslovakia, Denmark, Estonia, Finland, the Irish Free State, Latvia, Lithuania, the Netherlands, Norway, Poland, Sweden and the Union of South Africa.

1934, the exports had increased to 15,701 tons, but were valued only at 14.5 million lats.[1] The export subsidy for 1934 was based on fixed prices of 2.25 lats per kg. for first-grade butter and 2.15 lats for second grade. The average export price during the year was only 0.915 lat per kg. In consequence, the Latvian producers supplied their foreign customers with more than four times as much butter for about the same total price and were given a subsidy by the Government of more than this amount.

The incidence and economic results of such bounties must be studied in each case according to such factors as the relative importance of the butter industry in the total production of the bounty-paying country, the share of each exporting country in the imports of the principal markets, the elasticity of demand among different classes of consumers and the proportion of the produce exported or retained for home consumption. Conditions vary greatly from country to country, but it is demonstrable that the gain to producers from a bounty is smaller when the amount exported is a large proportion of the total production, and still less when the exports from the country concerned form a large proportion of world supply. It is for these reasons that New Zealand has never had, and Denmark has abandoned, bounties on butter. Such artificial aids are not useful to the efficient producers; but their adoption by others throws the necessity for market adjustment upon the countries where production is most efficient. The more widely the bounty method is used the greater the adjustment. On the other hand, the consumers in the importing countries do not as a rule gain as much as the consumers lose in the bounty-paying countries. Some of the gain is intercepted by the Government of the importing country in the form of increased duties.

Many of the agricultural countries, particularly in Europe, have also introduced discrimination into the administration of their exchange controls. Thus, according to the Roumanian law of July 4th, 1935, by which exporters are required to exchange their foreign currency for lei at the official rate of exchange, an export premium is granted amounting to 40% for wheat and wheat products, 30% for oats, rye and barley, and animal products, 25% for wood, 15% for maize and 10% for petrol.[2] In Yugoslavia, practically all imports from countries with which Yugoslavia has no clearing agreement can be paid only by temporarily blocked dinars. According to a decree of

[1] *Bulletin Economique*, No. 12, de la Section de la Presse du Ministère des Affaires étrangères de Lettonie, février 1935.

[2] Rumänische Kreditbank, July 9th, 1935.

the Ministry of Finance, these blocked dinars can be transferred only by exports of certain specified commodities. Of these commodities, thirty-five in all, the great majority are farm products. In Hungary, increasing use has been made of exchange premiums given to agricultural exporters to enable them to compete with subsidised exports from other countries.[1] Not only the butter but also the grain trade has become complicated by the widespread competitive use of subsidies, which extends even to some of the major exporters such as the Argentine.[2]

Another method used by certain agricultural countries to safeguard their export outlets has been the negotiation of bilateral trade treaties. Most agricultural countries, however, are heavily indebted on international account and therefore should have an active export balance of commodity trade. They would not, therefore, have been well placed in trade negotiations even if their bargaining powers had not been weak in other respects. The Danish case illustrates clearly how weak their bargaining position was. In 1931, Denmark sold to the United Kingdom five times as much as it bought from that country. In the first five months of 1935, Denmark sold only 1.4 times as much as it bought. Meantime, there has been a strong development of Danish manufacturing industries. Even clearer examples might be given, such as the experience of Colombia, which exported coffee to Germany in return for German cement, most of which had to be sold later at about a third of the value at which it was imported. Wherever the bilateral negotiations have been based upon quotas and clearings, there has been a strong tendency to eliminate the export surpluses of the agricultural countries.

All of the measures of agricultural adjustment so far reviewed have been national efforts, mainly in the weaker agricultural-exporting countries, to safeguard their export outlets by emergency expedients. Bounties, barter agreements and clearing discriminations have been costly and on the whole unsuccessful. Moreover, they represent efforts to buttress agriculture at the expense of other elements of the national economy. It is difficult in a brief space to give an adequate conception of the confusion which they have introduced into the international markets. Moreover, it is clear that they have not in fact brought a better adjustment of demand and supply, but on the contrary have further increased production and diminished consumption.

The major adjustments that have in fact been made have come from restricting production in the major exporting countries. It is a curious fact that the method most generally

[1] Verslagen en Mededeelingen van de Afdeeling Handel en Nijverheid van het Department van Economische Zaken, Jaargang 1934, No. 3.

[2] Cf. Department of Overseas Trade: "Economic Conditions in the Argentine", London, March 1935.

adopted to restore a semblance of order in the markets for basic foodstuffs and raw materials has been to reduce output in the most efficient and least expensive areas of production. Consumption is decreasing in many important markets where high-cost production is being subsidised; but coffee is burned in Brazil, cotton is destroyed in the United States, wheat is even denatured in France, sugar is restricted in the tropical islands, rubber and tea are held off the market. The greater part of this restriction of production has been carried out in the United States, but some account must also be given of restriction schemes elsewhere.

It is convenient to deal first with those agricultural commodities in respect of which international restriction schemes are in operation. Of these, the schemes relating to rubber and sugar preceded the depression. The pre-depression schemes failed, but have since been revived in amended forms.[1] The Chadbourne agreement for the control of sugar production was negotiated in 1931 and expires on September 1st, 1935. The area controlled comprises Germany, Belgium, Hungary, Poland, Czechoslovakia, Yugoslavia, Cuba, Mexico, Peru and Java. This area, in 1929-30, produced almost half the world's sugar, but in 1934-35 its share in world production had fallen to less than 30 %.

World Production of Sugar.[a]

Quintals (000,000's.)

Area	1929-30	1932-33	1933-34	1934-35
Controlled area	121	62	59	62
Uncontrolled area:	136	156	167	162
British Empire	37	50	54	56
U.S.A. and Dependencies	35	42	49	35
U.S.S.R.	10	8	10	14
Other countries . .	54	56	54	57
World total	257	218	226	224
Cane sugar	172	146	145	136
Beet sugar	85	72	81	88

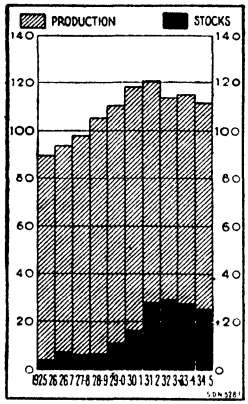
[a] Where no other source is given, the tables and diagrams that follow are taken from League of Nations *World Production and Prices, 1925-1934.*

The sugar market is greatly complicated by national tariffs, quotas, and bounties. The "free market", which at the beginning of the depression absorbed about 6 million tons, in 1934-35, consisted only of the United Kingdom, India, China and a number of other smaller countries in which local production was negligible. It consumed, therefore, less than 3 million tons out of a total world production of about 26 millions. The remainder was subject to national regulation. Since 1932-33, largely

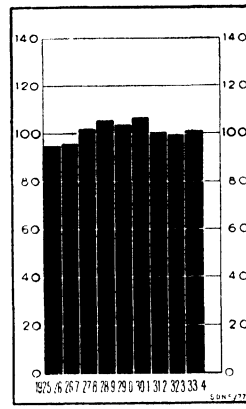
[1] Cf. J. W. F. Rowe: "Artificial Control Schemes and the World's Staples", *Index*, April 1935.

because of restriction in the "controlled area", there has been a steady diminution of stocks. At the same time, there has been a slight increase in world consumption.

World Supply of Sugar.

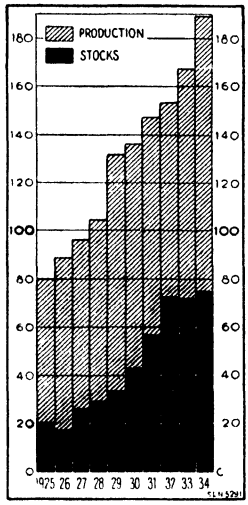


World Consumption of Sugar.

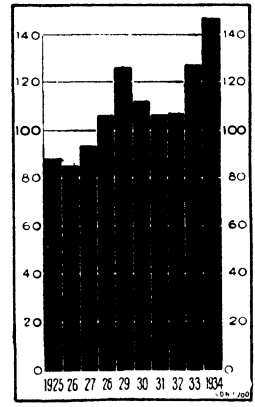


The new agreement for the restriction of rubber exports did not come into force until June 1st, 1934. In the first half of that year, production, export and consumption increased rapidly. The new agreement comprises practically all the important producing areas, including the Netherlands Indies, whose native production was one of the principal factors in the destruction

World Supply of Rubber.



World Consumption of Rubber.



of the earlier agreement. The restriction now covers 98-99% of world production, and "permissible exports" for 1935 have been fixed at 749,523 metric tons compared with 1,032,000 metric tons in 1934. These figures may be compared with recent shipments and "absorption" as shown in the following table:

World Shipments and Absorption of Rubber. Metric tons (000's).

	1929	1932	1933	1934*
Shipments	882	721	864	1,032
Absorption	818	695	822	940

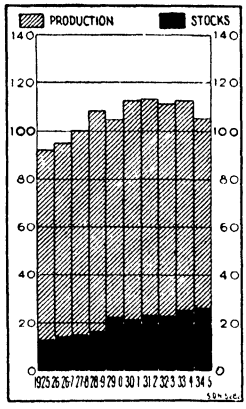
The main factor which brought about an improvement in the world market for wheat during 1934 was decreased production. The world harvest of that year was the smallest since 1929 and apparent consumption exceeded "current supplies" on the world market for the first time since 1929. Stocks declined, therefore, approximately to the level of 1928.

World Production, Consumption and Stocks of Wheat 1929-1934, excluding the U.S.S.R.

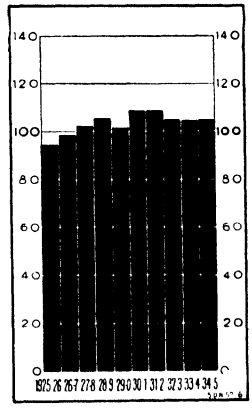
	1929	1932	1933	1934 *
Area[a] (million hectares)	98	99	98	95
Crops (million metric tons)	94	102	99	90
Current supplies[b] (million metric tons) . .	95	102	100	90
Apparent consumption (million metric tons)	96	99	98	98
End-of-season stocks (million metric tons) .	25	30	31	24[c]

* Provisional. [a] Until 1933, area harvested; in 1934, area sown.
[b] Crops excluding the U.S.S.R., China, Turkey, Iran and Iraq, plus net exports from these countries. [c] Forecast.

World Supply of Wheat.



World Consumption of Wheat.



The main reduction of production was in the United States, which became a net importer of wheat for the first time in at least seventy-five years. France, on the other hand, exported more wheat in the season 1934-35 than any other European

country and Germany became a net exporter for the first time in half-a-century. The changed proportions of world production are revealed in the following summary table:

Metric tons (000,000's).

	1928	1929	1932	1933	1934*
Four major exporters[a] .	54.5	38.3	43.3	34.6	31.6
Danubian exporters[b] . .	10.0	8.2	6.1	10.0	6.7
Importing Europe[c] . . .	26.6	29.2	32.8	35.1	32.3

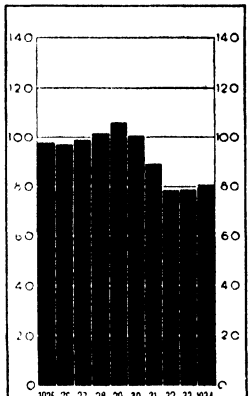
*Provisional.

[a] Canada, the United States, the Argentine and Australia.
[b] Hungary, Roumania, Yugoslavia and Bulgaria.
[c] Rest of Europe, excluding three exporting countries: Poland, Lithuania and the U.S.S.R.

Space does not permit a detailed survey of other agricultural products. Such a survey may be found in *World Production and Prices, 1925-1934.* All that it is necessary to repeat here is that the major reductions of production, not only in the main cereals that enter world markets, but also in cotton and tobacco, were those which formed part of the agricultural adjustment programme in the United States. The production of food grains and fodder crops was so much reduced by the drought that the Government found it necessary in the spring of 1935 to release farmers from their obligation to reduce production further. Indeed, the harvest-year 1934-35 seemed likely to be even worse than the one preceding, when production fell not only in the United States, but also over a wide area in other continents. The rice crop of Japan in 1934 was the smallest for twenty years, and there were small crops also in China, India and Burma.

Shortage of feed for sheep and cattle caused increased slaughtering in the United States, and there was increased meat consumption also in Germany and the U.S.S.R., so that meat production rose temporarily in 1934. This increase, however, except in the U.S.S.R., reflects mainly a shortage of cereals. There has in fact been a considerable reduction in the animal population of the chief agricultural countries, especially in the number of pigs.

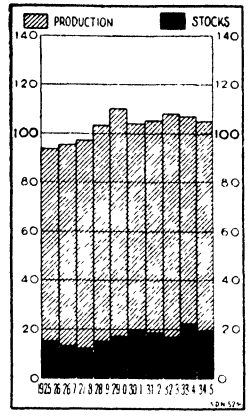
Known World Production of Beer.



The consumption of wine and beer remained low in 1934. The world production of beer, excluding the statistics for the United States, which are not comparable with the period before the repeal of prohibition, is shown in the accompanying diagram. The lack of any very considerable increase is indicative of the small extent

to which purchasing power has recovered in recent years. The consumption of non-alcoholic beverages has not increased much in the depression, and restriction schemes are in operation in respect of tea and coffee. The tea control, which came into force on April 1st, 1933, covers plantations in India, Ceylon and the Netherlands Indies, but not Chinese or Japanese production.

World Supply of Tea.



After a few months during which world stocks declined, the production of tea increased during 1934 in the uncontrolled areas and, with consumption declining, stocks again increased approximately to their former levels. The International Tea Committee therefore reduced export quotas for 1935-36.

The coffee market is dominated by Brazilian production, as the following table will show:

World Production of Coffee.

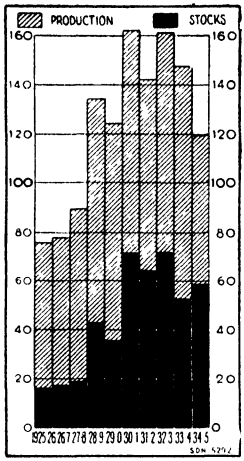
Quintals (000,000's).

	Average 1924-25 to 1929-30	1931-32	1932-33	1933-34	1934-35
Production: Brazil. .	11.4	13.0	15.4	17.8	8.6
Other. .	7.0	7.4	8.2	7.2	7.4
World .	18.4	20.4	23.6	25.0	16.0
Consumption: World .	13.1	14.2	13.7	13.8	14.1
End-of-season stocks: World .	8.8	18.9	13.8	15.4	...

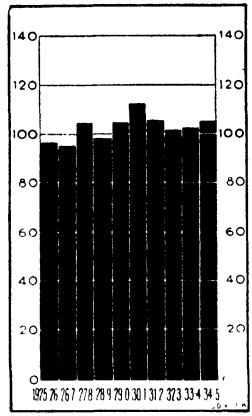
Between 1931 and the end of 1934, over 21 million quintals (35.6 million bags) of low-grade coffee had been destroyed in Brazil; but production had increased so much in excess of consumption that stocks still remain equal to almost a year's world production.

The sharp reduction in Brazilian production in 1934, however, while tending to relieve the coffee market, complicated that of cotton. In 1934, Brazilian cotton exports increased tenfold.

World Supply of Coffee.



World Consumption of Coffee.



Despite a reduction of over 40% in the American cotton crop in 1934, textile prices generally were depressed in that year. Among the main causes are the relatively slow recovery of the consumption industries and the competition of new materials such as artificial silk. This is reflected in the following table:

Textile Production 1929-1934.

(1925-1929 = 100.)

	1929	1932	1933	1934
Textile raw materials, including artificial silk	106	98	109	106
Textile raw materials, excluding artificial silk	103	93	99	93
Textile manufacturing, including artificial silk	106	93	103	104

The relatively weak demand for textile products, combined with competition from new materials and increasing trade restrictions, is of particular importance for a country such as India. The year 1934 was not a year of good harvests, and India suffered in this respect. Her chief exports are cotton, tea, rice, jute and jute manufactures. Cotton exports to the chief market (Japan) are subject to agreement, tea exports are restricted and the jute trade is in great difficulties because of the reduced volume of trade, until recent months, in the commodities carried in jute bales and sacks. In the scramble for national self-sufficiency that is in progress, the Indian peasant is suffering severely.

The cotton situation improved somewhat in 1934 because of the drastic restriction of the United States crop. The following table, which refers to the years ending July 31st, gives the relevant statistics.

World Production and Consumption of Cotton.

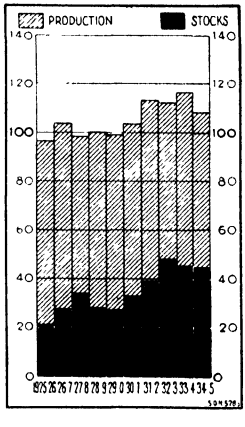
Metric tons (000's).

	1929-30	1932-33	1933-34*	1934-35*
Production:				
American cotton . . .	3,214	2,819	2,829	2,089
"Outside growths" . .	2,536	2,351	2,921	3,011
Total	5,750	5,170	5,750	5,100
Mill Consumption:				
American cotton . . .	2,954	3,213	3,069	...
"Outside growths" . .	2,480	2,114	2,410	...
	5,434	5,327	5,479	...

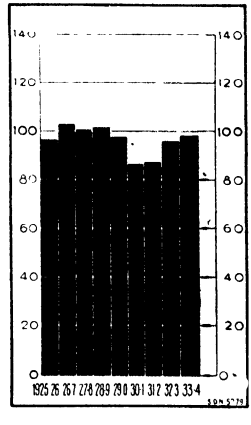
* Provisional.

Cotton-mill consumption has been increasing since the middle of 1932 and stocks began to decrease in the third quarter of 1933. The price of American cotton has been maintained at a relatively high level and there has been a considerable shift towards the use of cotton from other areas.

World Supply of Cotton.



World Consumption of Cotton.



Of the other textiles, flax and linen have benefited by increased demand and improvements in manufacturing processes.

A vogue for the use of linen in clothing, shoes, furnishings and drapery has enabled record crops to be marketed at high prices. There was a strong demand for wool in 1933-34, but in the following year trade restrictions in Germany and Italy caused a sharp decline in prices, together with some increase in stocks. Demand revived and prices rose again in the middle of 1935.

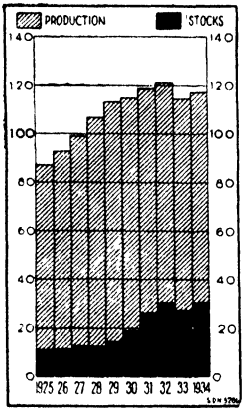
World Production of Wool 1929-1934.

Metric tons (000's).

	1929-30	1932-33	1933-34	1934-35*
Production (greasy basis):				
Five major exporters [a]	912	992	939	942
Europe, excluding U.S.S.R.	240	243	244	240
United States	182	197	204	199
World, excluding U.S.S.R.	1,574	1,631	1,596	1,603
U.S.S.R.	179	64	63	64
Stocks (July 1st) (greasy basis):				
Raw wool [b]	23	85	44	65
Wool tops [c]	28	30	31	30

* Provisional.
[a] Australia, the Argentine, New Zealand, Union of South Africa and Uruguay.
[b] In Australia, New Zealand and the Union of South Africa.
[c] European continent.

World Supply of Raw Silk.



The supply of raw silk fell in 1934 because of a marked decline in Japanese production; but the principal market for Japanese exports, the United States, remains depressed and consumption is low. There is increasing competition also from artificial silk and linen.

This brief survey of some of the principal features of agricultural production in recent years does not pretend to be exhaustive. Fuller details for a greater number of products may be found in *World Production and Prices 1925-1934.* Even the very summary description above, however, is sufficient to show that the major adjustments of agricultural production in the past year have fallen upon the exporting countries and particularly upon the United States. It is not proposed here to describe or evaluate the United States restriction programme, information concerning which is readily obtainable.[1] In 1934,

[1] Cf. Report of the Secretary for Agriculture, 1934, Washington, 1934.

drought in many areas, but especially in parts of the United States, reinforced the efforts made to restrict production. The essential fact is that the temporary improvement shown in that year was due to a shrinkage of production in the areas best suited to produce cheaply and not to any noticeable increase in consumption. In part, the shrinkage has been caused by weather conditions that may change.

Attention has been drawn to other factors of adjustment that have operated in many agricultural countries. The reduction of interest and the writing-down of agricultural debts has been an important factor of financial adjustment wherever monetary policy has made such measures possible. In many countries, it has been found that renewed purchases of equipment as agricultural income increased have been rendered difficult by the fact that the prices of industrial manufactured goods have remained above agricultural prices. This problem is particularly noticeable in such countries as Denmark and the British Dominions, where the exchange depreciation has been relatively great. There tends to develop in these countries a "secondary boom" in the sheltered manufacturing industries, which receive added protection from the depreciation of the exchange. Labour therefore moves from the agricultural to the manufacturing industries; but this movement is slow and unemployment remains an acute problem. Thus, in Denmark during 1934, there was an immigration to the towns of 32,000 new inhabitants, of whom 27,000 came from the land and 5,000 were returned emigrants from abroad. This increase of the town population by immigration is greater than that recorded in any previous year. The total number of unemployed remained high, falling from 28.8% in 1933 to 22.1% in 1934, as compared with 13.7% in 1930. In Australia, the decline of unemployment was from 25.1% in 1933 to 20.5% in 1934, and in New Zealand from 53,382 applicants for work to 47,028.

It was pointed out at the beginning of this section that, in the earlier stages of the depression and in the limited area of the free markets for export surpluses, the prevailing low prices of foodstuffs and raw materials led to increasing consumption in certain areas. The natural play of demand and supply, where it is allowed to operate, checks high cost production and encourages consumption. It has been shown, however, that in recent years exactly the opposite methods have been followed as a result of widespread Government intervention. Production has increased in the high-cost areas, and consumption has tended to decline in all but a restricted area where trade has remained relatively free. Some measure of prosperity has been restored to agriculture in those countries where it is a sheltered industry; but

he cost has borne heavily upon other sections of the community, nd the restored prosperity is precariously dependent upon the ıaintenance and even extension of very high protection. Indeed, s the Economic Committee of the League of Nations pointed ut in the report that has been quoted, excessive protection has ı some countries defeated its own purpose. The burden of djustment has been thrust on the countries of most efficient roduction. A poor harvest in 1934 and elaborate schemes, both ational and international, for the restriction of production have rought some temporary measure of relief to world markets.

Meantime, there is need, on grounds both of nutrition and of conomic adjustment, for increased consumption of a wider and ıcher variety of foods. Large masses of the population, even ı the more advanced countries, are under-nourished. A reasonble standard of health can be attained only by increasing the uantities of proteins, mineral salts and vitamins available to he masses of the consuming public.

The foodstuffs containing these nutritive values in greatest egree — milk, fresh fruits, vegetables, butter, eggs and meat — re precisely the commodities the demand for which is most lastic. A greater abundance of supplies at lower prices would ead rapidly to increased consumption. An equilibrium reached t maximum levels of consumption is infinitely preferable to the recarious equilibrium that has been established at such cost y restricting production and reducing consumption. Adjustıent might have been reached by following a policy of plenty. ıctually, the policy followed has been one of creating scarcity.

Chapter IV.

A RECOVERY IN INDUSTRIAL PRODUCTION.

The Demand for Raw Materials.

It has been shown in the previous chapter that the output of agricultural raw materials fell rather sharply in 1934. Adverse climatic conditions plus restriction schemes, particularly in the United States, were responsible for a fall in the index of world production of about 6%. The reasons for this fall and the nature of its distribution over the continents and among the principal commodities have already been analysed.

There was, however, a marked recovery of industrial production in 1934, calling for increased quantities of raw materials, the production of which is not always a satisfactory short-period guide to industrial activity. The textile industries which lean most heavily on agricultural materials did not expand as rapidly as other branches of production. Indeed, the characteristic feature of the recent industrial revival has been its concentration in certain branches of heavy industry and building construction.

Moreover, a temporary decline in the production of agricultural raw materials is quite consistent with increased industrial demand. Accumulated stocks were heavily drawn upon during the year. There has also been an increasing tendency to use scrap and waste material. As long as new supplies of raw materials are abundantly available at low prices, the use of regenerated material is less profitable; but increased technical resources have made it possible to reclaim larger proportions of used material when this is worth while. Germany, for instance, has organised the reclamation of waste material on a great scale since raw-material imports have been restricted, [1] and the proportion of reclaimed rubber used in the United States increased again in 1934. Moroever, technical progress constantly

[1] Cf. *Wirtschaftsdienst*, December 21st, 1934.

tends to reduce waste in the processes of manufacture, so that a greater quantity of finished products can be made from the same amount of raw material.

Except in so far as restriction schemes were operating for certain products such as tin, the special causes restricting production of agricultural raw materials did not affect the metals and other materials of non-agricultural origin. In 1934, these increased substantially, as the following table shows, though production in the United States lagged considerably behind that of other countries:[1]

World Production of Raw Materials of Non-Agricultural Origin.[a]

(Base: Annual average 1925-1929 = 100.)

	1928	1932	1933	1934
Europe, including U.S.S.R.	107.1	88.3	97.0	111.5
Europe, excluding U.S.S.R.	106.5	80.5	86.9	98.1
North America	101.5	55.1	66.0	70.8
Latin America	113.7	74.9	76.8	94.3
Africa	106.0	89.1	104.8	134.5
Asia	106.1	108.4	121.1	138.8
Oceania	100.6	80.8	91.8	98.2
World, including U.S.S.R.	104.6	73.3	83.1	93.4
World, excluding U.S.S.R.	104.3	69.8	78.6	87.6

[a] League of Nations *World Production and Prices, 1925-1934*, Geneva 1935. Throughout this chapter, the statistics are drawn from the publication cited, to which reference is made for more detailed information, concerning the developments in particular industries during recent years.

A good indication of reviving industrial activity is provided by the increased production of coal and other sources of energy. Stocks of coal are relatively small, but during 1934 they declined, showing that consumption rather more than kept pace with production. The statistics of production in the principal coal areas are given below:

World Production of Coal, 1929-1934.

Metric Tons (000,000's)

	1929	1932	1933	1934
Europe, excluding U.S.S.R.	606	459	464	498
U.S.S.R.	42	64	76	94
North America	565	334	355	386
Other Areas[a]	120	103	111	122
World	1,333	960	1,006	1,100

[a] Principally Japan, India, China, Union of South Africa and Australia.

[1] The share of the different continental areas in the world supply of raw materials has changed greatly during the depression, as shown below:

	Europe excluding U.S.S.R.	U.S.S.R.	North America	Latin America	Africa	Asia	Oceania	World
Average 1925-1929	29.6	4.2	39.8	5.3	3.0	15.9	2.2	100
Average 1930-1934	29.6	7.5	32.9	5.6	3.4	18.5	2.5	100
1934	30.4	8.9	29.8	6.0	3.6	18.8	2.5	100

The world production of coal increased by over 9%, the output of coke by over 13%. Petroleum also was produced in greater quantities, American production remaining at 123 million metric tons, while production elsewhere rose from 74 to 83 million metric tons. Considerable progress appears to have been made also in the technical processes of low-temperature carbonisation and hydrogenation by which motor-fuel may be obtained from coal. Large-scale experiments in these processes were begun in both the United Kingdom and Germany. There have also been great advances in the production of electrical energy, as the following table will show. For many countries — the United Kingdom, Italy, the Netherlands, Finland, Sweden, Canada, Japan, the U.S.S.R. — the production of electrical energy reached record figures.

Production of Electrical Energy 1929-1934.

(Base: Annual average 1925-1929 = 100.)

	1929	1932	1933	1934
Europe, excluding U.S.S.R. . . .	120	112	120	131
U.S.S.R.	143	310	375	470
North America	122	114	115	124
Oceania	122	136	145	...
World	122	119	125	138

It is natural, in view of this increase in the production of fuels and electricity, to find a substantial further recovery in the smelter production of metals. The world index rose by 21 % in 1934. In addition to demands for the heavy industries, such as normally arise in the recovery phase of the business cycle, production was stimulated by the construction programmes undertaken by various Governments and also by widespread rearmament.[1] The following table, however, shows clearly that, even with these adventitious aids, production of iron and steel, by far the most important of the metals, remains much below the pre-depression levels.

World Production of Iron and Steel, 1929-1934.

Metric Tons (000,000's)

	1929	1932	1933	1934
Pig-iron	99	40	49	62
Steel.	121	51	68	82

The United States is still the greatest producer of iron and steel in the world, but in 1934, instead of 46% of the world's

[1] Cf. *The Metal Bulletin*, April 16th, 1935; *Svensk Finanstidning*, April 27th, 1935, etc.

iron as in 1925-1929, only 26% was produced in that country; instead of 49% of the world's steel, only 32% was of American production. These figures, even though they represent a considerable improvement over 1933, are sufficient to indicate that world recovery still awaits revival of the American heavy industries. In 1934, the automobile industry was the chief prop of the American market. The demands for building and railways have yet to revive. In France, alone among the great European producers, output fell in 1934, though the increase in Belgium and Luxemburg was small. Germany (66% in iron, 57% in steel and 54% in rolling-mill products) showed a great increase of activity, as did the United Kingdom with percentage increases of 44, 26 and 22 respectively. The U.S.S.R. became the second largest producer of iron in the world and the third largest producer of steel. There was a record production also in Japan, India and Australia. Indeed, as is pointed out in more detail later, the rapid development of new areas of production, while the United States giant industry is temporarily crippled and local manufactures are sheltered by trade restrictions and currency instability, bids fair to creater another problem of over-capacity and disorganised production in the future. In the meantime, however, the United States and Europe continue to provide the great bulk of world production, as is shown by the following table:

Iron and Steel Production 1929-1934.

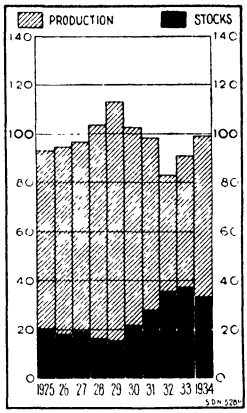
Metric Tons (000,000's)

	Pig-iron				Steel				Rolling-mill products			
	1929	1932	1933	1934	1929	1932	1933	1934	1929	1932	1933	1934
United States . .	43	9	14	16	59	14	24	26	42	11	17	19
Germany. .	13	4	5	9	16	6	8	12	11	4	5	8
United Kingdom .	8	4	4	6	10	5	7	9	8	5	5	7
France. . .	10	6	6	6	10	6	7	6	7	4	5	4
Belgium . .	4	3	3	3	4	3	3	3	3	2	2	2
U.S.S.R. . .	4	6	7	10	5	6	7	10	4	4	5	7

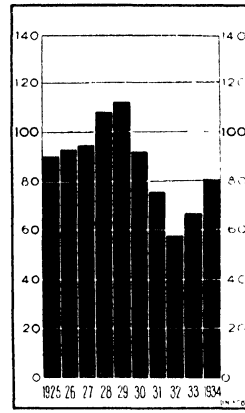
The non-ferrous metals — copper, lead, zinc, tin, aluminium and nickel — also experienced a revival of activity in 1934. The production of copper increased by nearly 23% and apparent consumption by about 16%, while stocks fell by almost 24%.

Most of the increase in production occurred outside the United States: in Canada, where copper is mainly a by-product of silver and nickel mining, in Northern Rhodesia, Chile, the Belgian Congo, all of which are low-cost areas, and also in

World Supply of Copper.



World Consumption of Copper.



Europe.[1] Consumption also increased outside the United States, the following table giving evidence of the stagnation of recovery in that country during 1934:

World Consumption of Copper 1929-1934.

(Base: Annual average 1925-1929 = 100.)

	1929	1932	1933	1934
United States.	121	36	41	45
Rest of World	104	81	93	116

Like copper, tin was subject to control of production by international agreement, but during 1934 production increased by 40%. World stocks declined from 64,100 metric tons in August 1931 to 27,000 tons at the end of 1933 and 15,700 tons at the end of 1934, sterling prices doubling during the same period. Prices having been maintained at a high level, consumption began to fall off from the middle of 1934. In addition to the restriction of production, a "buffer pool" was constituted at the beginning of 1935 to control marketing and there is also a "private pool" of some importance.

Production increased rapidly in the areas outside the "original restricting countries" after the agreement was first made in 1931. The original restricting countries were Bolivia, British

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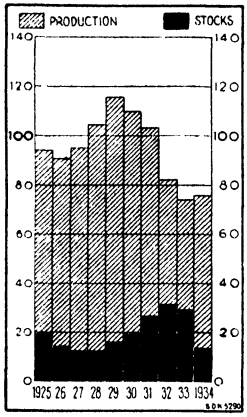
[1] *World Production of Copper 1929-1934.*

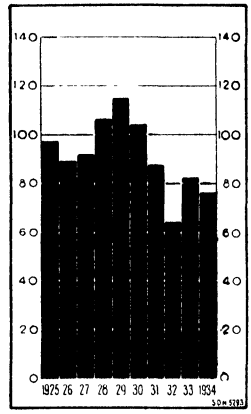
(Base: Annual average, 1925-1929 = 100.)

	1929	1932	1933	1934
United States.	111	31	25	27
Rest of World	128	92	115	146

World Supply of Tin.



World Consumption of Tin.



Malaya, the Netherlands Indies, Nigeria and Siam, and their production, which had been 89% of the world total in 1930, fell to 74% in 1933. In 1934, they were joined by the United Kingdom, Portugal, French Indo-China and the Belgian Congo, so that the International Tin Committee now controls 86% of the world production.

The International Zinc Cartel was not renewed at the end of 1934. During that year, production continued to increase and stocks to decline, while consumption, stimulated by lower prices, increased sufficiently to balance production. The two leading producers, the United States and Belgium, increased their output by 18% and 27%, while there was a record output in Canada, Australia, Mexico, Japan (since the war), Italy, Northern Rhodesia and French Indo-China.

The output of lead increased by over 13% in 1934, while consumption expanded and stocks declined slightly. Aluminium production also increased, mainly in Europe; but the greatest improvement among the non-ferrous metals was, significantly enough, in nickel. Consumption has increased from 25,900 metric tons in 1932 to 55,300 in 1934. In 1934, production increased by 50% and reached record proportions.

Of the non-metallic minerals, the production of cement probably increased by about 15% in 1934, and of asbestos by 2% (not including U.S.S.R.).

From this rapid survey, it is evident that there was, during the year, increased demand for raw materials in the heavy industries and in building. It is difficult to analyse and estimate precisely the causes of this increased demand; but among them

the public works programmes of Governments and widespread rearmament must be reckoned, together with the revival particularly of building activity, stimulated by cheap money policies in many countries.

A Revival of Industrial Activity.

The statistics of raw-material production quoted in the preceding section are sufficient to show that, while there was substantial further recovery in 1934, the levels of production remained well below those of pre-depression years. The output of agricultural raw materials declined by 6%. That of non-agricultural raw materials rose by about 12½%, but was still about 20% below the record level of 1929, and nearly 7% below the average of 1925-1929.

The indices of manufacturing and of general industrial activity tell much the same story. There was definite and substantial further recovery in 1934, but the indices for many countries and for the world as a whole have not yet regained their pre-depression levels. In the meantime, there has been a prolonged interruption of what had for many years been a steadily rising trend.

For the world as a whole, including the U.S.S.R., there are four indices now available. These indices correspond reasonably well as far as their general direction and recent movements are concerned. Perhaps the most comprehensive is the index compiled by the Economic Intelligence Service of the League of Nations to measure changes in general industrial activity. A useful check on this is provided by the independently calculated index of the Berlin Institut für Konjunkturforschung. In addition, there is available an index of manufacturing production, omitting such factors as building, the generation of electrical power and mining. Finally, the index of raw material production to which reference has already been made is included for comparison: [1]

World Indices of Industrial Production, 1929-1934.

(Base: Annual average 1925-1929 = 100.)

Index	1929	1932	1933	1934
I. General industrial activity . . .	112	78	88	96
II. General industrial activity (Institut für K.).	111	80	90	100
III. Manufacturing activity	112	78	89	97
IV. Production of industrial raw materials.	111	81	89	94

[1] For fuller details concerning the composition and methods of these indices, see *World Production and Prices, 1925-1934.*

Differences naturally arise in the compilation of such index numbers, if only because different base periods and weights are chosen. Much depends upon the weight given to such countries as the United States and the U.S.S.R. There is, however, broad agreement in the trend of all the indices given. Industrial production increased by 9-10% during 1934, but still remained substantially below the peak level of 1929. The actual figures recorded, which measure the quantity and not the value of production, were about equal to those of 1927. If the production in the U.S.S.R. is subtracted from these calculations, the rest of the world does not make so good a showing, the index for 1934 remaining well below that for 1925, the first year for which such calculations are available.

Indices of World Production, excluding the U.S.S.R.

(Base: Annual average 1925-1929 = 100.)

Index	1925	1929	1932	1933	1934
General industrial activity . . .	92	110	69	78	84
Manufacturing activity.	92	110	68	78	83
Production of raw materials . .	93	110	78	85	90

It is to be noted, however, that the indices for Europe, even excluding the U.S.S.R., are approximately equal to the world average given in the first table. It is the great decline of production in the United States which brings down the indices for the world as a whole.[1] In 1934, the index of general industrial activity in the North-American continent stood only at 73 and had increased only by one point from 1933. Not only in the Stock Exchange, but also in industrial production, there seems to have developed a "ceiling" which was approached but not reached in the spring of 1934 and again in the spring of 1935. This hesitation of recovery in the United States prevented the world index (excluding the U.S.S.R.) from increasing far beyond the peak to which it was brought by the burst of industrial activity in the United States in the summer of 1933. In the spring of 1935, world industrial production, excluding the U.S.S.R. remained at about the average level of 1925, or 18% below that of 1929. The index for the United States was 25% and that of Europe (excluding the U.S.S.R.) 13% below the level of 1929, and neither made a great deal of headway after the middle of 1934.

If a more detailed analysis is made of the situation in the individual countries for which statistics are available, four main groups may be distinguished. In thirteen countries — the U.S.S.R., Japan, Chile, the United Kingdom, Sweden, Denmark,

[1] Cf. Cleveland Trust Company's *Business Bulletin*, June 15th, 1935.

Norway, Finland, Greece, Roumania, Hungary, South Africa [1] and New Zealand [1] — the indices of industrial production by the end of 1934 stood above the 1929 levels. In Germany and Italy, the indices were 15 and 10% below that year and in the latter country were still rising rapidly. In Austria, Canada and the United States and also in Poland, they were about 25 to 35% below, but were rising. In Belgium, France, the Netherlands and Czechoslovakia, they were about 30% below, and were still falling.

National Indices of Industrial Production in June 1932-1935.

(Base: Average 1929 = 100.)

Country	1932	1933	1934	1935
U.S.S.R.	178	202	245	283[a]
Japan	92	109	128	143[b]
Roumania	86	100	126	122[a]
Greece	—	103	132	120[a]
Denmark	—	—	114	120
Chile	85	95	100	120[c]
Norway	—	102	105	112
Sweden	73	77	102	109[c]
Finland	83	97	113	107
United Kingdom[d]	84	86	99	105[e]
Hungary[d]	70	81	98	105[e]
Germany	53	60	80	94
Italy	57	72	79	93
Canada	60	63	75	78
Austria	62	64	74	77[c]
Belgium	61	67	64	73[c]
United States	50	76	70	72
Netherlands	58	67	69	69[c]
France	67	80	71	67
Czechoslovakia	63	60	69	66[b]
Poland	55	58	62	64

[a] March. — [b] April. — [c] Latest available month: May. — [d] Second quarter of each year. — [e] First quarter.

The different rates of industrial recovery disclosed in this table can only be explained by pointing out the various influences at work in particular countries. The U.S.S.R. is obviously a special case. The main purpose of the First Five-year Plan, to achieve which the whole country's resources were mobilised, was to create the necessary equipment for further industrial development. Special efforts were made, therefore, to establish the heavy industries capable of producing power and capital equipment. The Second Five-year Plan continues to demand the extension of heavy industries, but plans greater stress on the development of the lighter consumers' goods industries. An annual cumulative increase of 15% is planned

[1] Monthly statistics are not available for these countries, but the annual index appears to have been greater than in 1929.

for the former, while the manufacture of food is to increase by 21% and that of other consumers' industries by 17% annually. Up to the end of 1934, the statistical results achieved corresponded closely with those planned; but in that year, as before, greater stress continued to be laid on the heavy industries. The principal results planned and achieved are summarised in the following table:

Actual or Planned Production of Certain Industries in the U.S.S.R.[a]

Products	Units of measure	1932 Actual	1933 Actual	1934 Actual (provisional data)	1934 Planned	1935 Planned
Coal	Tons (000,000's)	64.4	76.0	93.7	96.8	112.2
Petroleum	,, ,,	21.4	21.4	24.2	28.7	30.3
Pig-iron	,, ,,	6.2	7.1	10.4	10.0	12.5
Steel	,, ,,	5.9	6.8	9.6	9.8	11.8
Rolling-mill products	,, ,,	4.2	4.9	6.7	6.6	8.2
Motor-cars	Number (000's)	24.0	49.7	72.5	72.0	92.0
Tractors	,, ,,	51.0	76.9	114.8	115.3	126.7
	H.p. ,,	—	1,153	1,722	1,730	1,900
Locomotives	Units	829	941	1,326	1,406	1,723
All machinery[b]	Roubles[b](000,000's)	7,628	8,908	11,118	9,907	12,180
Electrical energy	Kwts. (000,000's)	13,540	16,366	20,520	19,000	24,900
Cotton fabrics	Metres (000,000's)	2,459	2,737	2,711	3,059	2,800
Boots and shoes	Pairs (000,000's)	79.5	77.4	69.2	67.5	77.0

[a] According to Planovoie Khoziastvo I/1935.
Plan I/1935, Sozialistitcheskoie Stroitelstvo U.R.S.S. *Stat. Year-Book 1934.*
Narodny Bank IV/1935 (*Monthly Review*).
[b] Including agricultural machinery, transport machinery and plant for production of electrical energy; value at 1926-27 prices.

Next to the U.S.S.R., Japan has experienced the most rapid industrial development during the depression and, despite a check in the winter of 1934-35, that development continued in the summer of 1935. Systematic reorganisation and modernisation of equipment, aided by heavy Government loan expenditure and, to some extent, by export advantages arising from exchange depreciation, has greatly extended the range and competitive power of Japanese industry. New fields of production have been entered and new markets opened up. A unique combination of modern technical equipment and cheap labour has enabled Japanese manufacturers to embark successfully upon the mass-production of many commodities formerly imported and even to compete with them in export markets. In the first chapter of this *Survey*, attention was drawn to some of the dangers inherent in the stimulation of industry by large Government expenditure; but, up till the middle of 1935, there was little slackening in the pace of development. The following

table shows, for a number of important industries, the extent of recent increases in production. In addition to the more readily measurable forms of production, there has been a noticeable increase of the engineering industries from shipbuilding to electrical equipment, and a general broadening of industrial activity.

Japanese Industrial Production [a].

(000's omitted)

Commodity	Unit	1929	1931	1932	1933	1934
Copper. . . .	Metric tons	76	76	72	69	68
Coal	„ „	34,258	27,987	28,053	32,524	37,200
Pig-iron . . .	„ „	1,112	934	1,037	1,456	1,800
Steel.	„ „	2,343	1,914	2,441	3,257	3,800
Cement. . . .	„ „	4,274	3,615	3,731	4,784	5,019
Wheat flour. .	Bags [b]	.	28,858	29,288	33,712	35,983
Refined sugar.	Picul [c]	.	6,402	5,114	6,152	5,902
Cotton yarns .	Bales [d]	2,793	2,567	2,810	3,100	3,472
Raw silk . . .	„ [d]	601	611	541	540	560
Rayon yarn. .	lb.	.	46,764	64,416	90,432	137,796
Woollen yarn .	Kg.	17,009	24,367	26,376	30,551	28,495
Silk tissues . .	Meters	.	161,453	171,607	189,889	205,885
Rayon tissues.	„	.	123,100	185,346	188,426	237,333
Cotton tissus[e].	„	1,406,575	1,284,428	1,401,638	1,530,596	1,640,293
Woollen tissues	„	195,120	184,197	196,041	153,130	127,479
Shipbuilding .	Tonnage launched	165	84	54	74	152
Automobiles .	Number	0.4	1.0	0.7	5.6	...
Electric power	1,000 Kwts	13,312	14,402	15,950	18,160	*19,700
Paper	lb.	1,418,184	1,330,584	1,311,312	1,444,104	1,591,476

[a] *Sources* — *Statistical Year-Book of the League of Nations 1934-35*, Geneva, 1935; *The Oriental Economist*; Mitsubishi Research Bureau; *Monthly Circular*; Chamber of Commerce and Industry, Tokyo; *The Monthly Report on Current Economic Conditions*. — [b] 1 bag = 22 kg. — [c] 1 picul = 60 kg. — [d] 1 bale = about 60 kg. — [e] Produced only by Japan Cotton-spinners' Association. — * Provisional figure.

Soviet Russia and Japan are not the only new industrial countries where industrial development has proceeded very rapidly during the depression. It is, indeed, a remarkable fact that, of the other countries whose indices of industrial production at the end of 1934 stood above the 1929 levels, all but the United Kingdom and Sweden were predominently agricultural in their organisation. Evidence accumulates that agricultural development in the industrial countries has its counterpart in the stimulation of manufacturing industries in the agricultural countries. There has, in fact, been a strong tendency to increased self-sufficiency throughout the depression years. The textile industries, to which attention is drawn later in the chapter dealing with international trade, provide perhaps the most striking illustrations of this tendency; but the tendency is not

confined to them. There is, for example, a marked increase in the production of boots and shoes and many other consumers' goods industries in these countries, and the following table will indicate the progress made in iron-and-steel manufacture in new areas:

Production of Iron and Steel in 1934 as a Percentage of 1929.

Country	Pig-iron	Raw steel
South Africa	722	...
Brazil	170	238
India	95	139
Australia.	96	108

Nor are these developments confined to countries outside Europe in which industrial development has hitherto been small. *World Production and Prices, 1925-1934*,[1] gives the following composite weighted indices for six agricultural countries, of which five are European — Chile, Denmark, Finland, Greece, Hungary and Roumania:

Annual Composite Indices of Industrial Activity in Agricultural Countries.

(Base: 1929 = 100.)

	1932	1933	1934	1935 (first quarter)
General index.	86	97	110	115
Textile industries . . .	141	150	167	159
All other industries covered	79	90	103	109

It is, of course, true that production is still small in such areas and that the distribution of the world's resources is such as to render it unlikely that they can seriously challenge the dominance of the great industrial areas. The importance of these industrial developments lies rather in the difficulties which are likely to confront any attempt to restore greater freedom of international trade and in the disorganisation that may follow a return to more normal trading relations. The building-up of new capacity, which, though small, is important for the domestic markets concerned, and the creation of new vested interests, offer considerable prospects of future disorganisation.

Other factors than the rapid development of new industrial areas must also be taken into account. The countries which have increased their production most rapidly in the last year or two are those which have abandoned the gold standard and followed cheap-money policies, while production remains low and is still falling in those which have adhered to the full gold standard. The following diagrams show the industrial activity in different groups of countries arranged mainly according to their currency policies. For illustrative purposes, single countries or

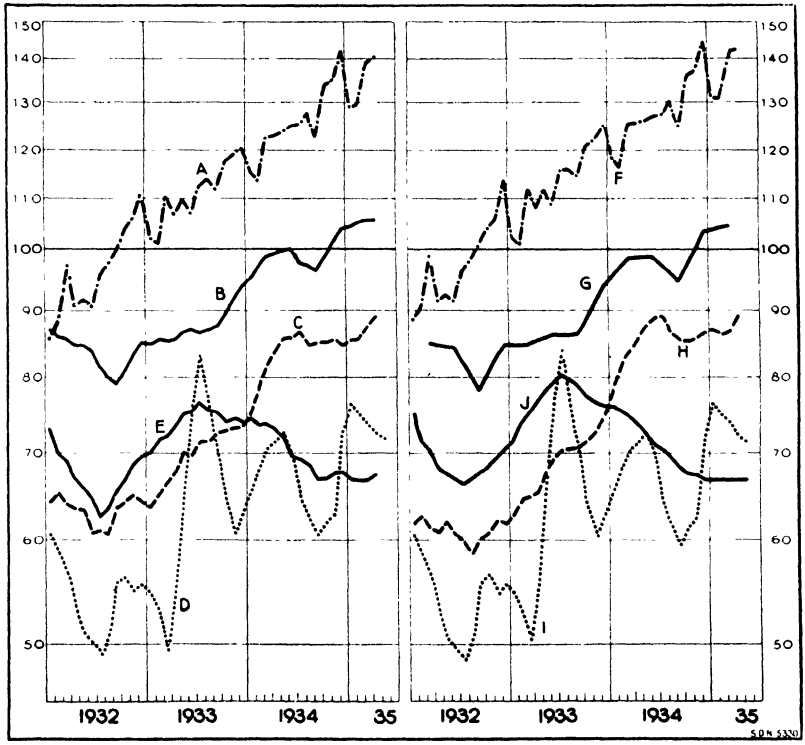
[1] League of Nations *World Production and Prices, 1925-1934*, Chap. I, Section B.

groups of closely related countries have been chosen. On the left-hand diagram, five curves give the composite indices for groups of countries whose currency policies have followed much the same course. The first group consists of Japan and Chile, where currency depreciation has gone furthest; the second of countries in the "sterling area" — the United Kingdom, Denmark, Norway, Sweden and Finland; the third of "exchange-control" countries — Germany, Italy, Czechoslovakia, Hungary and Roumania; the fourth of the United States and Canada; and the fifth group of those countries — France, Belgium, the Netherlands and Poland — which maintained the full gold standard during this period.

General Industrial Activity in Certain Countries and Groups of Countries.

(Base: Average 1929 = 100; logarithmic scale.)

A Japan and Chile.
B The Sterling Area.
C Exchange Control Countries.
D Canada and the U.S.A.
E The Gold *Bloc*.
F Japan.
G Great Britain.
H Germany.
I U.S.A.
J France.



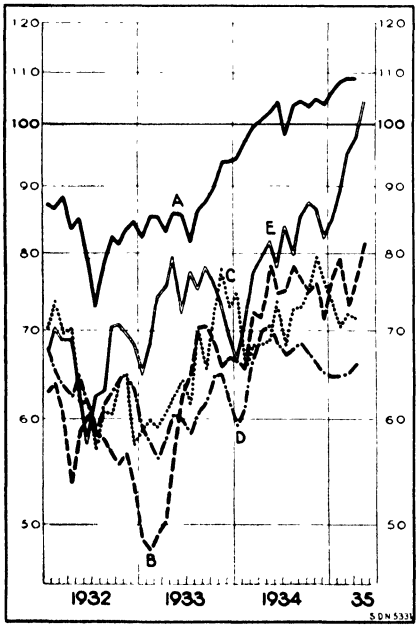
The right-hand diagram is complementary to the other, giving separate indices for the dominating countries in these groups — Japan, the United Kingdom, Germany, the United States and France.[1]

These diagrams illustrate clearly the course of recovery in the principal currency groups since the lowest point of the depression in the middle of 1932. Recovery was general until the depreciation of the dollar after the breakdown of the Monetary and Economic Conference in July 1933. Since that date, production has increased rapidly and continuously in the countries where currency depreciation has been most pronounced, but more slowly and with a decided check during the middle of 1934 in the sterling area. The exchange-control countries also increased their production rapidly after the middle of 1933, but suffered a check in the latter half of 1934. The fluctuations of the curve for the United States and Canada are largely due to domestic causes in the former, while the decrease of production in the gold-standard countries reflects the deflationary policies followed after the depreciation of the dollar. It should, however, be noted that Poland, which has steadfastly pursued deflationary policies in recent years, was able to increase its production by over 13% in 1934, and that the index was still rising in April 1935.

General Industrial Activity in Certain Countries.

(Base: average 1929 = 100; logarithmic scale.)

A Norway, Sweden and Finland.
B Canada.
C Austria.
D Czechoslovakia.
E Italy.



These diagrams may be supplemented by the diagram opposite, showing separate indices of production for the three Northern-European countries — Norway, Sweden and Finland — and for Canada, Austria, Czechoslovakia and Italy.

[1] A somewhat different grouping of countries is given in the League of Nations *World Production and Prices, 1925-1934.*

Special interest attaches to the production statistics of those countries which have recently embarked on currency experiments; but it is clear that the course of production depends more upon the domestic credit policies followed than upon changes in the external value of the currency. Thus the rapid development of production in Italy and Germany contrasts with the falling tendency in Czechoslovakia after the first stimulus from devaluation in the latter country. As in Japan, the stimulus to production in Italy and Germany has come largely from Government loan expenditure; but, whereas the depreciation of the yen made possible an expansion of Japanese exports, the exports from both Germany and Italy have sharply declined and a heavy strain has developed on their balances of payments.

The most important factor in producing a recovery of production would appear to have been the cheapening of credit, and particularly the falling tendency of long-term interest rates. This is especially true of those countries such as the United Kingdom where conservative policies of public expenditure have been followed. Even in Japan, Italy and Germany, where there has been large public expenditure, the currency policy has been directed to a cheapening of credit.[1] In the United States, the long-term rates of interest have lagged considerably and this fact, together with the special labour-cost factors discussed in Chapter V, goes far to explain the slow recovery of production in that country. Only in the first months of 1935 were there signs of greater ease and confidence in the American capital market.

The yield of first-class bonds, mainly Government issues, reflects with approximate accuracy the long-term rate of interest. A series of diagrams in Chapter VII gives the movement of bond yields for a number of the most important countries. In 1934, the downward tendency of interest rates gathered way in all but the gold-standard countries. For the United Kingdom, it is possible to give the following table showing the decline in the rate of interest on new industrial as well as Government loans.

Average Percentage Yield on New Capital Issues. [a]

Year	Government loans	Industrial debentures	Preference shares
1913.	4.77	5.50	5.74
1929.	5.07	6.10	6.58
1932.	3.72	5.44	6.32
1933.	3.14	4.58	5.28
1934.	3.14	4.48	5.00

[a] *The Economist*, February 2nd, 1935.

As conversions both of public and of private debt continue, the rate of industrial long-term interest steadily falls in most

[1] There was a rising tendency of interest rates in Italy from the autumn of 1934.

of the countries where deflation has now ceased. The replacement of heavy debt burdens by new loans contracted at lower rates of interest makes profits again possible and this in turn encourages new investments.

The Nature of the Revival.

World Production and Prices, 1925-1934, contains a summary description of recent developments in the principal manufacturing industries. It is not possible here to make even a brief survey of this kind, industry by industry; but it is important to analyse the nature of the industrial recovery that has so far been achieved. Stress is often laid upon the predominantly national character of this recovery. It is obvious that, up to the present, there has not been much effective international action to remove obstacles to trade and specialisation. On the contrary, the international monetary system has remained in disorder and great obstacles have been placed in the way of international trade. It is also clear that many Governments have been able to stimulate national production and trade. Nevertheless, the contribution made to recovery by exchange stability, relative freedom of trade and some renewal of international lending in limited areas, particularly among the sterling countries, ought not to be under-estimated. A large part of the greater prosperity in recent years of the timber-exporting countries of Northern Europe and the raw-material-exporting countries of the southern hemisphere and also of Canada and Japan has come from the increased demand for their exports.

Most of these countries, unfortunately, do not compile statistics separately for their home-market, as distinct from their export industries. Such statistics, however, are available for Finland, Norway and Sweden and these are reproduced below:

Production of Home-market and Export Industries in Finland, Norway and Sweden.

(Base: 1929 = 100.)

Year	Finland		Norway		Sweden	
	Home market	Export	Home market	Export	Home market	Export
1930. . . .	88	95	102	98	97	97
1931. . . .	77	87	83	70	89	78
1932. . . .	77	94	91	95	87	66
1933. . . .	89	107	92	98	88	72
1934. . . .	98	125	98	104	108	84

In all three countries, there has recently been a substantial increase in production for export, and in Finland and Norway

this has been greater than the increase for the home market. In Sweden, on the other hand, the home market has been stimulated, particularly in 1934, by large-scale Government expenditure as well as by a cheap-money policy.

The greater stimulation of the home market is even clearer in the great industrial countries. A rough measurement may be made by comparing their indices of manufacturing production with the quantum of manufactured exports:

Manufacturing Production (M.P.) compared with the Quantum on Manufactured Goods Exported (Q.M.E.).

(Base: 1929 = 100.)

Country		1932	1933	1934	1935 (1st quarter)
Germany	M.P.	65	73	89	90
	Q.M.E.	59	55	50	49
Italy	M.P	68	74	75	84
	Q.M.E.	76	72	69	64
France	M.P.	65	77	71	66
	Q.M.E.	56	57	58	56
United Kingdom	M.P.	82	88	100	106
	Q.M.E.	61	63	68	74
United States	M.P.	53	63	66	74
	Q.M.E.	35	37	48	...

The clearest effects ot policies designed to stimulate the home market are seen in Germany and Italy. In France, exports have contracted less than general production. Exports from the United Kingdom and the United States have increased in the past two years. In the United Kingdom, however, they have not increased as fast as the home market has expanded. Exports always lag behind imports of raw materials and increased industrial activity. In recent months, there has been an expansion of British exports, particularly to countries within the sterling area. But, even allowing for this lag, it is clear that the recovery of industrial production has been greatest in those industries which cater mainly for the national market. This development is, of course, consistent with the explanation, given in the preceding section of this chapter, that cheap-money policies have been among the most powerful causes of industrial recovery. The first effects of such policies are naturally to be found in the stimulation of the home market.

Further confirmation of this view may be obtained by analysing the types of industry in which recovery has been most pronounced. It is particularly important in this connection to distinguish between investment goods and goods destined for immediate consumption. Such a distinction cannot be made with precise accuracy. Certain durable types of consumption goods such as motor-cars and furniture tend in periods of

depression to follow the course of investment rather than consumption goods. In the diagram which follows, three classes of production are distinguished. The first class consists of producers' investment goods such as industrial, agricultural, trade and transport equipment or semi-manufactured goods intended for ultimate transformation into equipment or investment goods in general. These goods come nearest to what is generally thought of as capital. The second class consists rather of consumption capital or consumers' investment goods such as dwellings, motor-cars and furniture. The third class, consumers' goods, comprises non-durable commodities such as foods, textiles, clothing and similar goods intended for personal consumption.

In considering these diagrams, it is most convenient to begin with the newer areas of industrial development, of which Japan and Roumania are broadly typical. Industrial activity has been increasing rapidly in the latter, as in a great number of other agricultural countries in Europe and elsewhere. In these countries, however, manufacturing industry is not yet developed to the point where they can produce their own capital goods. These they must import. In a later chapter, attention is drawn to the great increase of such imports in 1934. [1] Even China, suffering from severe depression, imported machinery in greater amounts last year. If account is taken of such imports, it will be found that the recovery in the agricultural countries has followed much the same course as in the more developed of the new industrial areas, Japan and the U.S.S.R. In these countries, industrial equipment has outpaced the increase of consumption goods, and this equipment of new areas is one result of the depression which is likely to have lasting effects. The statistics for the U.S.S.R. are somewhat exaggerated by the fact that the percentages for recent years are based upon a very small production in the base period usually taken (1929). If 1931 is taken as base, the rate of increase of producers' investment goods in Japan has been greater than in the U.S.S.R.

Production of Investment and Consumption Goods in Japan and the U.S.S.R., 1931-1934.

(Base: 1931 = 100.)

Year	Japan		U.S.S.R.	
	Producers' investment goods	Current consumption goods	Producers' investment goods	Current consumption goods
1932. . . .	114	105	117	109
1933. . . .	143	118	130	117
1934. . . .	186	127	156	133

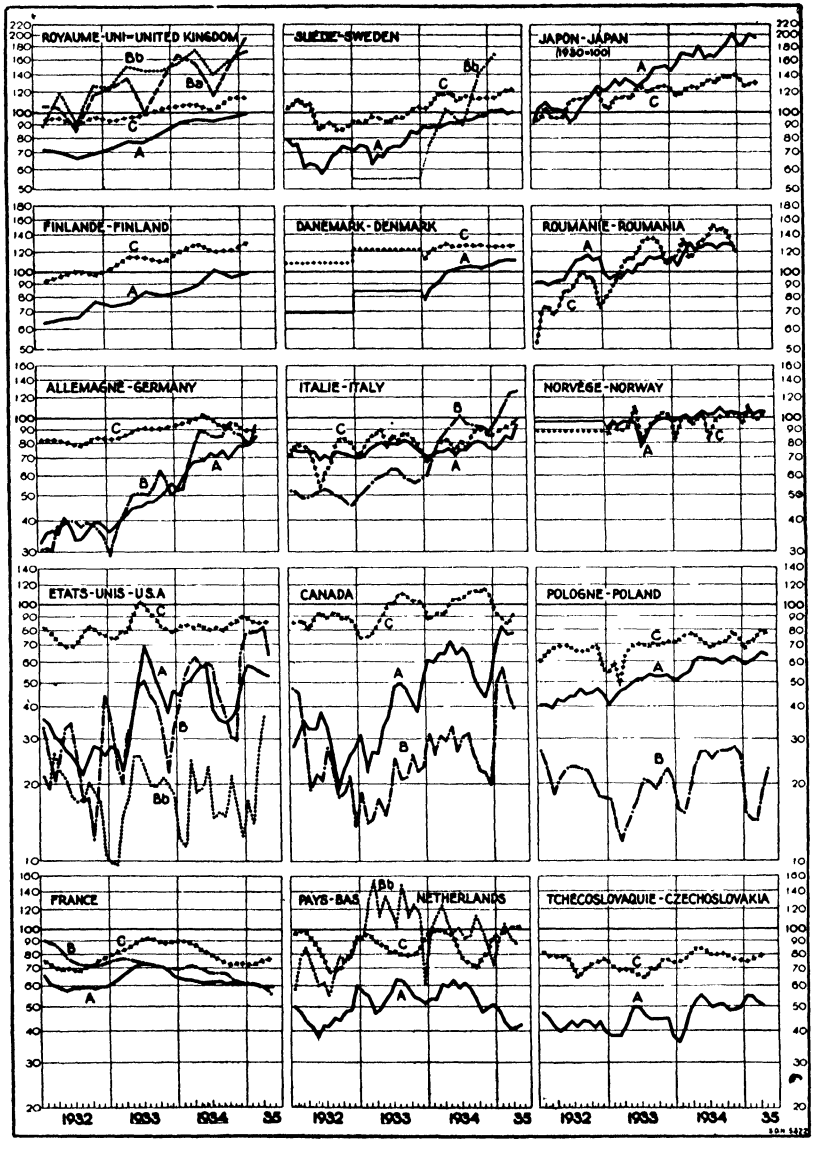
[1] Chapter VI.

Movement of Production of Investment and Consumption Goods.

(Average for 1929 = 100 : logarithmic scale.)

A Producers' investment goods.
B Consumers' investment goods.
C Currrent consumption goods.

Ba Automobiles only.
Bb Building only.



Such a development as that disclosed in the table above is the normal consequence of an industrial boom. It corresponds with the phenomena that were in evidence in most industrial countries between 1925 and 1929. In the last three years, the agricultural countries and the newer industrial countries have been able to push ahead very fast with their re-equipment because the older industrial areas have not yet been able to regain their pre-depression activity in the heavy industries. This is evident from the diagrams reproduced above. In the industrial countries of the sterling group — the United Kingdom and Sweden — the production of capital goods has been increasing and in the first quarter of 1935 reached 1929 levels once again. In the exchange-control countries — Italy and Germany — the production of such goods has also increased, but remains 20% below 1929 levels. In the gold-standard countries, particularly France, the level of production is much lower and still decreasing [1]. But it was in the United States that the greatest lag of recovery was evident. There was a slight increase in 1934, but the index was still 55% below the 1929 levels. It is evident that the problem of over-capacity in the capital goods industries is likely to arise again if recovery in the older industrial areas should restore their production of capital goods in the next few years. Meantime, the increased equipment of the agricultural countries is limiting the exports from and thereby retarding the recovery of the industrial areas.

There is much evidence that the same inflationary processes that have produced an industrial boom in Japan are beginning to have the same effects elsewhere. In Sweden and the United Kingdom, the production of goods for immediate consumption remained relatively high throughout the depression and has been increasing since 1932. Nevertheless, the capital goods industries have increased faster since 1932 and are steadily approaching the 1929 ratios with consumption goods. In the meantime, the cheap credit made available in these countries has produced a boom in the production of durable consumers' goods. In the first quarter of 1935, the production of motor-cars in the United Kingdom was 102% and the index of building activity 72% greater than that of 1929. In Sweden also, the index of building activity at the beginning of 1934 was 70% greater than in 1929. Much the same phenomena are apparent in Italy and Germany, where reflationary policies have been pursued behind the shelter of exchange control. In both countries, the increased production had been greatest in durable consumers' goods and in Germany there has also been a great and rapid increase in the production of producers' investment

[1] Except in Belgium, where there was a slight increase in 1934.

goods. In the United States until recent months, the revival of the heavy industries has been delayed by local difficulties, but there was a boom in automobile production and a distinct revival of building activity in the first months of 1935. In Canada, the production of investment goods also increased substantially, but in the United States up to the middle of 1935, there was no such increase. The greatly increased gold reserves and the vast amount of credit now available in that country, however, foreshadow a big revival of the capital goods industries when the remaining obstacles to business enterprise are removed.

For the year 1934, Canada registered a greater recovery of industrial production than that of any other important industrial country except Germany and Sweden. The recovery, however, was from a very low level. The gains compared with 1933 were particularly marked in timber (87.5%), steel production (86%), pig-iron (77.7%), the manufacture of motor-cars (77.3%) and in the production of non-ferrous metals, especially zinc and nickel. The harvest of 1934 was not greatly above that of 1933, but higher prices were obtained, partly because of the reduction in the agricultural production of the United States. A provisional estimate placed the value of field crops at $536.5 million compared with $423.6 million in 1933. There is much other evidence of rapid economic improvement, which continued in the first four months of 1935. Manufacturing production showed greater gains in respect of producers' goods (30%) than consumers' goods (9.4%). The indices of electric-power production, building, railway freight traffic, and external trade were also rising.[1]

Among the gold-standard countries, only Poland shows a substantial increase of the capital goods industries in recent years. Where deflation is still proceeding, as in France and the Netherlands, the production of investment goods is still decreasing and building activity declining. In Czechoslovakia, after the impetus given by devaluation in the early part of 1934, there has been no further improvement.

In Chapter II, attention was drawn to the rapid increase of building activity in all the countries where cheap credit policies are in operation. The statistics there given indicate that a building boom was in progress during 1934 and the early part of 1935 in Australia, South Africa, Chile, Italy, the United Kingdom, Denmark, Norway, Sweden, Greece. In Roumania also there is a great amount of building, though credit is not cheap. There was a substantial but less marked development in Germany, the Argentine, Canada, New Zealand, Finland,

[1] Canada: Dominion Bureau of Statistics, *Monthly Review of Business Statistics, passim.*

Poland and Spain. In the United States also, at the beginning of 1935, there were some signs of increased building activity.

There is convincing evidence, therefore, that the industrial recovery so far experienced is primarily a recovery in the production of investment goods and articles of durable consumption, stimulated in many areas by cheap-money policies. The statistics of retail trade that are available do not point to a commensurate increase of consumption.

Turnover of Retail Trade in Certain Countries, 1929-1934.

(Base: 1929 = 100, except for the United Kingdom, 1933 = 100.)

Country	1932	1933	1934
Austria	79	70	67
Canada	62	60	62
Chile	74	75	77
Germany	64	59	...
Hungary	66	59	65
Italy	65	68	71
United Kingdom	.	100	103
United States	57	64	70

Unlike the preceding tables, these statistics are based upon values, not upon quantities. Account has to be taken, therefore, of the movement of prices in each country. If allowance is made for this factor, for example in the United States, the table corresponds reasonably well with the changes in the production of consumption goods plotted in the preceding diagrams.

The nature of the recovery in progress not only corresponds with the objectives that have been aimed at in the great majority of countries but also represents the usual development in the recovery stage of the business cycle. The production of capital goods was reduced more than that of consumption goods and it was inevitable, and indeed necessary, that the former should increase faster than the latter as soon as recovery set in. Nor is the cheapening of credit an unusual phenomenon at this stage of the cycle. What is unusual, however, is the deliberate use of monetary policy to produce these phenomena instead of allowing them to develop after a period of deflation and business reorganisation. Moreover, the breakdown of the gold standard has involved widespread monetary depreciation, which in turn has been met by trade restrictions of unprecedented severity and complexity. In these circumstances, the revalued gold reserves of some of the principal trading countries, especially the United States, make possible a vast further expansion of credit on a gold basis. In most countries, the extent of recovery has not as yet been sufficient to restore pre-depression levels of production and consumption. It is improbable, however, that the cheap-money policies have yet produced their full or even their greatest effect.

Already in some countries there are clear signs of the unbalancing of production that results from an over-stimulation of the capital goods industries. This potential danger is aggravated by the encouragement that has been given to the equipment of new industrial areas. The problems likely to confront economic statesmanship in the next few years are those of controlling rather than stimulating expansion. In the meantime, little headway has been made in clearing the channels of international trade so that exports may flow more freely from the industrial countries. Up till now, the cheapening of credit in those countries has mainly stimulated the production of durable consumers' goods, while the older industries producing manufactured goods for export have languished and now find themselves confronted with increasing local competition in their former markets.

The Reappearance of Profits.

Statistics of industrial profits and losses are not very satisfactory in any country and there is no adequate basis for international comparisons. For a limited number of countries, there are statistics which indicate general trends over a short period in each country; but the methods of accounting, as well as the compilation of the statistics, differ widely from country to country, so that the tables given below cannot be compared. The lag between earnings and subsequent declaration of profits must also be borne in mind. The profits declared in 1934 were mostly earned in 1933. Even with these limitations, however, the tables given below are valuable as showing that business enterprises in 1934 were again making larger profits in the countries where credit had been cheapened. The reappearance of profits on a more satisfactory scale is not only evidence of past recovery, but also encourages, and makes possible, fresh investment for the future.

The greatest increase of profits has been in Japan, where the statistics show larger returns in 1934 than in 1929.

Net Profits of 1,000 Industrial Enterprises in Japan.

Half-years	Net profits Yen (000,000's)	Percentage return on share capital
1929 — I	302	9.8[a]
II	248	8.5[a]
1930 — I	138	4.5[a]
II	123	4.0
1931 — I	149	4.8
II	139	4.5[a]
1932 — I	168	6.2
II	192	7.1
1933 — I	242	7.8
II	271	8.7
1934 — I	299	9.2
II	327	10.1[a]

[a] Estimated from the capitalised value of earnings in closest available year.

For the United Kingdom, *The Economist* publishes comparisons of the profits made by an identical number of companies in successive years. On this basis Sir Josiah Stamp prepares an index of changes in profits from year to year. There has been a substantial increase of profits declared in 1934. The comparisons in the first three columns are between the bracketed pairs of years only.

Industrial Profits in the United Kingdom.

Years	Number of companies	Net profits after debenture payments £ (000,000's)	Ratio of profits to preferred and ordinary capital %	Index of Profits (1929=100)
1929	1,932	198.8	10.5	100.0
1930		197.5	9.8	82.6
1931	1,998	175.0	7.2	65.0
1932		143.3	5.8	62.5
1933	1,975	144.8	6.1	72.3
1934		168.8	7.2	96.5*

* Provisional.

The first indications of increased profits in the United Kingdom came in the third quarter of 1933 following increased business activity from the middle of 1932 onwards. The returns for 1934 were the first for seven years to show increasing profits in each quarter of the year; the rate of profits still remains much below the level of 1929, but it must be remembered that the profits declared in that year were made for the most part in 1933. The index for 1934 shows a greater increase than the percentage returns, since it is more directly comparable with business activity in the year under consideration.

For the United States, two series are available. The more up-to-date, compiled by the National City Bank of New York, measures the returns to a limited number of corporations, comparing an identical number of companies in each pair of years, as was done in the preceding table. The second series, compiled by the National Bureau of Economic Research, gives the net income or loss, before payment of income tax, of all corporations in the United States:

Corporation Profits in the United States.

Years	Number of corporations	Net profits	Rate of return on nominal capital	Net income of all corporations
		$ (000,000's)	%	$ (000,000's)
1929	1,560	4,063	12.6	9,130
1930		2,246	6.3	1,960
1931	1,410	726	2.5	— 2,850
1932		— 105	negative	— 5,200
1933	1,435	661	2.6	— 2,110
1934		1,051	4.5	...

The first series is confined to large, well-established corporations whose losses in the depression were less than those of smaller concerns. Even in 1932 the greatest of these corporations (those with a capital of $50 million or over) did not suffer loss as a group. Their ability to maintain prices at a profitable level has, indeed, been one of the difficulties of industrial reorganisation in the United States. A slow but definite improvement in profits in 1933 and 1934 is evident, though the net income of all corporations in the latter year is not yet available.

The only other profit statistics readily available are those compiled by the German Institut für Konjunkturforschung, the Belgian National Bank, and La Borsa for a relatively small number of Italian corporations. These are summarised in the following table:

Industrial Profits in Germany, Belgium and Italy.

Year	Germany	Belgium			Italy
	Net profit or loss of 2,000 industrial concerns RM.(000,000,000's)	Number of companies	Excess of total profits over totals losses Fr. (000,000's)	Excess of total profits over totals losses As % of paid-up capital	Net profits of 260 corporations as % of total capital
1929.	2.2	5,719	5,796	20.2	10.8
1930.	0.6	6,668	6,324	14.4	4.0
1931.	— 5.0	7,091	4,358	8.8	5.8
1932.	— 3.0	7,130	1,410	2.8	3.9
1933.	0.0	7,062	789	1.6	6.3
1934.	0.5*	7,334	1,334	2.7	...

* Provisional.

The severity of the depression in these countries is evident from the figures. The Italian figures relate to a much smaller sample of the industrial life of the country. Both in 1933 and in 1934, there has been a considerable increase in Italian industrial activity, which indeed has approached the dimensions of a boom, but the profit statistics available are not sufficiently comprehensive to be regarded as an adequate measure of the industrial situation in general.

The Extent of Re-employment.

There is one further aspect of the recovery in industrial production that is of particular importance at the present time. It has been shown that there were substantial increases in production in practically all the countries for which statistics are available, except those in which deflation continued during 1934. This revival of business activity was greater in the capital and durable goods industries, where unemployment has been worst. In the great industrial countries, however, the export industries

did not participate in the recovery as fully as did those catering more directly for the national markets. It is important, therefore, to ascertain to what extent this stimulation of the national markets has been able to absorb unemployed workers as well as the fresh supplies of labour which come into the market each year. The following chapter gives the statistics concerning unemployment. In this section, the employment statistics now available for sixteen countries are analysed and compared with the industrial recovery that has taken place in those countries,[1] which include most of the great industrial areas of the world.

An international index of employment has been compiled by combining the national indices and weighting them according to industrial populations in 1930-31, the year to which most of the latest population censuses refer. In the following table, this index is compared with those previously given for industrial activity:

International Indices of Employment and Industrial Activity.

(Base: 1929 = 100.)

Indices	1930	1931	1932	1933	1934
World, excluding the U.S.S.R.:					
Employment	93	84	75	78	84
Industrial activity	87	75	63	71	76
Europe, excluding the U.S.S.R.:					
Employment	96	88	80	81	85
Industrial activity	93	81	71	77	85
North America:					
Employment	88	75	62	66	75
Industrial activity	81	68	54	64	67

As will be seen from this table, employment decreased less than industrial activity during the depression. Both for humanitarian and for technical reasons, employers endeavoured to keep their staffs together. The statistics summarised above exaggerate, however, the maintenance of employment, since the basic series generally include workers on short time as well as those fully employed.

The increase in employment since 1932 has been less than that in industrial activity, mainly because short-time workers have been more fully employed before new staffs have been engaged and because there has been some increase in the output per man-hour worked. An index showing the hours actually worked would probably have moved more closely in agreement with industrial activity. In Europe, both production and employment in 1934 were at the same level in relation to 1929. In the United States, because of the regulation of hours and

[1] Austria, Belgium, Canada, Czechoslovakia, Denmark, Finland, France, Germany, Hungary, Italy, Japan, the Netherlands, Poland, Sweden, the United Kingdom and the United States.

employment introduced under the National Recovery Act, there has been a greater relative measure of re-employment.[1]

These international measurements need, however, to be supplemented by the national indices for particular countries, as in the following table:

National Indices of Employment and Industrial Activity.
(Base: 1929 = 100.)

Country	Employment			Industrial activity		
	1932	1933	1934	1932	1933	1934
Denmark[a]	(92)	(102)	(110)	91	105	112
Japan	82	90	100	98	113	129
United Kingdom	92	95	99	83	88	99
Finland[b]	(77)	(83)	(93)	84	96	110
Sweden	86	85	92	79	82	100
Hungary	82	81	87	77	84	97
Germany	71	74	85	53	61	80
Canada	73	71	81	58	60	73
Belgium	78	81	78	69	72	70
France[c]	(81)	(79)	(77)	69	77	71
Netherlands	80	78	77	62	69	70
Czechoslovakia	83	75	75	63	60	67
United States	61	66	75	54	64	66
Italy	71	71	72	67	74	81
Austria	76	71	70	64	65	72
Poland	63	63	68	54	56	63

[a] Base: 1931 =100. Production in 1931 was equal to 1929, but no employment statistics are available for 1929. — [b] Employment base: 1926 =100. — [c] Employment base: 1930 = 100.

In 1934, it is estimated that the number of industrial workers employed in the world was about a sixth less than in 1929. As the preceding table shows, however, the situation varied greatly from country to country. The real shortage of employment was much greater than these figures might suggest, since account must be taken of the new labour supply that has entered the labour market since 1929. Japan provides a good illustration of this problem. The pronounced industrial boom that has been in progress in that country brought employment back to the 1929 levels, but population has been increasing and there is the equivalent of five yearly contingents of new labourers not absorbed. Industrial unemployment has decreased, but distress among the farming population has increased. In the United Kingdom, employment was almost as great in 1934 as in 1929; but the unemployed still numbered more than two millions as compared with less than a million in 1929. In Sweden also, unemployment in 1934 was almost twice as great as in 1929. It is evident that industrial recovery of the type and extent so far achieved has not been adequate to solve the unemployment problem.

[1] Cf. Chapter V.

Chapter V.

THE WAGE-EARNER'S SHARE IN RECOVERY.

Real Wages in 1934.

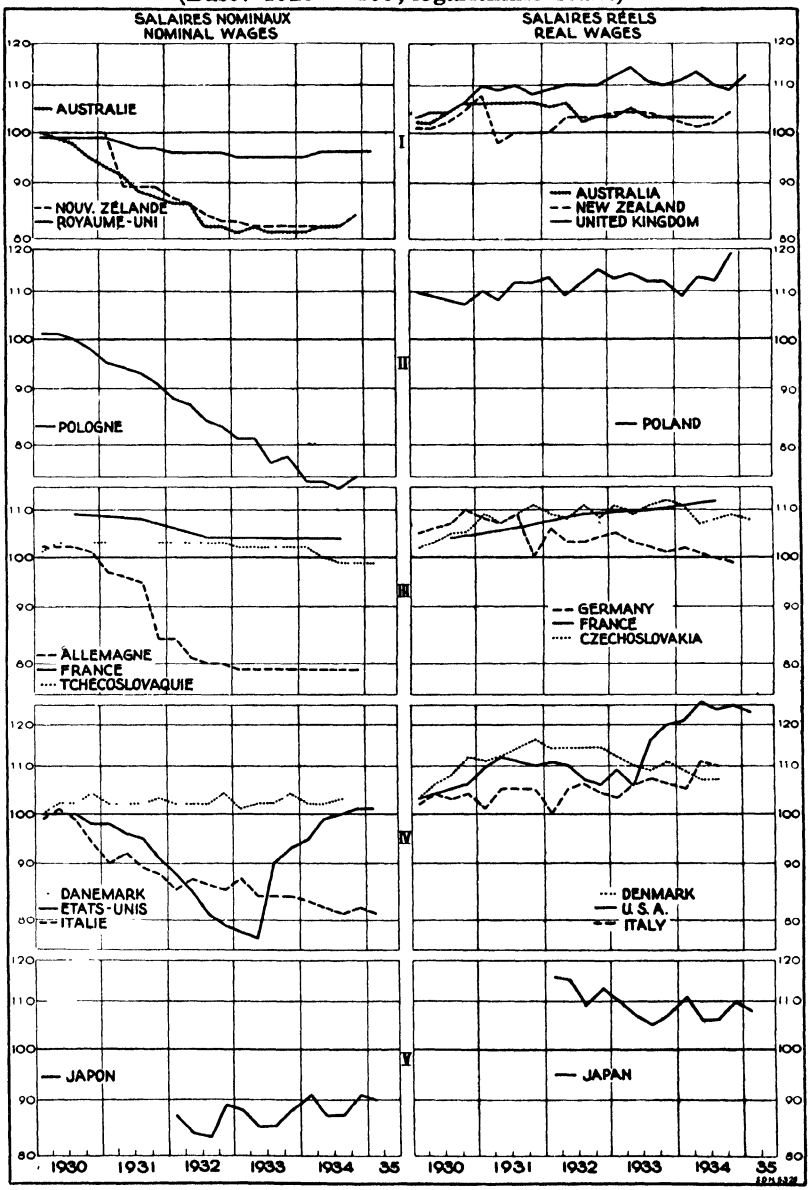
It has been pointed out in former *Surveys* that the standard rates of money wages have, on the whole, been better maintained in this than in previous depressions. Despite the length and severity of the depression and the reduction in the demand for labour in most countries, wage-rates in general have not been greatly reduced. Indeed, when the falling cost of living is taken into consideration, real wages in most industries and in practically every country were higher during than before the depression. This stability of wages, reinforced as it has been by an extension of social services and provisions for social security, indicates an important development of public opinion. The "right to live" is accepted more widely than ever before. Modern communities lay stress upon considerations of justice and humanity and are prepared, in periods of economic difficulty, to ensure a minimum standard of subsistence for all their members and at the same time to minimise the sacrifices made by the organised wage-earners. The connection between the maintenance of standard wage rates and the extension of social services has many aspects. Unemployment insurance and relief payments and work-creation programmes have greatly assisted the trade unions in their resistance to wage-cutting. In addition, there is in modern times a constant tendency for social services to form an increasing part of the real income, particularly of the lower-paid workers.

During 1934, for the first time since the depression began, there was in several countries some evidence of slight increases in the money rates of wages paid to industrial workers. The following table shows such increases for Australia, the United Kingdom, Japan[1], New Zealand, the Union of South

[1] Money rates of wages began to rise in Japan in 1931.

Index Numbers of Money and Real Wages, 1930-1934.

(Base: 1929 = 100; logarithmic scale.)



I Weekly rates. II Daily rates. III Hourly rates.
IV Hourly earnings. V Daily earnings.

Africa and the United States, all countries in which the currency has depreciated and a cheap money policy has been followed. In Belgium, Czechoslovakia, Italy, the Netherlands and Poland, money wages fell; but only in the Netherlands was there an appreciable fall in real wages. The rising cost of living produced a slight fall in real wages in most of the countries off the gold standard. The only country where real wages rose sharply was the United States of America, where, for reasons discussed in a later section, money wage rates rose faster than the cost of living.

Index Numbers of Money and Real Wages of Industrial Workers in Various Countries.[a]

(Base: 1929 = 100.)

Country	Nature of data	Money wages			Real wages		
		1932	1933	1934	1932	1933	1934
Un. of South Africa	Weekly rates	93	94	95	104	108	107
Australia	Hourly rates	84	81	82	104	104	103
Belgium	Hourly earnings	92	90	86	111	109	108
Canada	Hourly rates	94	90	89	116	115	113
Czechosl. (Prague)	Hourly min. rates	103	102	100	109	110	108
Denmark	Hourly earnings	102	102	102	114	110	109
France (Paris)	Hourly rates	104	104	104	110	111	112
Germany	Hourly rates	82	79	79	104	104	101
Hungary	Daily earnings	84	78	...	(100)	(101)	...
Italy	Hourly earnings	86	84	82	104	106	109
Japan	Daily earnings	85	86	88	(112)	(107)	(107)
Netherlands	Hourly earnings	93	89	87	(111)	(107)	(104)
New Zealand	Weekly min. rates	86	82	83	102	104	103
Norway	Daily earnings	96	95	95	107	108	107
Poland	Hourly earnings	85	78	74	(111)	(112)	(113)
Sweden	Hourly earnings	102	98	...	110	108	...
Switzerland	Hourly earnings	98	97	...	114	119	...
United Kingdom	Weekly rates	96	95	96	110	112	111
United States	Hourly earnings[b]	84	83	99	108	111	124
	Weekly earnings[b]	60	62	71	77	83	89
	Weekly earnings[c]	69	68	75	88	88	94

[a] Cf. *International Labour Office Year-Book 1934-35*, page 275.
[b] National Industrial Conference Board Series.
[c] Bureau of Labor Statistics Series.

It will be noticed that most of the indices of real wage rates given in the preceding table remain substantially above the 1929 levels. For the worker in regular employment, the maintenance of standard wage rates has brought increased purchasing power, as the cost of living has fallen or has risen less than money wage rates. This is true for all the countries cited in the table

Index Numbers of Agricultural Wages.[a] *Money Wages of Male Workers.*

(Base: 1929 = 100.)[b]

Country	Category of workers	Nature of data	Index numbers of money wages		
			1932	1933	1934
Australia	All, generally with board and lodging	Weekly total wages	80	77	76[j]
Canada	Permanent, with board and lodging	Yearly total wages	54	51	54
Denmark	Farm servants, with board and lodging	Yearly cash wages	88[c]	88[c]	94
	Day labourers without board or lodging	Daily cash wages	91[d]	94[d]	94[d]
England & Wales	Ordinary, generally with board and lodging	Weekly total min. wage[e]	98[e]	97[e]	98[e]
Estonia	Permanent, with board and lodging	Yearly cash wages	59	53	61
Finland	"Deputatists",[k] without board, with lodging	Yearly total wages	80	77	79
	Day labourers, without board or lodging	Daily cash wages	68[d]	67[d]	72[d]
France	Farm servants, with board and lodging	Daily total wages	*100*	.	.
Hungary	Day labourers, without board or lodging	Daily cash wages	63	47	...
Irish Free State	Permanent, without board or lodging	Weekly cash wages	94[f]	89[f]	84[f]
Italy	Day labourers, generally without board or lodging	Hourly total wages	75[g]	73[g]	73[g]
Japan	Permanent, with board and lodging	Yearly total wages	*74*	*77*	...
	Day labourers, with board and lodging	Daily total wages	68	69	...
Latvia	Farm servants, with board and lodging	Yearly cash wages	63[c]	61[c]	64[c]
Lithuania	Permanent, with board and lodging	Yearly total wages	91	68	61
	Day labourers, without board or lodging	Daily cash wages	73[f]	69[f]	55[f]*
New Zealand	All, generally with board and lodging	Weekly total wages	70	64	66
Norway	Farm servants, with board and lodging	Yearly cash wages	82	85	...
	Day labourers, without board or lodging	Daily cash wages	83[h]	80[h]	...
Poland	"Deputatists",[k] without board, with lodging	Yearly total wages	70[i]	67[i]	...
Sweden	All, with or without board and lodging	Yearly total wages	92	91	...
United States	Permanent and day, with or without board and lodging	Monthly cash wages	50	47	51[c]

[a] For the sources and methods of compilation of these figures, see the *International Labour Office Year-Book, 1934/35*, Vol. I, page 277. Vol. II, page 125. International Labour Office. Geneva. — [b] Except for index numbers in italics, for which the base is 1930. — [c] May 1st to April 30th. — [d] Summer figures. — [e] September figures. — [f] July figures. — [g] June figures. — [h] Harvest figures. — [i] April 1st to March 31st. — [j] Averages based on a part of the year only. — [k] "Deputatists", mostly married workers engaged per year who receive a dwelling, some land, and other payments in kind, and are allowed by their employer to keep stock; the total of these rewards in kind is known as the "Deputat". — * Provisional figures.

if rates only are taken into consideration. It is possible, on the other hand, that index numbers of current wage-rates are less accurate in periods of depression than in times of greater prosperity. Although nominal rates may be maintained, and the indexes thus show little movement, the worker may sometimes accept less wages rather than lose his job. There is no way of estimating the extent of this practice, but it may have affected the accuracy of some indexes. It must be remembered, also, that intermittent unemployment, short time, the loss of overtime and supplementary earnings and, in some cases, increased levies and charges, have reduced earnings despite the maintenance of standard rates of nominal wages. An indication of the importance to be attached to this difference between rates and actual earnings is the contrast between the comparable indices shown for hourly and weekly earnings in the United States. Though the hourly figures show real wages at 124 compared with 100 for 1929, the weekly earnings stand at 89 — a difference of 28%, which no doubt would be greater if earnings were calculated for a longer period than a week.

Moreover, the indices shown above are calculations of the average rates of wages paid to industrial workers. The table on the preceding page, giving index numbers of money wages of agricultural workers, incomplete as it is, shows that wage rates have been cut in agriculture far more than in industry.

What applies to agriculture applies also to many other industries in which labour is not strongly organised. It is evident that wage-earners have not in all cases been able to maintain standard rates. There has everywhere been less cutting of nominal rates than alteration of trade practices, particularly by shifting the classification of workers, by withdrawing privileges and by relaxation of trade-union rules. The workers' standard of living may sometimes be effectively lowered without any alteration of nominal wage rates. The more strongly organised trade unions, however, are better able to resist alterations, not only in the wage rates, but also in trade practices and privileges. There is therefore a considerable variation in the extent to which wage rates have fallen in different industries, as the following table will show.

In general the greatest reductions have been in the durable goods industries where unemployment has been greatest, though the clothing industries have also suffered large reductions. The standards have been maintained best in the United Kingdom where trade unionism is strong. Such increases of wage-rates as occurred during 1934 were, naturally enough, in those industries where rates had previously been most reduced.

Wage Changes by Industrial Groups.

Average hourly wage rate (Males).

Countries	Mining		Metals		Building		Wood		Railways		Chemicals		Printing		Textiles		Clothing		Food		Agriculture	
	1929-1933	I-XII 1934	1929-1933	I-XII 1934	1929-1933	I-XII 1934	1929-1933	I-XII 1934	1929-1933	I-XII 1934	1929-1933	I-XII 1934	1929-1933	I-XII 1934	1929-1933	I-XII 1934	1929-1933	I-XII 1934	1929-1933	I-XII 1934	1929-1933	I-XII 1934
Australia[a]	-12	0	-21	+2	-18	+1	.	.	-24	+2	.	.	-15	+3	.	.	-22	+1	-18	0	-22	+2
Canada	- 4	+1	- 9	-1	-20	-2	.	.	-10	-1	.	.	- 9	0	.	.	.	.	.	.	-48	+1
France[b]	- 1	+1	+ 3	-1	.	.	.	.	.	.	.	.	+ 4	+1	- 5	-2	+ 2	+2	+ 1	0	- 1	-4
Germany[c]	-18	0	-18	0	-35	0	-30	0	-19	+1	-19	0	-18	0	-16	0	-23	0	-18	0	.	.
U. K.[d]	.	.	0	0	- 9	0	- 7	0	- 9	+2	.	.	0	0	.	.	- 4	0	- 4	0	- 3	+1

Average hourly earnings (Males and Females).

Belgium[e]	-15	-4	-17	-3	-17	-6	.	.	-1	0	-13	- 6	+ 1	-5	-15	-6	.	.	- 2	- 4	.	.
Italy[f]	-19	-4	-12	-4	- 9	-4	.	.	.	.	- 6	- 5	-10	-6	-18[h]	-6[h]	.	.	- 8	- 7	.	.
Japan	.	.	- 8	+4	.	.	-25	+3	.	.	-15	+ 1	- 7[i]	+1[i]	-28	+2	-25	-4	-10	0	.	.
Poland	-10	-5	-21	-7	-36	-7	-37	-7	.	.	-28	- 5	-24	-6	-24	0	-25	-7	-29	- 3	.	.
U. K.[d]	- 1	+1	- 5[g]	+5[g]	.	.	.	.	-6	+1	.	.	.	.	.	.	.	.	.	.	.	.
U.S.A.[eg]	.	.	-20	+5	.	.	- 33	+3	.	.	-19	+12	-18	+7	.	.	-45	+2	-17	+10	.	.

Notes: [a] For all categories VI. 1929-VI. 1933 and 31. XII. 1933-IX. 1934; for Agriculture: in 1934 change from first to fourth quarter.
[b] Figures given for X: [c] figures given for VII from 1929 to 1933.
[d] ,, ,, ,, XII, weekly wage rate.
[e] ,, ,, ,, VII.
[f] ,, ,, ,, VII from 1929-1933 and from I to XI for 1934.
[g] Male workers only; [h] including clothing; [i] including paper.

The apparent tendency for wage rates to increase in many countries during 1934 formed part of a wider tendency towards an improvement in national incomes. Such an improvement was evident in 1933 and continued, in the countries for which statistics are available, except France, in 1934.

National Income of Certain Countries. (000,000's.)

Country	Unit	1929	1931	1932	1933	1934
Australia [a]	£A	556	430	...	...	...
Australia [b]	£A	389.8	305.0	318.2	...	...
Canada [c]	$C	6,072	4,000	...	...	...
Denmark [d]	Krone	3,700	3,550	3,400	3,600	...
France [e]	Franc	245,000	229,000	206,000	199,000	178,000
Germany [f]	RM.	76,100	57,100	46,500	47,500	[f]
Greece [g]	Drachma	41,000	30,000	28,000	...	...
Japan [h]	Yen	11,919	9,421	9,813	11,101	...
Latvia [i]	Lat	1,151	.	754	...	...
New Zealand [j]	£ N.Z.	.	97.8	90.0	...	...
New Zealand [k]	£ N.Z.	120.9	83.6	83.8	98.8	...
Norway [l]	Krone	2,200	1,994	1,934	1,897	...
Roumania [m]	Leu	195,900	110,600	103,500	99,300	...
United Kingdom [n]	£	3,996	3,499	3,380	...	...
United States [o]	$	83,000	54,700	38,300	39,800	...
United States [p]	$	82,300	63,300	49,700	46,800	...
United States [q]	$	82,340	63,600	49,470	46,960	53,930

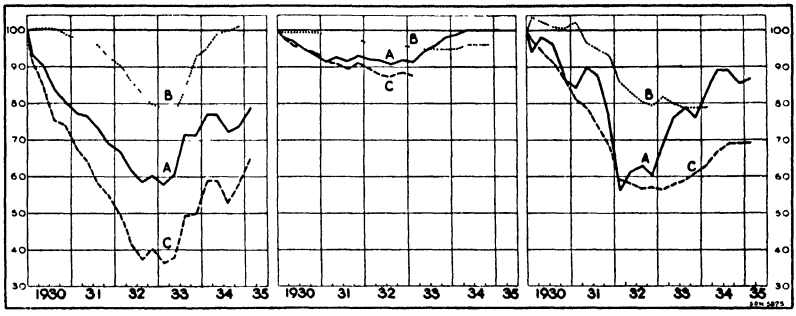
[a] Commonwealth Report, Preliminary Survey of the Economic Problem, April 1932.
[b] Value of Production, *Production Bulletin*, No. 27, 1934.
[c] *Official Year-Book, 1934.*
[d] *Statistiske Meddelelser 1931-1934.*
[e] *Revue d'Economie politique*, May-June, 1935.
[f] Institut für Konjunkturforschung, *Vierteljahrsheft zur Konjunkturforschung* 8 III A, 10 I A. The figure for 1934 is estimated at approximately 10% above that of 1933.
[g] Banque d'Athènes, *Bulletin mensuel*, September 1933. Report of the League of Nations Mission to Greece.
[h] Mitsubishi Research Bureau, *Monthly Circular.*
[i] *Lettlands Oekanomist*, Riga, 1933.
[j] Aggregate private income, *Monthly Abstract of Statistics*, July 1934.
[k] Value of production, *Monthly Abstract of Statistics*, January 1935.
[l] *Statistiske Meddelelser*, Nos. 7/8, 1934.
[m] "La Situation économique de la Roumanie", Memorandum présenté par M. Victor Slavesco, Ministre des Finances, Bucarest, 1934.
[n] CLARK, "The National Income", London 1932. *The Economic Journal*, June 1932.
[o] National income produced, National Industrial Conference Board, *Bulletin*, February 20th, 1934.
[p] National income paid out, *Survey of Current Business, 1935*, page 17.
[q] National income paid out, The Cleveland Trust Company, *Business Bulletin*, February 15th, 1935.

The total amounts paid out as wages are even more difficult to estimate than the totals of national income for which estimates from various sources are given in the preceding table. The diagrams which follow demonstrate the recovery in pay-rolls in three great industrial countries; but these cannot be regarded as necessarily typical of a general movement. The steady reduction of unemployment in all but a few countries and the

tendency for wages to rise slightly, lead, however, to the conclusion that earnings must be increasing in most countries.

Employment, Wage Rates and Pay-rolls.
(Base: 1929 = 100.)

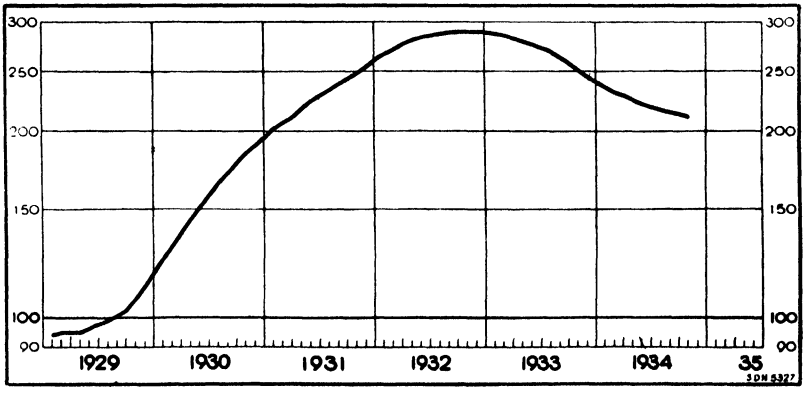
A. Employment. United States. B. Wage rates. United Kingdom. C. Pay-rolls. Germany.



A Further Reduction of Unemployment.

Unemployment, in the world as a whole, continued to decrease in 1934 as in 1933. The peak of unemployment had been reached in the autumn of 1932, when the world index compiled by the International Labour Office stood at 280 as against 100 in 1929. In 1934, the index had fallen to 217, a decline of 22½%. It is a disconcerting fact that, after almost two years of recovery in many countries, world unemployment was still more than twice as great as in 1929.

International Index Numbers of Unemployment, 1929-1934.
(Base: 1929 = 100; logarithmic scale.)



The decline in unemployment registered in the preceding diagram was not shared in equally by every country. As the following table shows, there were several countries in which unemployment increased rather greatly during 1934 and others where any improvement was relatively slight. There was an increase in Belgium, France, the Irish Free State, the Netherlands, Poland, Spain, Switzerland and Yugoslavia. This list is comprised of the gold-standard countries, with the addition of the Irish Free State, and Yugoslavia.

*National Unemployment Statistics at the end of March in the Years 1929 to 1935.**

(000's.)

Country	1929	1931	1932	1933	1934	1935
Australia [a]	39	114	120	109	92	79
Austria [b]	225	304	417	456	403	400
Belgium [a c]	28	207	350	383	345	360
Bulgaria [a]	.	.	31	28	41	45
Canada [a]	12	32	37	38	28	27
Chile [b]	.	.	75	75	40	13
Czechoslovakia [b]	50	340	634	878	790	736
Danzig [a]	18	27	36	38	22	19
Denmark [b]	66	70	145	166	114	102
Estonia [a]	4	3	8	15	6	.3
Finland [a d]	.	.	90	64	40	22
France [b]	.9	72	347	350	379	527
Germany [a]	2,484	4,744	6,034	5,599	2,798	2,402
Hungary [b]	14	55	71	69	61	(55)
Netherlands Indies [b]	.	.	10	14	16	...
Irish Free State [b]	19	25	31	83	101	138
Italy [a]	293	707	1,053	1,082	1,057	853
Japan [a]	.	397	474	424	381	...
Latvia [b]	9	9	23	13	10	7
Mexico [a]	.	.	.	308	281	...
Netherlands [a]	.	.	253	342	333	384
New Zealand [b]	3	38	45	51	44	(44)
Norway [a]	24	29	38	42	42	(41)
Poland [b]	177	373	360	280	388	506
Roumania [a]	10	48	55	44	27	(22)
Spain [a]	.	.	.	.	250	267
Sweden [b]	44	73	99	121	133	102
Switzerland [b]	9	61	103	72	70	82
United Kingdom [a]	1,204	2,666	2,660	2,821	2,225	2,143
United States [a e]	.	7,098	10,739	13,689	10,849	...
Yugoslavia [a]	12	12	23	23	21	27

* League of Nations: *Monthly Bulletin of Statistics.*
[a] Unemployed.
[b] Applicants for work.
[c] Wholly and partially unemployed.
[d] Statistics of local unemployment commissions.
[e] Estimates, American Federation of Labor.

When an attempt is made to trace the changes in unemployment through the different industrial groupings in various countries, there arise almost insuperable difficulties of comparison. The structure of industry varies so widely from country to country that it is practically an impossible task to get statistical returns which shall be both uniform and realistic. The returns collected by the International Labour Organisation come as close to uniformity as is possible in the circumstances. [1] Study of these tables cannot but give a confused impression at first; but, upon analysis, certain general trends seem to emerge. There was, first of all, a fairly considerable improvement during 1934 in the so-called heavy industries — mining, metals and engineering. This improvement was marked in Sweden, the United Kingdom, Canada, Australia and Denmark. Though the statistics for Germany are not up to date, there appears to have been an even more marked improvement of these industries in that country from the middle of 1933 onwards. This recovery of employment in the heavy industries, doubtless caused in great part by armament demands, is not so clear in the statistics of the gold-standard countries for which figures of this sort are available; but the increased unemployment in those categories was not as great as in others.

The sharp distinction between the countries off gold and those remaining on the gold standard is, however, most clearly seen in the figures of building unemployment. These are summarised in the table below:

Unemployment in the Building Industry: Percentage of Workers Unemployed at the end of March 1934 and 1935.

Country	1934	1935
Australia	30.8	22.9
Belgium	31.5	40.3
Canada	69.6	65.1
Netherlands	35.1	60.1
Sweden	63.1	42.0
Switzerland	16.1	28.8
United Kingdom	20.3	17.3
United States	55.0	59.0

Another rather striking feature of the returns is the tendency towards an increase of unemployment in certain industries producing goods for immediate consumption. Thus textiles and clothing show greater unemployment in most countries. In the United Kingdom, the list of industries in which unemployment was worse in early 1935 than a year earlier includes, besides textiles and clothing, public utilities, distributive trades, hotels and entertainments. There was increased employment as well

[1] Cf. League of Nations *Statistical Year-Book, 1934-35*, pages 60-67, and *The American Federationist*, April 1935.

as unemployment, however, in all these groups except textiles and clothing. Workers were attracted in too great numbers to them. Employment definitely declined in textiles, clothing, footwear and coal-mining. While this list differs from those for other countries, the general lag of this type of consumers' goods industries is clearly marked. The greater part of the recovery from unemployment so far experienced has been in the durable goods industries, such as engineering, especially motor-car construction, building and, in some countries, mining. In the countries still on gold, however, and also in Canada and the United States, unemployment in the building industry was worse in 1934 than it had been.

Further light on the problem of unemployment is available from the returns of employment now published in many countries. The following table summarises the general information concerning total employment.

These general returns may be supplemented by the following more detailed analysis of employment in important groups of industries in a few countries.

Index Numbers of Employment. [a]

(Base 1929 = 100.)

Country	Kind of statistics	Yearly average					March	
		1930	1931	1932	1933	1934	1934	1935
Un.of South Africa	Employers' returns	98	94	87	91	102	100	...
Austria	Sickness insurance	95	87	76	71	70	68	67
Canada	Employers' returns	95	85	73	71	81	77	*78
Czechoslovakia .	Social insur. stat.	98	92	83	75	75	69	67
Estonia	Employers' returns	96	88	83	84	98	95	*106
Finland.	Employers' returns	.	78	77	83	93	84[b]	97
France	Returns of labour inspectors	100 [c]	93	81	79	77	77	72
Germany	Sickness insurance	92	81	70	73	85	83	*87
Hungary	Social ins. stat.	94	89	82	81	87	85	...
Italy	Employers' returns	93	81	71	71	72	71	83
Japan	Employers' returns	90	82	82	90	100	96	107
Latvia	Sickness insurance	105	99	82	87	95	93	*98
Netherlands . . .	Unemployment ins.	98	91	79	78	77	78	...
Poland	Employers' returns	87	74	63	63	68	65	68
Sweden	Employers' returns [d]	100	91	86	85	92	89	96
Switzerland . . .	Employers' returns	97	89	76	73	73	73	71
U.K.	Unemploy. ins. stat.	96	92	92	95	99	99	100
U.S.A.	Employers' returns	87	74	62	66	75	77	*79
Yugoslavia . . .	Social insur. stat.	104	101	89	86	90	86	87

[a] For further details, see League of Nations *Statistical Year-Book 1934/35*, Geneva, 1935, Table 14.
[b] Average January-March.
[c] Base: corresponding month of 1930.
[d] Sveriges Industriförbund.
* Provisional figures.

Index Numbers of Employment by Groups of Industry.
(Base: March 1932 = 100.)

	End of March	Mining	Engineering metals	Building	Textiles	Printing paper	Food
Canada [a] . .	1933	90	81	69	91	92	95
	34	102	100	120	108	99	99
	35	117	114	100	111	104	103
France [b] . . .	1933	92	97	98	99	96	96
	34	89	95	86	100	97	99
	35	83	92	70	90	94	96
Italy [c]	1933	.	101	94	101	97	103
	34	.	107	98	103	99	106
	35	.	131	117	106	111	118
Japan [d] . . .	1933	.	122	101	99	101	103
	34	.	148	103	101	106	106
	[g] 35	.	170	107	106	108	113
United Kingd.[e]	1933	100	100	100	100	100	100
	34	100	103	108	109	101	105
	35	98	119	123	104	101	107
U.S.A. [f h] . .	1933	90	74	78	92	90	84
	34	101	128	111	120	107	117
	35	107	138	113	119	105	113

[a] *The Labor Gazette.*
[b] *Bulletin du Marché du travail* (Ministère du Travail).
[c] *Bollettino mensile di statistica.*
[d] Statistics of factory labour.
[e] XXI Abstract of Labour Statistics.
[f] *Monthly Labor Review.*
[g] February.
[h] All the figures are given for June.

The statistics of employment and unemployment have for some years made cheerless reading. Behind the percentages and index numbers lie the grim realities of disheartened men tramping the streets in a hopeless search for work, boys and girls fresh with enthusiasm and vitality finding bitterly that the world seems to have no use for their services, [1] women planning desperately for their families with the spectre of unemployment and debt always before them. The prolonged and persistent unemployment of such large masses of workers is a new phenomenon in modern times and one which has awakened grave and universal concern. It would be easy to quote from a large number of leading public men words which indicate the gravity of this problem.[2] Public opinion in every country shares the anxiety of its leaders, and it is not surprising to find, therefore, that discussions of unemployment and efforts to

[1] For a survey of juvenile unemployment, *cf.* International Labour Office "Unemployment among Young Persons", Geneva, 1935.
[2] Cf. references quoted in International Labour Office "Report of the Director", Geneva, 1935.

relieve it occupy a prominent place in the activities of all Governments at the present time. Unemployment is from many points of view the heart of the economic problem. Measures to promote recovery from the depression are judged primarily by their success or failure in reducing unemployment.

There is, however, a division of opinion concerning the efficacy of direct methods to relieve unemployment or to create employment. In a sense, all proposals for economic improvement at the present time are plans for relieving unemployment. There is also, it is true, very little dissent from the necessity for immediate relief measures, not only to prevent destitution, but also to maintain a reasonable and self-respecting standard of life among the unemployed. The cleavage of opinion arises between those who for simplicity can be described as adherents of the view that, in the present emergency, direct "unorthodox" action by Governments is necessary to provide employment, and those on the other hand who lay stress upon the comparatively small results of a great deal of "unorthodox" action up to the present, as well as upon the positive dangers it has entailed.

No adequate discussion of such large and vague issues can be attempted here. It is obvious from the statistics that have been presented in this section that, judged by the test of reduced unemployment in the last two years, those countries which have abandoned the gold standard have been more successful in making headway against the depression than those which have remained on gold. The available statistics, however, are very far from satisfactory. If the average unemployment in 1934 is compared with the average for 1932, the countries whose returns show decreases of unemployment are Chile (72%); Latvia (66%); Finland (63%); Estonia (58%); Roumania (56%); Germany (52%); Danzig (39%); Australia (28%); Canada (27%); United Kingdom (21%); Hungary (21%); Denmark (18%); United States (12%); Austria (9%); New Zealand (9%); Sweden (7%); Netherlands (4%). It is obvious that this list requires much explanation. In many cases applicants for work do not register at the employment exchanges after they have exhausted their right to benefits or allowances. In some instances the statistics are inadequate as a basis of judgment, in others the percentages are calculated on such varying bases that they are not comparable, and there are countries where the administration has changed greatly. In Germany, workers in labour camps or similar institutions are not counted as unemployed. In Sweden, on the contrary, the real improvement has been much greater than suggested by the figure quoted above, since the method of registration was changed in 1932.

It is quite impossible from such statistics as these to judge, even broadly, the relative efficacy of Government policies in different countries. There is little or no agreement among those countries which have abandoned the gold standard as far as unemployment policy is concerned. The United States policy, for example, with its huge expenditures on public works, differs markedly from that of the United Kingdom. As in most departures from orthodoxy, there is a "dissidence of dissent" which renders difficult any appraisal of the experiments made or the claims put forth on their behalf. Moreover, national circumstances differ greatly and references from the experience of one country need to be applied cautiously to others. Judged purely by the success achieved in reducing unemployment statistics during the last two years, the countries which had made the greatest recovery up to May 1935 are mentioned in the table below.

Reduction of Unemployment May 1933-May 1935.
(000's omitted.)

Country	Kind of statistics	May 1933	May 1935	% reduction
Australia	Trade Union returns	107	77	− 28
Austria	Employm. exchange stat.	392	339	13
Belgium	Voluntary unemployment insurance statistics	163	160	− 2
Canada	Employm. exchange stat.	77	81	+ 4
Chile	,, ,,	67	12	− 82
Czechoslovakia	,, ,,	727	666	− 8
Denmark	,, ,,	101	69	− 32
Danzig	,, ,,	33	18	− 45
Estonia	,, ,,	5	1	− 72
Finland	,, ,,	13	6	− 56
France	,, ,,	314	459	+ 146
Germany	,, ,,	5,331	2,020	− 62
Hungary	,, ,,	61	53	− 13
Italy	Ministry of Corporations	1,000	755	− 25
Latvia	Employm. exchange stat.	6	—	—
Netherlands	Voluntary unemployment insurance statistics	149	164	+ 10
New Zealand	Employm. exchange stat.	55	47	− 16
Norway	,, ,,	35	34	− 2
Poland	,, ,,	240	419	+ 175
Sweden	Trade Union returns	93	* 50	− 46
Switzerland	According to cantons: unemploym. insur. stat.	57	66	+ 15
U.S.A.	Trade Union returns	12,896	—	—
United Kingdom	Compulsory unemployment insurance statistics	2,129	1,704	− 20
Yugoslavia	Employm. exchange stat.	15	13	− 17

* Provisional figure.

It is obvious that there has been a considerable improvement in many countries. For the greater part, this seems to have been concentrated in those industries catering mainly for the national markets. On the other hand, there has been, as yet, little definite and fundamental improvement of the international economic situation. "At the end of five years the present depression", reported the Director of the International Labour Office, "has only been spasmodically relieved, not through the re-establishment of the old international machinery of credit and commerce, but rather through a series of more or less successful exertions of a national character, many of which by their very nature cannot continue indefinitely".[1] The theoretical controversy which has been mentioned earlier centres round a difference of opinion as to whether "the old international machinery of credit and commerce" can be revived or not and whether the national exertions referred to by the Director have not hindered its revival.

While important issues hang upon this controversy, in practice all countries have exerted themselves in varying degree to provide work, or, if not work, relief, for the unemployed. Extensive public works schemes are in operation in several of the gold-standard countries, as well as in those which have abandoned the gold standard.[2] The most spectacular programme is that of the United States [3]; but energetic measures have been taken in Sweden [4], Germany [5], Italy [6] and many other countries. The programmes of slum clearance in the United Kingdom and of "national equipment" in France, for example, are undertaken largely to provide employment. According to the national temperament also, occasion has been taken in several countries to organise voluntary or compulsory training camps for unemployed workers. Meanwhile, the principle of unemployment insurance, severely tested by an unprecedented depression, seems to have emerged stronger than before. Pressure on the funds of the various insurance schemes was somewhat relieved in 1934,[7] while there was much evidence of the tendency towards more widespread acceptance of the principle.[8] The introduction and subsequent passing, as an

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[1] International Labour Conference, "Report of the Director", Geneva, 1935, page 36.
[2] For a summary of some of these schemes see *International Labour Office Year-Book, 1934/35*, pages 307-316.
[3] International Labour Office, "Social and Economic Reconstruction in the United States", Geneva, 1934, Chapter III.
[4] Bertil OHLIN: "Economic Recovery and Labour-market Problems in Sweden", *International Labour Review*, April-May 1935.
[5] International Labour Office, "Public Works Policy", 1935, page 10.
[6] *Ibid.*, page 27.
[7] *E.g.*, the British total expenditure on insurance and emergency benefit fell from £107 million in 1933 to £97 million in 1934, while the debt of the insurance fund was reduced from £110.9 million to £105.7 million.
[8] Cf. *International Labour Office Year-Book, 1934/35*, pages 296-307.

administration measure, of a social security bill, including both old-age pensions and unemployment insurance, into the United States Congress was a significant development.

Important as all these various direct attacks upon the unemployment problem have been, they are, after all, immediate and temporary rather than permanent measures. Relief, training, public works may help in an emergency; but the absorption of the great mass of unemployment awaits either a revival of private enterprise on something approaching the pre-depression scale or the replacement of private enterprise by a more completely planned economy.

The Movement for Shorter Hours and Improved Working Conditions.

The pressure for improved working conditions and shorter hours has not decreased during the depression. There has been widespread acceptance in almost every industrial country of the universal right to subsistence and, at the same time, a desire to maintain minimum standards of living and decent working conditions. Though there has doubtless been some relaxation of standards in practice, because of the weaker bargaining position of the workers, there has probably been less nibbling at the conditions established in the preceding period of prosperity in this than in any previous depression. Moreover, there have been advances of legislation in spite of, and sometimes because of, the depressed conditions of industry. It is probable that the pace of legislation has been slowed up somewhat, but there is impressive evidence of the steady extension of State regulation based upon collective bargaining eliminating abuses, setting minimum requirements of decency, health, repose and safety, and generally making the conditions of industrial labour more humane and efficient. [1]

It is outside the scope of this *Survey* to give detailed illustrations of this general tendency; but attention should be drawn to certain particular aspects of it. Of these, by far the most important during 1934 was the organised and almost universal pressure among industrial workers for a shorter working-week. The manifestations of this movement are numerous and it is obvious that the Forty-hour Week has come to occupy the place among trade union objectives that the Eight-hour Day occupied formerly. While the reasons that are given for its advocacy in national and international discussions are some-

[1] Cf., *e.g.*, the survey of national legislation in regard to working conditions in the *International Labour Office Year-Book, 1934/35.*

what varied and confused, there is no doubt of the symbolic importance of the slogan of the Forty-hour Week. It symbolises the next great objective upon which the organised labour movement is concentrating its energies.

The reduction of working-hours, together with their confinement to certain hours of the day, so as to give assurance of steady work and adequate, regular leisure, has always been one of the main objectives of the labour movement. There are to-day few who would not admit that the progressive limitation of hours, their better arrangement within the working-day and provision for adequate rest and leisure have in the past been, not only legitimate gains to the workers from increased production, but the cause of further increases in production arising both from improved labour efficiency and from the introduction of mechanical labour-saving devices and more skilful management. There is, indeed, little or no opposition to the principle of shorter working-hours as industrial progress makes them possible without any decrease of the national dividend. As was pointed out in the *Survey* for 1932/33, many industrial establishments working efficiently by modern methods in new fields have voluntarily experimented with shorter working-hours.

There is a considerable amount of evidence also that, during the depression, working-hours have in fact been shortened in almost every country, largely as a work-sharing device. Within the last two years, however, there has been a noticeable tendency for working-hours to increase once more in those countries where recovery is beginning. This fact supports the belief that work-sharing rather than an advance of standards was the main motive for the previous reduction of hours. The following summary table gives such statistical material as is available.

Actual Hours of Work in Factories.[a]

Country		1929	1932	1933	1934
Germany	Average hours per day	7.67	6.91	7.15	7.42
Japan		—	9.63	9.75	9.83
Poland	Average hours per week	44.6	40.6	40.9	41.8
Sweden		—	—	45.2	46.7
United States		47.4	34.9	37.9	34.7
Austria	Percentage of workers working over 48 hours per week	95.0	79.4	76.7	...
France		.	52.4	62.1	56.0
Italy		15.6	8.0	8.5	7.6
Switzerland		.	.	12.5	9.3

[a] League of Nations *Statistical Year-Book 1934/35.*

The noticeable tendency for the working-week to lengthen (except in the United States) as production increases once again is perhaps one reason why the organised workers have shown

such energy in recent months in endeavouring to standardise by agreement the working-day, which had been considerably shortened during the depression. The arguments advanced for retention and standardisation of the shorter working-day (or its further shortening) are somewhat mixed. Where productivity has increased, shorter hours enable the workers to share the increase by having increased leisure. The advocacy of shorter hours as an emergency measure depends upon arguments that run from the humanitarian desire to share the available work over as great a number of workers as possible, through various forms of the argument for sustaining purchasing power, to advocacy of shorter hours and higher wages as a means of recovery.

Apart from the experience of the United States, which is discussed later, the most significant steps towards the adoption of the forty-hour week were taken in Italy and in Czechoslovakia. In the former, the Fascist Confederations of Workers and of Manufacturers agreed, on October 11th, 1934, to experiment for six months with the forty-hour week, wages being proportionately reduced, with family allowances granted to heads of families. This experiment was part of a general attempt, by abolishing overtime and restricting the employment of women, young persons, and pensioned workers, to share more equitably the labour demanded. In April 1935, the Fascist Grand Council noted the highly satisfactory results obtained and decided that "with, or without, international agreement, the working-week of forty hours shall be placed on a permanent basis and, wherever possible, strictly enforced". The Czechoslovak employers and workers, through their national organisations, also negotiated a forty- to forty-two-hour week agreement on June 22nd, 1934, upon the basis of the same hourly wages, thus reducing weekly earnings. Subsequent negotiations in particular industries were not easy, the workers resisting the decrease of weekly earnings; but, by February 1935, agreements had been concluded establishing a forty- to forty-two-hour week in glass-bottle manufacturing, breweries, yeast factories, the artificial silk industry and distilleries.

There was, in other countries, some progress towards shorter hours without wage reductions. Thus, Canada in March 1935 ratified the international Hours of Work (Industry) Convention, 1919, and piecemeal advances were made by provincial legislation also. In Australia, the Commonwealth Arbitration Court brought practically the whole textile industry under a forty-four-hour week. Other measures might be cited from a number of countries, the most notable perhaps being the definite and numerous advances in the legislation of South-American

countries.[1] The new labour legislation in Germany, which abolishes collective agreements and substitutes collective rules, was supplemented in July 1934 by an Hours-of-Work Order which codified all existing regulations on the subject. The responsible authorities regulate hours of work and working conditions in accordance with the circumstances of the particular industries at different times.

The international movement in favour of the forty-hour working-week was carried forward in 1934 and 1935 mainly by efforts to obtain agreement to an international convention at the annual Conferences of the International Labour Organisation. The employers' delegates to the Conference, both in 1934 and 1935, were almost unanimously opposed to the consideration of such a convention. The report and draft convention prepared by the International Labour Office was referred in 1934 to a committee, but the employers (with the exception of the Italian delegate) declined to participate in the committee's work. The same attitude being adopted in the full Conference, no quorum was obtained and the question was adjourned to the 1935 Conference. This Conference is in session at the moment of writing and debate continues on the proposed convention without any apparent advance towards reconciliation of the views of the workers' and employers' groups.[2]

The whole international situation in regard to labour legislation, particularly in countries closely connected with the United States, was influenced in 1934 by the programme of industrial and social legislation passed in that country, and by its decision to join the International Labour Organisation. The emphasis placed in the United States upon the regulation of labour conditions as an important measure of recovery was not without influence in other American States and the adhesion of the United States, together with that of the U.S.S.R., and the continued membership of Japan, rendered the International Labour Organisation more nearly universal than before.

The major effort in regard to the regulation of wages, hours and working conditions in the United States was embodied in the National Recovery Administration. In signing the Act which brought this Administration into existence on June 16th, 1933, the President declared that "history probably will record the National Industrial Recovery Act as the most important and far-reaching legislation ever enacted by the American

[1] Cf. *International Labour Office Year-Book 1934/35*, Chapter II *passim*.

[2] The Conference on June 22nd, 1935, adopted a Draft Convention approving the principle of the forty-hour week, with maintenance of the standard of living. It is proposed to apply the principle to different industries by separate Conventions. The Conference also adopted a resolution relating to the standard of living and a Draft Convention applying the principle of the forty-hour week to glass-bottle works.

Congress ". Not quite two years later, in May 1935, the Supreme Court of the United States unanimously declared unconstitutional the essential Section 3 of this Act, giving power to the President to approve and administer "codes of fair competition ", violations of which were to be deemed punishable at law. In rendering this judgment, the Court not only criticised the wholesale delegation of powers under the Act, but defined the sphere of federal activity by taking a restricted view of what constituted "inter-State " commerce.

In June, Congress passed, and the President signed, an Act prolonging the National Recovery Administration shorn of its code-making authority, for a further period till April 1936. An appeal was made to the industrial organisations concerned to continue the codes on a voluntary basis; but all attempts at enforcement were necessarily dropped. For particular industries, such as bituminous coal, specific regulation was apparently contemplated in measures laid before Congress, as the petroleum industry had been regulated by specific regulation after a former adverse court decision.

The National Industrial Recovery Act in its original form has been described as "highly inexplicit in its terms, but vastly comprehensive in its powers ". [1] The powers conferred upon the President and delegated by him to the Administrator in fact called for the improvisation, at great speed and without time for prior analysis or orderly consideration, of regulations covering not only wages, hours, and labour conditions, but also trade practices and price policies in virtually the whole range of manufacturing industries in the United States. The method chosen, in the Administrator's own words was "to get the codes in, meeting the unemployment situation after some fashion, clearing up the work of the economic abuses, putting first things first, letting the minor maladjustments fall where they might, and dealing with the long-term effects as they became evident ". [2] It is clear, therefore, from repeated official statements, as well as from the "declaration of policy" contained in Section I of the Act, that the primary purpose of the National Recovery Administration was "to increase the consumption of industrial and agricultural products by increasing purchasing power, to reduce and relieve unemployment, to improve standards of labour, and otherwise to rehabilitate industry and to conserve natural resources ". In other words, it was an effort to achieve recovery through reform and in particular through increasing the purchasing power of the workers by

[1] Lyon and others, "The National Recovery Administration ", Brookings Institution, Washington, 1935.

[2] *Ibid.*, page 46, quoted from N.R.A. Release No. 2993, January 25th, 1934; Address of Recovery Administrator.

raising wages and promoting re-employment through such measures as shorter hours. The appeal of the Administrator at an early stage to industrial leaders who could afford to do so to raise wages by 10% and lower prices by a similar amount illustrates the method upon which reliance was placed.

The whole experiment raises important general economic problems and also problems of constitutional law, administrative procedure, business organisation, labour relations, social conditions such as those arising from child labour, and, in general, the relation of Government to industry. Such problems cannot be discussed in summary fashion; but it is now possible to estimate the degree of success obtained in regard to the recovery objective. Such estimates have been made independently by the Brookings Institution and by the National Bureau of Economic Research. There was a certain amount of re-employment, but, in the words of the Brookings Institution publication, "merely dividing a smaller amount of work among more workers is neither recovery nor a good substitute for it".

Some of the main facts relating to economic developments in the period just prior to, and immediately following, the launching of this experiment are set forth in the brief table below, which is summarised from a study made by the National Bureau of Economic Research:[1]

Changes in Manufacturing Operations in the United States.

	Percentage change from Feb.-March 1933 to June-July 1933		Percentage change from June-July 1933 to Jan.-Feb. 1935	
Gross Income	+ 71		+ 8	
(*a*) Physical volume of production		+ 57		− 5
(*b*) Average selling-price of products		+ 9		+ 14
Total Employment (Man-Hours)	+ 31		− 4	
(*a*) Wage-earners employed		+ 15		+ 16
(*b*) Average weekly working hours per person		+ 14		− 17
Production	+ 57		− 5	
(*a*) Wage-earners employed		+ 15		+ 16
(*b*) Average output per wage-earner		+ 37		− 18
(*a*) Total employment (manhours)		+ 31		− 4
(*b*) Output per man-hour		+ 20		− 1
Wage Disbursements	+ 27		+ 35	
(*a*) Wage-earners employed		+ 15		+ 16
(*b*) Average earnings p. wage-earner		+ 10		+ 16
(*a*) Total employment (man-hours)		+ 31		− 4
(*b*) Average hourly wages		− 3		+ 41
(*a*) Production		+ 57		− 5
(*b*) Average labour cost per unit		− 19		+ 42

[1] Frederick C. Mills: "Aspects of Manufacturing Operations during Recovery", National Bureau of Economic Research *Bulletin* 56, 1935.

In the study from which these figures are taken, similar figures for earlier periods of recovery from depression are given for comparison. They follow the same essential pattern as in the period immediately preceding the introduction of the National Recovery Administration. After that event, the pattern changes in essential respects, the labour costs of production rising and the volume of production falling. The number of wage-earners re-employed rose little more in the nineteen months after June 1933 than in the four months preceding that date, while the average hours worked fell by 17%. Hourly wage rates rose by 41%, but average earnings only by 16%, while in the same period the cost of living rose by 12%. It would appear, therefore, that, in the nineteen months of the second period, 16% more workers were employed and real earnings rose on the average by less than ½%, while in the preceding four months 15% more workers were employed and real earnings rose almost 10%. In the period before the introduction of the National Recovery Administration, the wage-earners gained more and industrial costs were cut, while in the latter period the wage-earners' gains were less and industry was severely handicapped by rising labour costs of production.

Chapter VI.

THE REORGANISATION OF INTERNATIONAL TRADE.

World Trade in 1934.

The measurement of world trade in the present period of confused transition is rendered uncertain, not only by the shifting relations of national currencies, but also by the extensive alterations that are taking place in the character and direction of trade. The summary statistics for 1934 do not disclose much change, but beneath this apparent stability there is, in fact, a great deal of adaptation and alteration in the nature of the exchanges between different countries. Changes in the commodity composition and the geographical distribution of trade are analysed in a later section of this chapter, and attention is drawn also to the great importance of the trend towards bilateral agreements for the regulation of trade between particular countries. In this preliminary section, the total figures for world trade are given, not only for the sake of continuity with preceding Surveys, but also because it is evident that both the revival of the international circulation of capital and the return to international specialisation upon which the absorption of great numbers of unemployed workers depends can be made possible only by a considerable increase in the total value of world trade.[1]

Measured in gold, the value of world trade continued to decline in 1934 as it had declined during the preceding four years. Month by month the total gold value has been less than that of the corresponding month for the preceding year. The first months of 1935 continue the same story. The pace of the decline slackened in the latter part of 1933 and the first half of 1934, but became greater once more in the latter half of 1934, when the increase in the quantum of world trade slackened and currencies depreciated further. For the first quarter of 1935 a new low level was reached.

[1] This chapter is based mainly upon the League of Nations *Review of World Trade, 1934*, Geneva, 1935.

The Gold Value of World Trade, 1929-1934.

Year	Imports		Exports		Total	
	Former U.S. gold $ (000,000's)	Index 1929 = 100	Former U.S. gold $ (000,000's)	Index 1929 = 100	Former U.S. gold $ (000,000's)	Index 1929 = 100
1929	35,585	100	33,021	100	68,606	100
1930	29,076	82	26,483	80	55,559	81
1931	20,795	59	18,908	57	39,703	58
1932	13,972	39	12,895	39	26,867	39
1933	12,484	35	11,740	36	24,224	35
1934	12,011	34	11,364	34	23,375	34

The following table gives the movement of quantum and gold prices quarterly since 1929. The decline in gold prices has been continuous, though during 1934 the fall has been more gradual and is not disclosed by the round figures of the index. It has been caused partly by the depreciation of important trading currencies and partly by the increasing pressure upon world markets caused by their constant narrowing. There is a fairly regular seasonal movement in the quantum of goods entering into international trade, the index rising in the fourth quarter of the year and gradually falling thereafter. After allowing for this seasonal fluctuation, however, the quantum began to rise in the third quarter of 1933; but a year later, in the third quarter of 1934, this increase had practically ceased as trade restrictions were increased, and the proportion of raw materials fell.

Quarterly Indices of Gold Prices, Quantum and Gold Value of World Trade, 1930-1935.

(Base: Average 1929 = 100.)

Year	Quarter	Quantum	Gold prices	Gold value
1930	I	95	94	89
	II	93	89	82
	III	88	86	76
	IV	96	80	76
1931	I	85	74	63
	II	84	71	60
	III	82	68	56
	IV	90	58	52
1932	I	76	55	42
	II	73	55	40
	III	68	52	35
	IV	79	50	39
1933	I	73	48	35
	II	72	48	34
	III	75	47	35
	IV	80	46	37

Year	Quarter	Quantum	Gold prices	Gold value
1934	I	75	45	34
	II	76	44	33
	III	75	44	33
	IV	81	44	36
1935	I	77	43	33

So many countries are now off the gold standard and the amount of trade conducted in gold currencies has decreased so much that it is of interest to recalculate the statistics of world trade in terms of sterling. Not only is sterling the currency in which the largest amount of trade is transacted, but the level of sterling is very close to that of the dollar and there are a great number of currencies pegged to sterling. The table below therefore gives perhaps a clearer picture of the extent to which the value of world trade has now declined in terms of the currencies most commonly in use. Any such calculation, however, must be subject to some margin of error. For example, many countries now subject to exchange control conduct part of their foreign trade at lower rates of exchange than the official parities used in these tables for conversion to a common currency.

The Sterling Value of World Trade, 1929-1934.

Year	Imports		Exports		Total	
	£ (000,000's)	Index 1929 = 100	£ (000,000's)	Index 1929 = 100	£ (000,000's)	Index 1929 = 100
1929	7,312	100	6,785	100	14,097	100
1930	5,974	82	5,441	80	11,415	81
1931	4,587	63	4,169	61	8,756	62
1932	3,986	54	3,678	54	7,664	54
1933	3,767	51	3,543	52	7,310	52
1934	3,994	55	3,780	56	7,774	55

The difference between these calculations in different currencies is perhaps best expressed by the statement that world trade in 1934 had fallen by 66% of its gold, but only by 45% of its sterling, value in 1929. Moreover, the upward tendency of sterling prices had caused a substantial gain in 1934 in the sterling value of world trade, whereas the gold value was still falling.

More fundamentally important than these differences between the currencies was the substantial fall in the quantum of trade, which rose, as already pointed out, in 1933-34, but was apparently checked again after the middle of 1934. The preceding

Survey drew attention to the marked difference in the degree to which the main classes of commodities had been affected by this fall in the quantum of goods. The greatest, and earliest, fall was in the exchange of manufactured articles; but in 1933, under the influence of extended agrarian protection, there was a sharp fall in the exchange of foodstuffs. The increased quantum noted towards the end of that year was the result of a distinct revival in the exchange of raw materials.

In 1934, the increased trade in raw materials slackened off, while manufactured exports increased and there was a slight apparent recovery in the quantum of foodstuffs. These movements were greatly influenced by the reorganisation of trade caused by the negotiation of clearing agreements. It will be seen from the following table that gold prices both of foodstuffs and of manufactures fell more sharply in 1934 than those of raw materials. The main reasons appear to have been the effect of restriction agreements in forcing up the price of certain important raw materials and the fact that many countries, and notably Germany, bought their raw materials, not in the cheapest markets, but from countries which would take their exports.

Trade Movement by Groups of Commodities: Estimated Figures for World Trade.

(Base: 1929 = 100.)

Year	Foodstuffs		Raw materials		Manufactured articles	
	Quantum	Gold prices	Quantum	Gold prices	Quantum	Gold prices
1932	89.5	52.5	81.0	44.5	58.0	64.0
1933	82.5	46.0	87.5	40.5	59.5	55.5
1934	84.5	42.0	88.0	40.0	64.0	50.0

The *Review of World Trade, 1934*,[1] from which these estimates are taken, explains that the apparent rise in the quantum of foodstuffs in 1934 was largely due to increased imports into the United States of alcoholic liquors after the repeal of the prohibition law. The quantum of foodstuffs proper seems to have remained at about the same level as in 1933. The check to the rate of increase in the quantum of raw materials was caused by a sharp decline in American purchases. The expansion of manufactured exports was due in part to increasing American exports of machinery and motor-cars, but also to a considerable

[1] League of Nations *Review of World Trade, 1934*, Geneva, 1935.

revival of imports of capital goods in many of the countries with depreciated currencies.

Indeed, this last is the factor which in 1934 was mainly responsible for any increase that occurred in the quantum of trade as a whole. In spite of a heavy decline of Soviet purchases of iron, steel and machinery, these commodities, together with timber and other building materials, and semi-durable goods such as motor-cars, were exported in larger quantities during 1934. It is, of course, difficult to trace with precision the exact sources of such increased demands for capital goods. A large part of the increase has come from the building and construction activities stimulated by cheap credit in countries with depreciated currencies, notably in the United Kingdom. The natural cyclical recovery of business activity is reflected in increased construction and replacement, and in certain countries such developments have been hastened by credit policies. Some of the demand, also, was on account of the increasing industrial development in countries that have hitherto been mainly agricultural in their organisation.

It is a fact of some significance that the rate of industrial development in agricultural countries is relatively slower in periods of expanding world trade than when world trade is declining. The tendency towards industrial development is, of course, general and continuous. As countries grow in wealth and technique they become progressively more able to utilise modern machine methods of manufacture. In normal times, however, such progress does not interfere seriously with, but rather promotes greater agricultural production in the newer, and further industrial development in the older, countries. Clear examples — the Argentine, the British Dominions and many other countries — might be cited where increased agricultural exports and increased imports of foreign manufactures have gone hand-in-hand with the diversification and extension of local manufactures. In many of the newer countries a somewhat exaggerated protectionism may have over-stimulated local manufactures; but, until the violent contraction of world trade in the recent depression, this did not check the constantly increasing demand for imported foreign manufactures. Since 1929, there has been a restriction of foreign imports accompanied by increasing domestic industrialisation.

The contraction of trade since 1929 cannot be traced to any single cause, but is, indeed, a symptom of general economic dislocation. Agricultural protection in Europe after 1925 and heightened industrial protection almost everywhere were undoubtedly among the causes leading to the break in prices in 1928-29, which in turn caused currency depreciation and

fresh trade restrictions. Once the vicious circle of depreciating currencies, trade restrictions and falling prices was set in motion, the increased effectiveness of agricultural protection, in particular, became very marked.[1]

Any summary table showing the increase of duties is liable to be misleading, since, in addition to large tariff increases, the institution of milling regulations, import monopolies or quotas has effectively shut out imports. The tariff increases in many cases are great enough. On wheat, meats, oils and fats and virtually all major agricultural and pastoral products there was a very substantial tariff increase, supplemented in many countries by a variety of administrative measures of peculiar effectiveness. Thus several of the principal European wheat-importing countries had by 1934 followed the German lead set in 1929 by imposing milling regulations under which specified proportions of local wheat were required in the manufacture of flour. The German duty on butter almost trebled between November 1930 and November 1932, being equal at current rates of exchange to 62*s.* per cwt., or 93 % of the average price of New Zealand butter in London during 1934. There is, in addition, a surcharge since early 1934 to bring the price of imported butter up to the domestic level, and a quota limited for 1934 to about 47 % of average annual net imports during the period from 1924 to 1928. Moreover, in order to protect such a commodity as butter, duties and controls are necessary upon margarine, vegetable oils and nuts.

The inevitable result of such high protection, the complement of which was a direct or indirect increase of industrial protection elsewhere, has been to minimise international specialisation and to encourage production in high-cost areas. As agriculture expanded in industrial countries behind the shelter of quotas and milling regulations, manufactures developed in agricultural countries behind the shelter of foreign exchange restrictions and depreciated exchanges. The subsidised production of wheat in small areas under unfavourable conditions at high cost was paralleled by the erection of small factories producing expensively for local markets. On both sides the advantages of specialisation were lost, production was costly and demand languished.

The tendency towards the increased production of agricultural products in the industrial countries has often been pointed out. The extent to which the protection of wheat-growing has reduced imports in what formerly were important European markets is summarised by the following table:

[1] *Cf.* League of Nations "Considerations on the Present Evolution of Agricultural Protectionism", Geneva, 1935 (document C.178.M.97.1935.II.B).

Net Imports of Wheat and Wheat Flour.

Metric tons (000's).

	Average 1924-1928	1932	1933	1934
Czechoslovakia	576	358	294	3
France:				
From French overseas territories	1,247	639	411	424
From other countries		1,350	191	—201*
Germany	1,999	537	—11*	284
Italy	2,241	885	278	292
Poland	174	—68*	—22*	—69*
Sweden	226	171	53	22
Spain	54	292	— 1*	— 1*

* Net export.

Wheat is the most striking illustration; but meat, butter, cheese and a long list of other important products have also been heavily protected.[1] The effect of encouraging high-cost and penalising low-cost production in this way is a progressive isolation of national price-systems,[2] impoverishment and decreased consumption even of important foodstuffs. It is, indeed, a new and large-scale variant of the old childish game of "beggar my neighbour".

The complementary development of industrial manufacture in countries whose main experience and resources are agricultural is more difficult to measure statistically, if only because the commodities affected are more numerous and varied in quality.[3] It is significant, however, that the textile industries

[1] *Cf.* Chapter III.

[2] The difference in the local and world market prices of important foodstuffs is illustrated by the following table from a German source (*Frankfurter Zeitung*, quoted *The Economist*, January 5th, 1935):

Commodity	Price in Reichsmarks per 100 kg. in December 1934	
	Germany	World market
Wheat	20.55	10.41
Rye	16.55	6.58
Oats	14.88	5.29
Fodder barley	15.45	8.17
Maize (Plata)	15.50	5.84
Cattle	82 00	23.87
Pigs	96.00	28.37
Butter	260.00	121.77
Lard	181.00	66.86
Eggs (per 100)	11.50	4.97
Sugar	44.00	9.17

[3] The following estimates of the percentages contributed to world industrial production by different groups of countries are made by the Berlin Institut für Konjunkturforschung (*Wochenbericht*, March 27th, 1935):

	1928 %	1934 %
Industrial Europe	35	32
Agricultural Europe	7	7
Non-European industrial countries	47	37
Non-European agricultural countries	11	24
	100	100

have increased most in agricultural countries. This is one of the simplest forms of manufacture, catering for a universal demand, and is always among the earliest fields of industrial advance. The following table shows the indices of textile activity in various countries in recent years:

Index Numbers of Industrial Activity in the Textile Industries.

(Base: Average 1925-1929 = 100.)

Country	1928	1933	1934
Chile [a]	101	315	329
Roumania [a]	90	159	182
Greece	116	157	178
Denmark [a]	96	149	168
Norway	99	139	...
Sweden	108	121	...
Hungary	108	114	136
Canada	110	102	122
Finland [b]	105	105	120
World total [c]	101	103	104
Germany	105	90	100
United Kingdom	100	90	92
Netherlands	105	82	...
Poland	118	71	80
Czechoslovakia	106	66	80
United States	99	89	78
France	106	79	67
Belgium	112	69	52

[a] Average 1927-1929 = 100.
[b] Average 1926-1929 = 100.
[c] Institut für Konjunkturforschung, *Vierteljahrsheft zur Konjunkturforschung*, 10-P. 1.

The countries at the head of the list, which show such large increases, still have a relatively small production, and the increase is calculated on a small base. It is significant, however, that there should be this distinct tendency towards increasing production in countries whose industrial development is comparatively recent. The tendency is still more marked if spinning alone is considered. Like the extension of subsidised agriculture in industrial countries, the growth of sheltered industry in agricultural countries must be reckoned both as a result of the depression and as an obstacle to its disappearance.

The pressure still experienced upon the prices of basic foodstuffs and raw materials in world markets may be judged from the price movements revealed in the following table:

Percentage Change in Average (Gold) Export Prices from 1929 to 1934.

Commodity	1929 to 1934 %	1933 to 1934 %
Raw silk (Japan)	— 84	— 38
Copper (U.S.A.)	— 75	— 17
Butter (Denmark)	— 73	— 17
Wheat (U.S.A.)	— 71	— 17
Grey cotton tissues (U.S.A.)	— 68	— 8
Petrol (U.S.A.)	— 68	— 21
Coffee (Brazil)	— 68	— 12
Rubber (British Malaya)	— 66	+ 77
Newsprint paper (Canada)	— 65	— 25
Maize (Argentine)	— 65	+ 12
Silk tissues (France)	— 64	— 3
Raw cotton (U.S.A.)	— 63	+ 0.1
Chilled beef (Argentine)	— 61	— 13
Mechanical wood-pulp (Finland)	— 61	— 13
Wool (Argentine)	— 57	+ 51
Sugar (Czechoslovakia)	— 57	— 4
White cotton piece goods (United Kingdom)	— 54	— 9
Cement (Germany)	— 54	— 8
Passenger motor-cars (U.S.A.)	— 53	— 20
Bacon (Denmark)	— 52	+ 10
Tea (Ceylon)	— 48	+ 10
Pig-iron (United Kingdom)	— 47	— 10
Coal (United Kingdom)	— 39	— 9
Steel girders (Belgium)	— 36	— 9
Tin (British Malaya)	— 32	+ 7
Mowing machines (Germany)	— 14	— 3

It will be noticed that, with the exception of rubber, cotton, bacon, tea and tin, in all of which the control or restriction of production was responsible for higher prices, the only commodities which rose were maize, which was sympathetically affected by the wheat control, and wool, which lost most of its 1933-34 rise later in the year. The declining tendency of prices, it is evident, was still affecting most raw materials that enter greatly into international trade.

The Changing Distribution of World Trade.

The continental distribution of world trade is summarised in the following table. Over the whole period of the depression, the most marked change has been the great decline both of imports to and of exports from North America, which reflects mainly developments in the United States. Between 1929 and 1934, the North-American continent's share of world imports fell from 16 % to 10.9 %, and of exports from 19.5 % to 15.2 %.

World Trade, by Continental Groups.

Value in U.S.A. (old) gold dollars (000,000's).

(Basis: Recorded values; special trade; merchandise only. [a])

Continental group	1929		1932		1933		1934	
	Value	%	Value	%	Value	%	Value	%
1. Europe, excluding U.S.S.R..	35,061	51.1	14,432	53.7	13,068	53.9	12,477	53.4
2. Europe, including U.S.S.R. .	35,996	52.5	15,090	56.1	13,502	55.7	12,813	54.8
3. North America [b]	12,104	17.6	3,825	14.2	3,144	13.0	3,030	13.0
4. Latin America [c].	5,874	8.6	1,924	7.2	1,837	7.6	1,865	8.0
5. Africa	3,182	4.6	1,682	6.3	1,631	6.7	1,542	6.6
6. Asia, excluding U.S.S.R.. .	9,596	14.0	3,672	13.7	3,421	14.2	3,472	14.8
7. Oceania	1,854	2.7	674	2.5	689	2.8	653	2.8
Total (Groups 2 to 7) . . .	68,606	100	26,867	100	24,224	100	23,375	100

[a] In the case of a few countries, the figures include bullion and specie or relate to general trade.

[b] *I.e.*, Canada, U.S.A., Newfoundland, Greenland and St. Pierre et Miquelon.

[c] *I.e.*, America, other than "North America" as defined above.

In order to show these changes more clearly as they affect individual countries, it is perhaps necessary to show for some of the more important trading areas the increase or decrease of imports and exports as measured in national currencies. This is done in the next table:

Changes in the Value of Imports and Exports, 1933-34.

(National currencies : 000,000's.)

Country	Currency	Increase or decrease % in 1934 compared with 1933 Imports	Exports
Union of South Africa . . .	£ S.A.	+ 35	— 14
British Malaya	$ (Straits)	+ 31	+ 45
Canada	$ C	+ 28	+ 23
Australia.	£ A	+ 25	— 11
Argentine	Paper peso	+ 24	+ 28
New Zealand	£ N.Z.	+ 23	+ 16
Japan	Yen	+ 19	+ 17
Sweden	Kr.	+ 18	+ 20
Brazil	Milreis	+ 16	+ 23
United States of America . .	$	+ 14	+ 28
Czechoslovakia	Kč	+ 10	+ 24
United Kingdom	£ stg.	+ 9	+ 8
India	Rupee	+ 9	+ 3
Denmark.	Kr.	+ 6	+ 0
Germany.	RM.	+ 6	— 14
Italy	Lire	+ 3	— 13
Austria	Sch.	+ 1	+ 11
Belgium	B. fr.	— 7	— 4
Algeria	Fr. fr.	— 8	— 13
Netherlands Indies	Gulden	— 8	+ 7
Switzerland	Sw. fr.	— 10	— 1
China (including Manchuria) .	$ Ch.	— 12	— 9
Netherlands	Gulden	— 14	— 2
France.	Fr. fr.	— 19	— 3
U.S.S.R.	Gold rouble	— 33	— 16

Interpretation of the shifts in the distribution of trade suggested by the figures given above is greatly complicated by the fact that very important policy developments occurred during the year. As the pressure of American competition became marked, there were strong reactions in other countries. The gold bloc tightened its trade defences; Germany embarked upon a policy of greatly increased import restrictions and suspended transfers of debt service; clearing agreements among the European countries, led by Germany, were multiplied; Belgium abandoned its deflationary policy; Italy instituted a more rigorous exchange control. The total figures for the year, therefore, mask the important changes that took place in the second and third quarters and were continuing in 1935. The full results of these developments will probably be clearer when the statistics for 1935 are available. Meantime, it is possible only to draw attention to some outstanding changes that are already clearly apparent.

The first is the very striking decline that occurred during 1934 in the trade of Continental European countries, primarily as the result of the bilateral treaties and clearing agreements to which attention is drawn in a later section. Of the total decline in the gold value of world trade from 1933 to 1934, the European decline accounts for three-fourths of the imports and nine-tenths of the exports. Trade between other continents has been increasing on the whole both in quantum and in value; but European trade, particularly with countries outside Europe, has decreased.

Moreover, this decline of European trade continued into 1935 and had an adverse effect upon overseas countries. In the first quarter of that year, compared with the corresponding quarter of 1934, imports rose by 18 % in Oceania, by 15 % in North America, by 14 % in Latin America and by 9 % in Asia; but fell by 9 % in Europe. The obverse of these changes was a fall of export values by 22 % in Oceania, 13 % in Africa, 5 % in Europe and 3 % in North and Latin America, with an increase of 4 % in Asia. The measures taken in Europe to cut down imports have hit the agricultural exporting countries very hard, mainly by a fall in raw-material and foodstuff prices, the inevitable result of which will be to check the expansion of exports that is at present in progress to these overseas countries.

A great part of the decline in European imports of raw materials from overseas is accounted for by developments in Germany and the reactions of these developments in other countries. During the first half of 1934, Germany imported considerable quantities of raw materials, and imports of foodstuffs and manufactured articles continued to increase even after the middle of the year. The greater bulk of these added imports

were capital goods for industrial use. During the first half of the year, the adverse balance of payments resulting from these heavy imports while exports were declining caused a drain upon the gold and foreign assets reserves of the Reichsbank, which fell from RM. 395 million at the end of 1933 to RM. 77 million at June 30th, 1934. In the second half of the year, Germany ceased to transfer a great part of her external debt service and clearing agreements were concluded by those European countries which had passive balances of payments with Germany. As a result of the clearing system, the strict control of raw-material imports introduced in September, and the barter agreements by which Germany endeavoured to secure additional exports against raw-material purchases, German trade connections were greatly changed. The following table summarises these changes as they affect European and non-European countries:

German Imports and Exports, 1933-34.

Reichsmarks (000,000's).

	Imports		Exports	
	1933 2nd half	1934 2nd half	1933 2nd half	1934 2nd half
Europe:				
Foodstuffs	332	345	86	34
Raw materials	552	645	399	337
Manufactured articles	306	355	1,456	1,207
Total	1,190	1,345	1,941	1,578
Non-European countries:				
Foodstuffs	211	203	14	9
Raw materials	675	530	62	45
Manufactures	37	33	475	443
	923	766	551	497

As will be seen from this table, German imports from non-European countries fell heavily, while those from European countries increased. Wool was bought from Hungary and Czechoslovakia, for example, instead of from Australia, the Union of South Africa and the Argentine. Germany paid higher prices,[1] while the withdrawal of German demand led to a sharp fall in world market prices.

On the other side, the heavy fall in German capacity to export is clearly seen. This fall is heaviest in the sales to European

[1] The average price of raw materials imported into Germany rose by over 5% between the first and fourth quarters of 1934, while it fell by over 2½% in the case of the United Kingdom.

countries, partly because the barter agreements with non-European countries made possible some " additional exports ".

The reduced competitive power of Germany and to some extent of Italy in the European markets enabled many of the smaller industrial countries—Austria, Belgium, Czechoslovakia, the Netherlands, Sweden and Switzerland — to maintain or increase their exports in 1934. At the same time, the import surplus of these smaller industrial countries fell considerably because of the decline of their imports from Germany.

Total Trade of Austria, Belgium, Czechoslovakia, the Netherlands, Sweden and Switzerland.

Former U.S. gold $ (000,000's).

	Imports		Exports		Import surplus	
	1933	1934	1933	1934	1933	1934
Trade with Germany . .	424	355	169	205	255	150
Trade with other countries	1,282	1,217	1,149	1,084	133	133

Thus Austria sold more timber, iron and steel, building materials and capital goods generally; Czechoslovakia profited by the exceptional German demand for raw materials and semi-manufactured goods and also by the general demands for capital goods and war materials. Belgian exports of iron and steel rose by 13 %. The Netherlands' increased exports to Germany were mainly foodstuffs. Swiss exports to Germany have risen by almost two-thirds in the last two years and the passive trade balance with that country has been almost halved. Switzerland's creditor position enabled her to increase her exports to eight other countries also by means of clearing agreements; but the fall in Swiss exports to other markets was greater than all the gains from clearing agreements, including that with Germany.

Swedish trade received a double stimulus from the enlarged demand for construction materials in the countries with depreciated currencies and from the German clearing agreement. The value of imports and exports in Swedish currency both increased by 20 %, but exports to Germany increased by 50 %.

Several of the agricultural countries of Continental Europe sold more foodstuffs and raw materials to Germany through barter agreements and in turn took larger quantities of German imports. This is especially true of a group of countries in Central and South-Eastern Europe — Hungary, Yugoslavia, Greece, Roumania and Bulgaria.

Value of Exports from Certain European Agricultural Countries, 1933-34.

(Percentage increase or decrease.)

	To Germany	To other countries	Total
Yugoslavia	+ 27	+ 13	+ 15
Hungary	+ 105	− 9	+ 4
Greece	+ 34	+ 0.5	+ 6
Roumania	+ 51	− 10	− 3
Bulgaria	+ 6	− 20	− 11

The influence of the clearing arrangements with Germany is obvious; but trade conducted in this way is forced into channels which do not utilise the cheapest sources of supplies. As the cost of raw materials to Germany was raised, the cost of capital equipment and manufactures to these countries was raised.

The situation of Denmark, the farm-factory country, is again different. Hit by increasing trade restrictions, particularly in the United Kingdom and Germany, Danish agricultural exports have fallen in quantum; but, on the other hand, there is increasing evidence of industrialisation. Raw materials are imported in larger quantities, while manufactured imports tend to decline.

Apart from Germany, the greatest declines in European trade have been sustained by Soviet Russia and by the countries of the gold bloc. This is clear, even when the value of imports and exports are measured in gold, as the following table will show:

Imports and Exports of European Countries, 1933-34.

Former U.S. gold $ (000,000's).

Countries	Imports		Exports	
	1933	1934	1933	1934
Countries with depreciated currencies [a]	3,323	3,301	2,280	2,253
Countries with exchange control [b]	1,568	1,639	1,692	1,469
Gold-bloc countries [c]	2,419	2,078	1,687	1,641
U.S.S.R.	179	120	255	216

[a] Austria, United Kingdom, Czechoslovakia, Denmark, Estonia, Finland, Greece, Iceland, Irish Free State, Latvia, Norway, Portugal, Spain, Sweden.
[b] Bulgaria, Germany, Hungary, Italy, Roumania, Yugoslavia.
[c] Belgium, France, Lithuania, Netherlands, Poland, Switzerland.

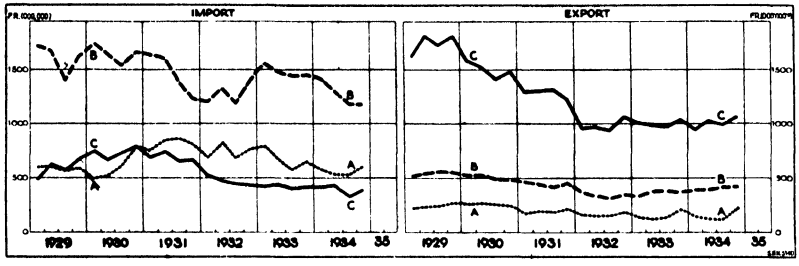
Special attention should be drawn to the developments in France and Italy. In the former, imports were drastically reduced in 1934, mainly as the result of reduced quotas of foodstuff imports and the smaller imports of raw materials

in 1934. On the other hand, exports of foodstuffs rose by reason of subsidised sales of wheat. As in the case of other creditor countries, the institution of clearing agreements enabled France to increase her exports considerably to countries where clearing arrangements were in force.

France: Quarterly Movement of the Quantum of Trade.

(Values, in million francs, at 1913 prices.)

A Foodstuffs.
B Materials necessary for industry.
C Manufactured articles.



Like Germany, Italy imported more raw materials in 1934 to feed her domestic production programme, but found her export markets adversely affected. The strain on the balance of payments which resulted is well illustrated by the following statistics. The increasing trade deficit led first to a loss of gold reserves and finally in December 1934 to exchange control, supplemented in February 1935 by rigid control of imports.

Italian Imports and Exports, 1929-1934.

Lire (000,000's).

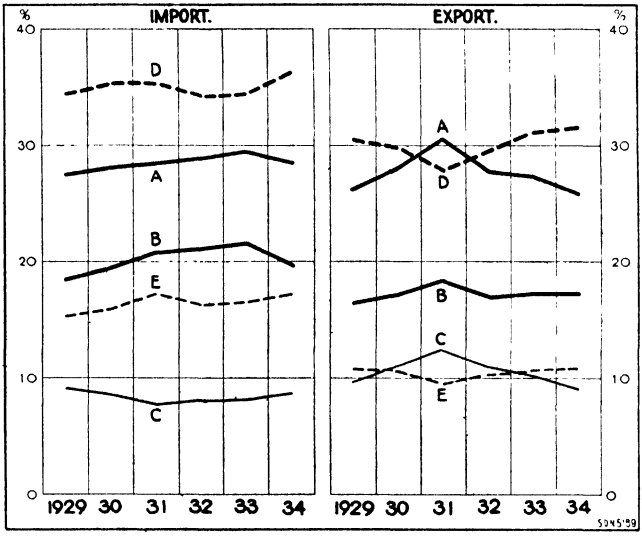
	1929	1932	1934
Foodstuffs: Imports	4,933	1,934	1,130
Exports	3,935	2,200	1,650
Balance	— 998	+ 266	+ 520
Manufactures: Imports	8,699	3,353	3,060
Exports	9,722	3,985	2,850
Balance	+ 1,023	+ 632	— 210
Raw materials imported	8,033	2,981	3,400
Manufactured exports less raw-material imports	+ 1,689	+ 1,004	— 550

The second important factor to be taken into account in considering the redistribution of world trade has already been glanced at. It is the tendency for the countries with depreciated

currencies, including the United States, to gain relatively to those whose currencies are maintained at par by drastic import restrictions or exchange controls. The imports and exports of the sterling and gold countries are best shown by the diagram below, which gives the share of each group in world trade from year to year since 1929.

Imports and Exports of Certain Countries as Percentage of the World Total.

A Nine countries with stable currencies (including Germany).
B Eight countries with stable currencies (excluding Germany).
C Germany.
D "Sterling group".
E United Kingdom (included in D).



Note on the diagram. — The nine countries with stable currencies considered are Germany, France, the Netherlands, Belgium, Netherlands Indies, Italy, Switzerland, Poland and Lithuania.

As trade between France and her overseas territories is largely in the nature of domestic trade, none of these territories has been included and the trade of France with these territories has been deducted. The only country included applying exchange control in merchandise transactions during the period is Germany; separate curves are drawn for the group without Germany as well as for Germany alone.

The "sterling group" is taken to comprise the British Empire, plus Denmark, Sweden, Norway, Egypt, Finland and Portugal. The gold trade of South Africa and other gold-producing countries has been left out of account. Separate curves are drawn for the United Kingdom.

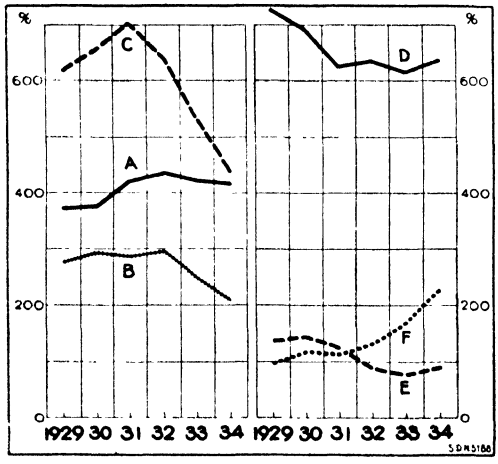
The trade of the countries in question is expressed as a percentage of total world trade after deduction of the gold trade of gold-producing countries.

In reading this diagram, it should be remembered that, owing to the heavy fall in the trade of the United States, the

share of both groups in the diminished total of world trade is greater than it otherwise would be. It will be seen that, in 1934, the relative position of the two groups was much the same as in 1929; but the general tendency both of imports and of exports was downward in the gold, and upward in the sterling, group. A further demonstration of the advantage gained from currency depreciation is the gain in the quantum of manufactured exports shown by the United Kingdom, the United States and Japan since 1931 as contrasted with the fall in Germany, France and Italy.[1] Between 1931 and 1934, the quantum rose by 15 % in the United Kingdom and by about 100 % in Japan, while in France it fell by 21 %, in Italy by 27 % and in Germany by 43 %.[1] In the United States it had fallen also by 17 %, but in 1934, after the depreciation of the dollar, there was a rise of 30 % from the low level of 1933. Much the same story is clear in the 80 % rise during 1934 of manufactured exports from Czechoslovakia and Austria, as contrasted with the fall in Belgium of 2.5 % and in the Netherlands of 6.5 %. Again, the quantum of United States trade in 1934 shows how depreciation encourages manufactured exports as distinct from raw materials, manufacturing costs being most affected by depreciation. The trade of France and Italy shows the reverse tendency, exports of raw materials having been more successful than those of manufactured exports in recent years. The diagram opposite illustrates these tendencies. In the case of Germany, however, the difficulty of acquiring foreign raw materials and the increase of domestic production have checked the export of raw materials.

Value of Manufactured Articles exported, as Percentage of the Value of Raw Materials and Semi-Manufactures exported.

A Germany.
B France.
C Italy.
D United Kingdom.
E United States.
F Japan.



[1] *Cf. Review of World Trade, 1934.*

As may be judged from the preceding diagram, the trade of the United Kingdom has been subject to special influences. The situation of the United Kingdom, a creditor country with a great colonial empire and immense investments, particularly in new countries, but greatly dependent also upon income from shipping and financial commissions, is perhaps best summarised by treating it as the outstanding illustration of the third important factor in the redistribution of trade — viz., the strong tendency towards regional inter-trading. [1]

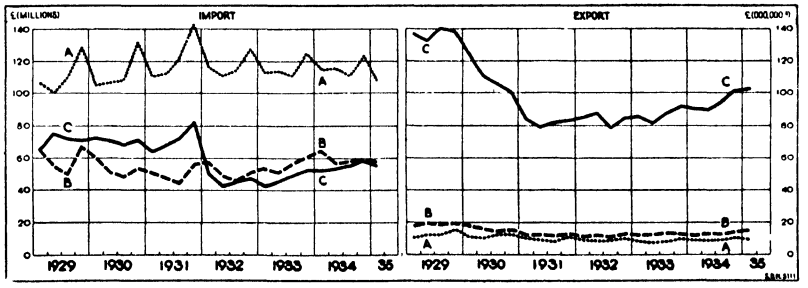
While the trading gains in the countries where the United Kingdom has a special creditor interest are impressive, account needs to be taken of the heavy losses involved in the restriction of world trade and the consequent decline of shipping, financial and commercial services. In swinging from reliance on international trade to imperial trade, in which protection of the local market is an important new fact to be remembered, considerable sacrifices have been inevitable.

There has been an "improvement" of approximately £100 million in the British total balance of commodity trade; but, since the annual "invisible" income derived mainly from interest and shipping services is estimated to have fallen by about £200 million, the surplus on current account, which before the depression averaged about £100 million annually and

United Kingdom: Quarterly Movement of the Quantum of Trade. [2]

(Values, in million £, at 1930 prices.)

A Food, drink and tobacco.
B Raw materials and articles mainly unmanufactured.
C Articles mainly or wholly manufactured.



[1] The similar development in the French Colonial Empire is demonstrated by the following table, showing the percentage share of French overseas territories in French trade:

	1925	1929	1934
Imports into France .	10.5	12.0	25.2
Exports from France .	14.6	18.8	30.9

[2] Retained imports; exports of domestic produce.

was used for new foreign investments, has disappeared as a result of the decline of international trade and shipping, combined with losses of income derived from foreign investments.

Upon the new basis, British trade in 1934 showed a tendency to increase. The quantum of imports and exports was greater than in 1933 by 6 and 7% respectively. There has, in particular, been a steady revival of manufactured exports in the last two years. As in other countries where trade is increasing, the bulk of the increase has been in capital goods.

The close connection of British trade with that of countries in the sterling group has already been demonstrated.

The increase of Canadian trade, despite a 13% fall in the quantity of wheat exported, is an outstanding case of the gain to the Dominions from the Ottawa preferences. Between 1931 and 1934, Canada rose to the second place among exporters to the United Kingdom, increasing her share from 3.8 to 6.9%, while the share of the United Kingdom in Canadian merchandise imports rose from 28.3 to 41.4%.

In the first half of 1934, the strong demand for, and high prices of, industrial raw materials gave a great fillip to the exports of the raw-material-producing countries. Special factors operated in certain areas. The successful schemes for the restriction of production or marketing of tin, rubber and tea greatly assisted many tropical countries. British Malaya, Ceylon, the Netherlands Indies, the Belgian Congo, increased their exports substantially. The rise in wool prices in the season 1933-34 was a great gain to Australia, the Union of South Africa, New Zealand, the Argentine and Uruguay; but the subsequent fall in 1934-35 was embarrassing, especially to Australia. The Argentine shipped much larger quantities of wheat and also profited from higher maize prices. Egypt, Peru, Brazil, the Anglo-Egyptian Sudan and other cotton suppliers profited from the restriction of the American cotton crop. Brazil, in particular, made great strides in substituting cotton for coffee production. Finland, Sweden, Canada, Yugoslavia, Latvia and Estonia and other timber producers exported more timber at higher prices because of the reduction of Russian competition and the demand for building materials in the reflating countries. Gold production advanced in Soviet Russia, Mexico, Canada, Chile, Brazil, Colombia, Japan, Chosen and Australia. Under the stimulus of American demand, silver production also increased in Mexico, Canada and Peru. There was a very substantial export gain also in the petroleum-producing countries — Venezuela, Peru, Iran, and especially Iraq, where exports trebled in 1934 because of the opening of the pipe-line constructed to the Mediterranean.

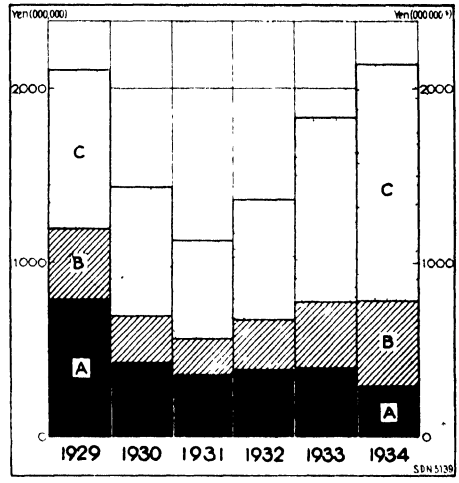
The relaxation of exchange controls in some of the important South-American countries was another factor which helped to promote their trade. The Argentine substantially increased its imports, particularly of machinery and vehicles, the quantum of which rose by two-thirds. Brazil, despite the destruction of almost two-thirds more coffee than was exported and a fall of-12% in the price, practically maintained the gold value of its exports, largely by a tenfold increase in cotton exports.

Japanese exports continued to expand in 1934, despite increased tariffs and discriminatory quotas in many important, including colonial, markets. The character of Japanese trade is changing and Japanese exports are invading new industrial and geographical markets.

Raw silk has fallen from 37 to 13%, while cotton piece goods have increased from 20 to 23% and other exports from 43 to 64% of the total. Exports of non-electrical machinery, for example, were doubled, and those of electrical machinery quadrupled, in weight during 1934. In the same year, exports to Central America, valued in yen, rose by 168%, to South America by 102% and to Oceania by 38%. The total export value rose by 17% and the export quantum by 19%.

Composition of Japanese Exports.

A Raw silk. B Cotton piece goods. C Other articles.



On the import side, also, the development of Japanese manufactures is causing considerable shifts in trade. Thus Australia exports more wool to Japan; Egyptian exports of cotton to the four principal European markets fell by 39%, but those to India, China and Japan rose by 48%. Indian cotton is also imported in large quantities under the 1934 trade agreement and, though cotton manufactures exported to India were limited, other textile exports increased considerably.

The main changes in the Japanese balance of trade with other countries are shown in the following table:

Japanese Trade Balances, 1929-1934.

Yen (000,000's).

Plus (+) = excess of exports; minus (—) = excess of imports.

Country	1929	1932	1934
China (excluding Manchuria)	+ 123	+ 52	— 3
Manchuria	+ 14	— 26	— 57
Kwantung	— 42	+ 44	+ 269
India and Ceylon	— 90	+ 75	— 34
Netherlands Indies	+ 10	+ 60	+ 95
Other Asiatic countries	+ 42	+ 22	+ 87
Africa	+ 18	+ 58	+ 103
United States	+ 260	— 65	— 371
Canada and other North-American countries	— 42	— 31	— 45
Latin America	+ 15	+ 13	+ 80
Europe	— 273	— 98	— 68
Oceania	— 84	— 93	— 134
Unclassified	— 18	— 33	— 33
Total	— 67	— 21	— 111

These figures reveal an interesting development. Japan, defying the prevailing tendencies to bilateral trade, has managed to increase her total exports and imports more successfully than any other country and has done so by the time-honoured methods of triangular trade. How long that process can continue will depend, however, upon the willingness of other countries to allow such triangular trade to continue. Japan has poured capital into Manchuria and increased her exports to the backward economic areas, such as colonial territories in Africa, Asia, and to Central and South America. At the same time, she has drawn raw materials (and certain manufactures) in increasing quantity from new areas of supply.

It will be noted that Japanese sales to China have considerably decreased. The main reason would appear to be the impoverishment of China by reason of the sharp rise in the price of silver and the resultant heavy deflation of Chinese prices. Indeed, the fall in the value of imports and exports during 1934 has thrown China's foreign trade "back by seventeen years".[1] If the loss occasioned by the exclusion of Manchurian trade is eliminated, the statistics are back to the level of fourteen years ago. This is a heavy loss, all the harder since the Chinese economy has for long been adjusted to rising prices, rates of interest, for example, being higher than they might be, to allow for currency depreciation as silver prices fell. Nevertheless, it is significant of the times that imports of machinery

[1] *Nankai Social and Economic Quarterly*, April 1935.

and tools rose by over one-third in gold value during 1934. China, too, is beginning to industrialise.

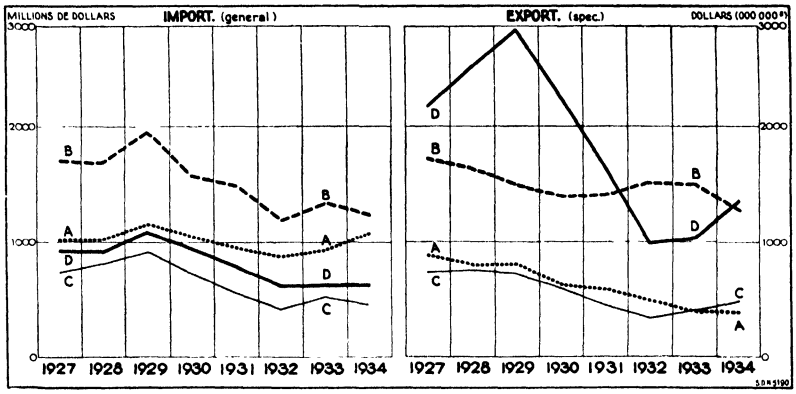
Finally, account must be taken of the trading situation of the United States. The undervaluation of the dollar appears to have given the United States a strong trading advantage, the counterpart of which is a strong inward movement of gold, silver and currency. During 1934, the total net payments of these items were $1,351 million at the new dollar valuation. There was a net inflow of capital on long and short term to the United States during 1934 of $421 million, plus a residual item in the balance of payments amounting to $549 million, consisting largely of unestimated capital transactions. [1] Seventy per cent of the specie imports, therefore, represent a return of capital to the United States; but there is a substantial commodity balance that has to be paid for in the precious metals.

During 1934, the export commodity surplus rose by two-thirds in gold value. This was mainly due to larger sales of manufactured and semi-manufactured commodities. The quantum of finished manufactures rose by 30 %, the number of automobiles exported rising from 108,000 to 238,000.

U.S.A.: Annual Movement of the Quantum of Trade.

(Values, in million dollars, at 1923-1925 prices.)

A Foodstuffs (crude and manufactured).
B Crude materials.
C Semi-manufactures.
D Finished manufactures.



[1] Bureau of Foreign and Domestic Commerce: "The Balance of International Payments of the United States in 1934 (Preliminary)".

These increased exports were mainly directed to other continents than Europe. Exports to Germany fell by 27 % and to France by 40 %. Imports from Europe also fell heavily, almost twice as heavily as those from other continents. It is obvious that this short-circuiting of the triangular trade — by which, before the depression, United States exports to Europe provided an important link in the chain of transactions that enabled overseas debtor countries to discharge their capital obligations to their European creditors — is a major disturbing factor in the confusion of international trade. The bearing of these developments upon the re-distribution of trade is further discussed in the next section.

The Trend to Bilateralism.

It is obvious that, in the confusion of changing trade relationships illustrated in the preceding section, political pressure is forcing trade into new channels. This development is in striking contrast to the persistency of trade connections which was remarked in the immediate post-war period. After the disorganisation caused by hostilities and war regulations, the extent to which the pre-war distribution of trade reasserted itself was quite remarkable. [1] This distribution was not fortuitous, but had been built up by decades of international specialisation upon the basis of fundamental geographic and economic facts. Changes took place slowly and on the whole smoothly as these facts altered.

Moreover, the worldwide specialisation of production and interchange was essentially triangular in character and remains so to the present day. The latest issue of the *Review of World Trade* illustrates this fact in the following passage:

> " Denmark's imports of fodder from cereal-producing countries and of industrial products from Germany are being paid for by exports of bacon and dairy products to the United Kingdom. Germany has a large trade deficit with oversea countries on account of the primary products she requires, but depends upon the European market for her exports of manufactured articles. Belgium and Czechoslovakia are net importers of raw materials from oversea countries and of industrial products from Germany, but net exporters to several other European countries. Poland is also a net importer of various raw materials from India,

[1] *Cf.* Henry Clay: " Some Effects of the War on British Industry ", *Manchester Guardian European Reconstruction Supplements*, No. 15, May 31st, 1923.

Australia and the Argentine, but a net exporter of foodstuffs, timber and coal to various European countries, particularly the United Kingdom and Scandinavia. Egypt acquires an export surplus in her trade with the United Kingdom, France and a few other great consumers of the long-staple Egyptian cotton, and employs this surplus in purchases from other countries which are best suited to meet her special requirements. India has to make large debt payments in the United Kingdom; but the export surplus required for these payments is not obtained in trade with that country (India has, in fact, an import surplus with the United Kingdom), but with other consumers of Indian products in all continents. The United States have normally a large surplus of exports to Europe which is only partly offset by her payments to Europe on account of tourists' expenditure and emigrants' remittances; before 1929, a large share of this export surplus was employed in financing the United States imports of raw materials from, and loans to, other continents.

" It would be easy to continue this enumeration. There are, in fact, few countries in the world that are not dependent upon their sales to certain countries in order to meet their requirements from others. Moreover, the share of each country's trade involved in such triangular transactions represents in most cases the most elementary and necessary share: the exchange of manufactured articles for primary products." [1]

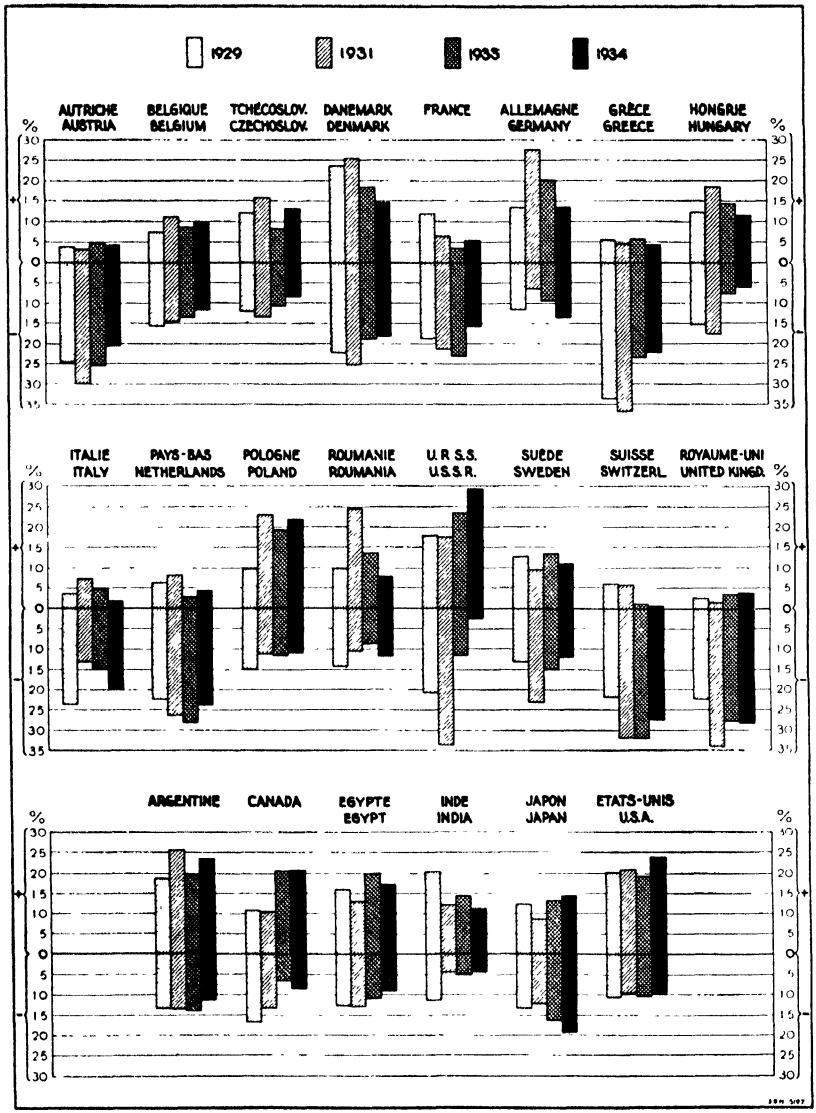
The great bulk of this triangular trade continues, despite the increasing tendency to bilateral bargaining in recent years. The elementary facts of economics and geography cannot be negotiated away, and provision must in any case be made for interest payments and services, as well as capital movements. The diagram on page 180, showing the bilateral trade balances of important trading countries, indicates the extent to which active and passive balances in different markets offset each other.

It is clear, however, that the developments of 1934 have injured world trade in general and triangular trade in particular. Not only has there been a compression of trade, but essential links in the chains of transactions by which trade is financed have been broken, with far-reaching and often somewhat unexpected consequences. It is hardly an exaggeration, for example, to say that many of the Continental European countries have, by their restrictive policies, withdrawn in a

[1] League of Nations *Review of World Trade, 1934*, Geneva, 1935, pages 69 and 70.

Active and Passive Bilateral Trade Balances of Certain Countries, as a Percentage of their Total Trade.

(+) active balances; (—) passive balances.



large degree from the circulatory process of trade. It has been necessary, therefore, to create new trade connections and to find new channels of commodity interchange. Thus the German control of imports and the increasing difficulties of German exports have short-circuited the process by which the raw-material countries, either directly or through the United States, effected part of the payments due to their creditors, mainly to the United Kingdom, by surplus exports to other markets which in turn supplied the United Kingdom's imports. British protective policies have had similar results by shutting off the imports from potential customers of the United Kingdom's debtor countries. The necessity for Japan to break into new markets as a means of obtaining the financial resources to buy raw materials has been aggravated by the collapse of the United States demand for raw silk and in turn has helped to dry up the demand for competitive imports from other manufacturing countries. The expansion once again of the active balance of commodity trade in the United States, in addition to a strong flow of capital to that country, has drained potential banking reserves from many other areas and contributed both to fresh trade restrictions and to the danger of further currency depreciations. The extension of bilateral clearing agreements and reciprocal trade treaties has diverted trade, particularly in Europe, from economic to "treaty" channels. [1] Trade is regulated less by price differentials and more by political bargaining.

One of the inevitable results of the shrinkage in triangular trade has been a great reduction in the *entrepôt* trade of certain great ports whose prosperity in the past largely depended upon their services as distributing centres of trade. It is difficult to disentangle the effects of this loss of *entrepôt* trade from the connected losses due to the decline of shipping. That the trading loss must have been severe is sufficiently indicated, for example, by the statistics of Czechoslovakia, showing the differences between imports from countries of origin and countries of shipment.

[1] The depreciation of the Brazilian milreis in May 1935 was ascribed to the impossibility of securing the transfer of blocked German marks in payment for Brazilian cotton and the necessity of importing German manufactures.

Re-exports to Czechoslovakia from Certain Areas,[a] *1928-1934.*

(Imports consigned from, less imports originating in, the countries listed.)

Kč (000,000's).

	1928	1932	1933	1934 (first 9 months)
Belgium and Luxemburg	2	13	19	12
United Kingdom	—	27	40	11
France	—	—	36	—
Trieste	196	45	60	15
Fiume	20	3	4	—
Hungary	2	1	1	—
Germany, excluding Bremen and Hamburg	135	110	52	40
Bremen	788	221	189	156
Hamburg	1,852	675	375	149
Netherlands	46	10	27	14
Poland and Danzig	1	19	3	5
Austria	125	111	40	29
Total Czechoslovak imports	19,208	8,158	6,125	4,614

[a] *Commerce extérieur de la République tchécoslovaque en 1933*, Prague, 1935, and Supplement to the *Monthly Summary of Foreign Trade*, October 1934.

The great fall of imports from Hamburg is particularly significant of the damage done to transit trade by severe import and exchange restrictions. Transit trade is usually excluded from the operations of clearing agreements in order to prevent exporters from other countries using the clearing to gain payments for their goods.

Similar tendencies may be noted in the statistics of such other countries as distinguish between countries of origin and countries of shipment for their imports. In every case transit trade has suffered more heavily than "special" trade. It is obvious that the commercial and financial organisation of the great trading ports suffers in the same way as shipping from all measures tending to restrict trade, and especially from those which canalise trade into direct channels between the original producers and the ultimate consumers.

There can be no doubt that the extension of bilateral trade bargaining materially restricts world trade. In 1934, the outstanding development was the German policy of debt default, import restrictions and redirected trade. This policy, in effect, eliminated Germany from the chain of normal trade and financial transactions connecting the debtor raw-material countries with their industrial creditors. Moreover, the effort of Germany's neighbours to save what was possible of their trade and debt claims by instituting clearing agreements went a long way towards eliminating many of them from the chain. With these important

links broken or weakened, not only was there heavy pressure upon the debtor countries like Australia and Brazil, but the American sales to Europe, another vital link, were weakened. The United States tended to balance her trade directly by increasing her exports to the raw-material-producing countries, while exports to Europe fell heavily. There was both a loss of total trade and decreased efficiency of international specialisation in consequence. Lower prices for raw materials at the end of the year caused a strain on the balances of payments and ultimately may canal a check to imports into the countries which depend on surplus exports of raw materials.

The chief instruments by which trade has been restricted are quotas and clearing agreements, usually in combination. The paradoxical result of their joint action was particularly well illustrated during 1934 by the French trade statistics. Clearing arrangements designed to ensure the collection of debt service tempted French exporters to sell more to the countries concerned, while those countries were able to sell less to France. Thus, exports to Germany rose from 1,714 million francs to 1,979 million francs, while imports fell from 2,928 million francs to 2,218 million francs. The balance of trade was such as to enable the French authorities to collect interest on the old debts; but new commercial debts were incurred by German importers to an amount estimated as 500 million francs. [1]

In April 1935, the results were published of an "Enquiry into Clearing Agreements" undertaken by the Economic and Financial Organisation of the League of Nations in pursuance of a resolution adopted by the Assembly in September 1934. [2] This publication, in addition to a report drawn up by a joint Committee representing the Economic and Financial Committees of the League, contained annexes which summarised the replies of Governments to questions about the causes, objects, nature and results of their clearing agreements, and gave the results of a Secretariat enquiry into their actual working and results. It is unnecessary here to recapitulate the main conclusions of this report or the results of the preparatory enquiries. In addition to a clear exposition of the technical methods of clearing, statistical evidence is given of the hampering effects of clearing upon international trade. It is demonstrated that such agreements have stimulated exports from countries with passive trade balances and diminished exports from countries with active trade balances, and have therefore caused the balances of commodity trade to move in exactly the opposite

[1] *Financial News*, May 21st, 1935.
[2] Document C.153.M.83.1935.II.B.

direction from that which is desirable if normal trade relations are to be restored. [1]

The Joint Committee's report, while recognising the abnormal difficulties that prompted the institution of clearing systems, emphasises the "immense difference between the spontaneous automatic, almost unconscious, clearing of debts and claims, generally through the machinery of banking, almost without the importer and exporter realising it, and the obligatory and necessarily bilateral clearing system as we see it applied at present ". That system operates "to the prejudice of third countries" and reverses trade currents to the disadvantage of countries with weak currencies — "whereas exactly the opposite process would be necessary to restore the position of a country which is both an exporter and a debtor". Moreover, "the general tendency of clearing agreements is constantly to reduce the volume and value of international trade and to subject it to forms of restraint that necessarily hamper its development ".

All of these, and other criticisms in the report, are fully admitted by most of the Governments at present administering such agreements. The root cause of the system, however, is exchange control, and the Committee, taking note of various methods by which control, at least of commercial transactions, has been mitigated in several countries,[2] recommends the progressive abandonment of such controls "so that national currencies can once more perform their natural function, which is to be exchangeable without any limitation for all other currencies, and through them for goods ".

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[1] *Trade Balances of Six Countries with:* (a) *Countries with which Clearing Agreements are concluded;* (b) *Other Countries.*

(In millions of national currency.)

A. Countries with Passive Trade Balances:

Year	France		Switzerland		Italy	
	(*a*)	(*b*)	(*a*)	(*b*)	(*a*)	(*b*)
1931	—3,936	—8,804	—516	—386	—954	—479
1932	—2,999	—7,785	—429	—533	—482	—964
1933	—1,649	—7,592	—381	—361	—470	—963
1934	— 216	—4,713	—260	—330	—457	—1,985

B. Countries with Active Trade Balances:

Year	Hungary		Bulgaria		Roumania	
	(*a*)	(*b*)	(*a*)	(*b*)	(*a*)	(*b*)
1931	+ 75	—44	+ 1,325	— 51	+ 2,450	+ 3,992
1932	+ 33	—27	+ 83	—171	+ 1,599	+ 3,101
1933	+ 53	+ 27	+ 458	+ 186	— 83	+ 2,592
1934	+ 51	+ 10	+ 164	+ 141	+ 315	+ 202

[2] Austria, in May 1935, was able to relinquish its remaining measures of exchange control.

New Developments in Commercial Policy.

During 1934, the dominant trend of commercial negotiations has been towards further trade restrictions and in certain cases towards the logical development of such restrictions into more organised State control of external trade and financial payments. The outstanding exception to this trend has been the United States programme of reciprocal trade treaties briefly described in Chapter I. This programme has proceeded energetically upon the basis of detailed studies of trade with particular countries, and the agreements so far made with Cuba, Brazil and Belgium have been serious and effective attempts to extend mutual trade by tariff bargains upon the basis of most-favoured-nation treatment. At the same time, a "black list" has been drawn up of countries to which the reduced tariff rates will not apply on the ground that those countries have recently practised discrimination against American imports. It is of some interest that this programme has been conducted upon the traditional lines of tariff bargaining, rejecting quotas and barter agreements, and reducing rather than increasing Government interference with trade. The President having been granted emergency powers, the treaties need not be submitted to Congress. It is already evident, in the short time that has elapsed, that a considerable increase of trade will be the result; but two factors remain uncertain. The first is the bearing of currency depreciation upon these efforts to increase trade. The Belgian treaty contained a clause guarding against currency disturbances, but that clause has not yet been invoked, despite the Belgian devaluation. The second is the net result upon the United States' balance of trade. It is too soon yet to judge whether the concessions made will give a greater advantage to American exports or whether they will encourage greater imports and so help in reducing the United States' active balance of commodity trade, a development that has been officially recognised as desirable.

There has been some relaxation of the exchange controls in some South-American countries, accompanied either by depreciation of the currency or by virtual recognition of depreciated rates for commercial transactions. In certain of the Central and South-Eastern European countries, also, the clearing systems have been modified so as to allow an increasing volume of trade to take place at depreciated exchange rates fixed by the traders. The practice of private compensation achieves the same result, making it "possible for producers and traders alike to re-establish among themselves — without the abandonment of the theory of legal parity — monetary and price con-

ditions which are becoming more and more normal ".[1] The most noteworthy example is Austria, which by a gradual process of removing restrictions was able during 1934 and the early part of 1935 to achieve devaluation, repay short-term blocked accounts and take long strides towards the abandonment of her exchange control, leaving the exchanges free at the new devalued rates. Similar measures have been begun in Bulgaria, Hungary, Roumania and Yugoslavia.

There has been some tendency also for clearing arrangements to stimulate the acceptance of greater imports by the creditor countries which are endeavouring to collect interest that can only be paid in goods. Thus, France enlarged the quotas for Germany, and Czechoslovakia and France granted preferential tariffs to Yugoslavia. These modest gains, however, are heavily offset by the restrictive effects of the clearing agreements in other directions, and the most that can be claimed is that "the clearing system may, in certain cases, have helped to prevent a still more serious collapse of trade ".[2]

There have been several attempts at the formation of regional groups. The British imperial and colonial agreements have been among the most successful of these attempts to expand trade within a definite area; but in the early months of 1935 the increasing difficulty of co-ordinating the threefold policy of protection to British agriculture, trade agreements with countries in the sterling area and imperial preference had led to a deadlock in the negotiations concerning imports of meat. The trade agreements with Denmark, the Argentine and other foreign suppliers and the Ottawa agreements with the Dominions had been concluded for a term of years during which quotas had been guaranteed to the foreign, and free entry to the Dominion, suppliers. The British Government endeavoured to secure the consent of the Dominions to an import levy designed to raise the price of domestic meat; but that consent was not obtained. Though they had agreed to interim measures stabilising, and even slightly restricting, their exports, they refused to agree to a tariff, and at the moment of writing (end of May) no solution to the deadlock had been found. Conferences between the British and Dominion Governments were still in progress.

The conference held at Paris in early 1935, with the object of realising a "French Ottawa", also encountered considerable

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[1] "Enquiry into Clearing Agreements", *op. cit.*, page 20.

[2] *Ibid.*, page 21. The extent of clearing arrangements in force at March 1st, 1935, may be judged from the numbers given in this report, Annex III: Austria 5, Belgium 8, Bulgaria 10, Chile, 5, Czechoslovakia 7, Denmark 1, Ecuador 1, Estonia 3, Finland 1, France 11, Germany 19, Greece 11, Hungary 8, Italy 6, Latvia 3, Netherlands 3, Norway 3, Roumania 7, Spain 3, Sweden 2, Switzerland 8, Turkey 13, Yugoslavia 10.

opposition from the domestic agricultural producers and limited the agreements reached to those designed to encourage complementary as distinct from competitive imports. [1]

The conference of gold-bloc countries, held upon Belgian initiative in October 1934, aimed at increasing trade by 10 % within the gold area, and had some modest, but definite, results in the later agreements between Belgium, France, the Netherlands and Switzerland and in the Franco-Italian agreement; but the attempt of Belgium in April 1935 to secure trading concessions from France to assist her in remaining on the gold standard failed. After devaluation, Belgium instituted a strict surveillance of exports, designed to prevent exporters from increasing their trade in such a way as to provoke reprisals in the form of trade restrictions. How long such controls may prove effective is yet to be seen.

Other conferences of a regional character were held between the countries of the Little Entente [2] (October 1934 and January 1935), the Balkan Entente [3] (February 1935), the three Baltic countries [4] (September 1934) and the three Scandinavian countries with Finland [5] (September 1934). The practical results of such conferences have, however, been very limited up to the present. The Pan-American Union, at its Assembly at Montevideo in December 1933, had adopted a series of resolutions aiming at the development of closer trading relations upon a basis of most-favoured-nation treatment, and in July 1934 a convention embodying these resolutions was opened for signature at Washington.

The overwhelming majority of trade negotiations, however, continued to result in bilateral agreements of a short-term character. The list of these agreements is very long and, as they follow each other in rapid succession, their practical effect is not only restrictive of trade, but leads irresistibly to a greater degree of State control. [6]

The outstanding example of a State monopoly of trade operating as the essential counterpart of a planned economy is that of the U.S.S.R.,[7] which, indeed, is cited by the proponents

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[1] "La Conférence économique de la France métropolitaine et d'outre-mer", *Journal des Economistes*, December 15th, 1934. "La Conférence impériale française", *Le Mois*, December 1st, 1934, and January 1st, 1935.

[2] Czechoslovakia, Roumania and Yugoslavia.

[3] Greece, Roumania, Turkey and Yugoslavia.

[4] Estonia, Latvia and Lithuania.

[5] Sweden, Norway, Denmark and Finland.

[6] Between October 1st, 1934, and April 1st, 1935, there were sixty-seven important bilateral trade agreements, apart from numerous clearing and compensation agreements. During the same period, a great variety of decrees was issued, extending import-licence systems, altering quotas, tightening exchange controls, instituting export licensing, establishing State monopolies of certain imports, etc.

[7] *Cf.* Birmingham University Bureau of Research on Russian Economic Conditions, *Bulletin No.* 7, November 1934.

of national planning as the only country equipped to "make a plan for the full utilisation of its own productive resources in such a way as to fit in this plan with the largest volume of international exchange which national differences of productive efficiency make desirable and which other countries can be induced to agree to".[1] In this view, the free-trade theories of classical economists, like *laissez-faire* policies generally, have been rendered obsolete by the development of monopolies and international combines. National planning, in default of machinery for planning international trade, has had to be safeguarded by measures such as tariffs and quotas, which are restrictive in effect. "Direct planning for an increased volume of international trade is practically excluded under present conditions".[1]

It seems clear, however, that the prospect of world specialisation upon the basis of nationally planned economies is still rather remote, and the alternatives at the present moment are the extension of trade by the traditional methods that have been revived in the American initiative or further restrictions resulting from nationalist policies.

During 1934, the outstanding developments of trade policy in Europe were of a restrictive character. In Germany, all foreign exchange dealings, and all imports, are now subject to control with the declared immediate purpose of establishing equilibrium between foreign imports and the exchange derived from exports, and the ultimate purpose of transforming the present passive balance into a permanent active balance of commodity trade. Twenty-five supervisory offices have been created to regulate imports according to the foreign exchange available and to reorganise Germany's distribution of trade. These are shortly to be supplemented by measures to regulate exports. Since June 1934, however, Germany has negotiated numerous clearing agreements and, despite the great activity displayed in seeking new trade outlets by barter agreements, her imports in the first quarter of 1935 had fallen by 3% and her exports by 10% compared with the first quarter of 1934, despite the inclusion of the Saar from February 18th, 1935.

The development in Italy has been in the same direction. In December 1934, all foreign exchange transactions were centralised in a new Government institute. In February 1935, a licensing system was introduced for imports, in April this system was extended, and in May an office was set up for the control of imports. Inevitably these measures led to threats of reprisals involving the negotiation of new trade agreements.

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[1] G. D. H. COLE: "Planning International Trade", *Foreign Affairs*, January 1934.

As in Germany, trade is decreasing and the passive balance is growing.

These, with the monopolies instituted in Soviet Russia and Iran, [1] represent the nearest approaches to complete State control of external trade. There are, however, numerous monopolies of specific imports undertaken as measures of trade restriction, together with an increasing complexity of licensing systems, quotas and other quantitative regulations. [2] The result is seen in the setting-up of new governmental organisations charged with the administration of such regulations, as, for example, in Japan. [3]

One further development needs to be noted. The tendency for international production or marketing cartels to allocate production and trade has, during the depression, and more particularly in 1934, been reinforced by an increasing readiness of Governments to support and implement such agreements. At the present time, sugar production is controlled under the Chadbourne plan, which expires on September 1st, 1935. A meeting of the International Sugar Council was held in London in March 1934 under official auspices, and in the meantime steps have been taken to secure agreement on the issues left unsettled at that time, the most important outstanding question being the quota for Java sugar. In May 1934, a rubber restriction scheme prepared by the International Association of Producers was put

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[1] *Cf. Bulletin commercial*, Brussels, August 15th, 1934: "Perse: Nouvelle loi du monopole du commerce".

[2] *Cf.* the incomplete but illuminating study "World Trade in Fetters", in *Index*, February 1935. The following brief and incomplete summary indicates the geographical spread, but not the intensity, of the various forms of trade restriction:

State Trading Monopolies: Iran, U.S.S.R.

Import Monopolies of Particular Products: Bulgaria, Chile, Estonia, Finland, Germany, Greece, Italy, Lithuania, Manchuria, Netherlands, Norway, Poland, Spain, Sweden, Switzerland, Uruguay and Yugoslavia.

Import Licences: Australia, Austria, Belgium, United Kingdom, Bulgaria, China, Colombia, Czechoslovakia, Denmark, Ecuador, Estonia, Finland, France, Hungary, Japan, Latvia, Lithuania, Netherlands, Norway, Poland, Roumania, Union of South Africa, Spain, Sweden, Switzerland, Tunis, Turkey.

Import Quotas: Belgium, Bolivia, United Kingdom, Chile, China, Czechoslovakia, Ecuador, France, Germany, Greece, Hungary, India, Indo-China, Irish Free State, Italy, Luxemburg, Netherlands, Netherlands Indies, Norway, Palestine, Portugal, Roumania, Spain, Sweden, Switzerland, Turkey, Uruguay.

Export Licences: Austria, Bulgaria, Canada, Denmark, France, Germany, Greece, Hungary, Netherlands, Netherlands, Indies, Poland, Sweden.

Export Quotas: Australia, Brazil, Bulgaria, Canada, Czechoslovakia, Denmark, Estonia, France, Hungary, India, Japan, Netherlands Indies, New Zealand, Paraguay, Sweden, Yugoslavia.

Export Subsidies: Australia, United Kingdom, Denmark, Estonia, Finland, Germany, Irish Free State, Japan, Latvia, Netherlands, Poland, Union of South Africa, Spain, U.S.S.R.

Exchange Controls: Argentine, Australia, Belgium, Bolivia, Brazil, Bulgaria, Chile, China, Colombia, Czechoslovakia, Denmark, Ecuador, Estonia, Germany, Greece, Hungary, Indo-China, Iran, Italy, Japan, Latvia, Luxemburg, Mexico, Norway, Paraguay, Peru, Poland, Portugal, Roumania, Salvador, Spain, Turkey, U.S.S.R., Uruguay, Venezuela, Yugoslavia.

[3] *Cf. Statist*, May 4th and May 11th, 1935.

into force by a convention between the interested Governments. The International Tin Agreement, which is an agreement between Governments, was renewed for three years as from January 1st, 1934. In December 1934, an agreement between the British and Polish coalowners was made to regulate sales and prices on the export markets, and its conclusion was officially announced. The International Steel Cartel, after long negotiations, finally agreed to a quota scheme on condition that certain new British duties were reduced. Other important cartels which have concluded or extended agreements in 1934 and 1935 are Coppers Exporters Limited, the International Association of Manufacturers of Rolling-stock, the International Rail-makers' Association, the Mercury Cartel, the International Nitrogen Cartel, the International Wood Pulp Cartel, the International Tanker Owners Association, the Shipowners' Northern Wood-Shipping Corporation and the International Pool for the transport of wheat from La Plata. A shipping conference was held in London in January and another will be convened in June 1935 to make an effort at international rationalisation of the shipping industry. On the other hand, the International Tube Cartel and the Zinc Cartel have not been able to conclude agreements.

In another field, the publication in February 1935 of a report by the League of Nations Communications and Transit Organisation on "Economics of Air Transport in Europe" [1] provided a graphic and fully documented illustration of the economic difficulties inherent in the national organisation of such an essentially international service. There is no doubt that increasing speed and facility of communications and transport lead inevitably to the necessity for international co-ordination, if not organisation, of such services, and every step in this direction promotes international organisation in other fields.

[1] Document C.97.M.44.1935.VIII.

Chapter VII.

THE PROBLEMS OF INTERNATIONAL EQUILIBRIUM.

National Recovery and International Equilibrium.

During the past year, most countries registered further recovery from the lowest depths of the depression. There were some in which production and prices fell and unemployment increased, but in the world as a whole the movement of economic affairs was upward. Progress, however, was uneven, and the maintenance of equilibrium between the national economic units that constitute the modern world was precarious. Large transfers of capital, shifting balances of commodity trade, irregular and violent gold movements and difficulty in maintaining stable exchange rates were symptoms of strain upon this equilibrium. The general upward trend of production, prices and employment was undeniably strong. It might have been stronger, more general, and in less danger of being suddenly arrested had there not been such fear of international strain, both political and economic.

It is more helpful, in analysing the elements of international equilibrium, to work from the confused surface of affairs downward to the essential realities of the problem than to approach them from an abstract consideration of a hypothetical world. The confusion and shifting relations of the various elements in the problem -- exchange rates, prices, international debts, trade restrictions, capital movements — must be recognised as important facts in themselves. The theoretical solutions that may be discovered by rigorous logical analysis under assumed conditions of hypothetical simplicity have their interest and value, but miss the dynamic setting which is an essential factor in the practical issues. In the discussion which follows, therefore, the actual developments of 1934 and 1935 will be used as a means of approach to the problem.

Those developments took place in a series of national economic units, loosely but vitally connected with each other.

It is perhaps necessary to insist upon the vitality of their connection, even in the present riot of nationalism. Facilities for communication are more sensitive and adequate than ever before. It is probable, for example, that in the past there were just about as many earthquakes, floods and similar catastrophes as there are now; but the world seems a less secure place since the air has been filled with the news of such disasters. In the same way, economic events and influences are in the air and no measures taken to isolate national economies can in fact ward off the disturbing effects of external happenings. Trade may be restricted; but as long as any substantial volume of trade remains, the prices of commodities in one market will be affected by their prices in other markets. International investment may be paralysed, but capital still moves rapidly from one financial centre to another, in search of security if not of profit.[1] Moreover, apart from this sensitiveness to happenings elsewhere, in innumerable ways every national economic organisation is dependent upon the rest of the world. It is necessary only to think of the articles in common use that would have to be dispensed with in every country if its people could not rely upon securing the products of other countries with certainty, regularity and cheapness. The policies of economic nationalism recently followed have been a protest against such interdependence and an attempt to protect group interests in each country from the disturbing effects of external change. However defensible such policies may have been in particular cases, they are in the aggregate a flight from reality. The reality is that the peoples of the world are, and must be, interdependent — members one of another — and every improvement in communication makes that interdependence more real. The events of 1934 and 1935 amply demonstrate this.

During this period the regrouping of currencies has become more definite. It is almost as if, by a species of molecular attraction, the independently fluctuating currencies had tended to be attracted to one or other of the existing groups. The devaluation of the dollar in January 1934 and its subsequent maintenance at a stable parity with the gold currencies was a step towards restoring an international monetary standard; but, necessarily, there followed some important reactions both in the gold countries and in those with fluctuating currencies.

[1] Cf. T. E. Gregory: "Currency Stabilisation and Business Recovery", International Chamber of Commerce, Paris, 1935. "Unwilling as political and administrative authorities may be to recognise the essential unity of the world economic order, in spite of the strength of nationalistic sentiment and in spite of the active steps now everywhere being taken to divide the world into watertight compartments, that unity persists. It manifests itself in the monetary sphere by one simple but overwhelmingly important circumstance: it is impossible, intellectually, economically or politically, to divorce the probable future of any one of these three groups from the probable future of the others."

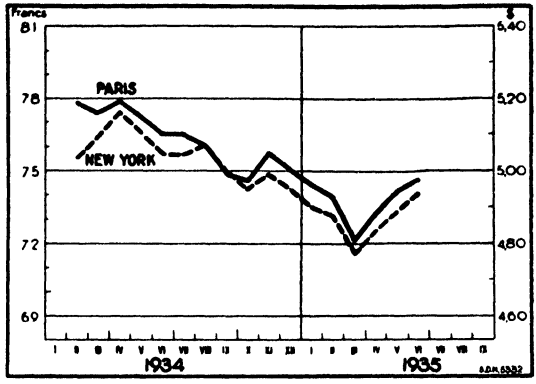
Of the latter, the sterling group is the most important. The building-up of this group and the stability of exchanges maintained within it have been important factors of stability. The composition of the sterling *bloc* consists of certain British Dominions and colonies, whose currencies are definitely pegged on sterling through the operation of a sterling exchange standard, and of a number of independent countries, whose currencies are in fact managed so as to maintain a stable exchange with sterling. Japan now appears to be numbered among the latter group.

It would be misleading, however, to exaggerate the solidarity of the currency groups that have been formed. There are still many currencies which follow an independent course. For example, that of Venezuela appreciated sharply in 1933-34, but fell again in 1934-35. Those of China and Iran also appreciated in the early months of 1935, but the latter fell again in June 1935. In Belgium, Luxemburg and Danzig there was devaluation. Among the depreciated currencies there are many which have apparently been influenced more by the gold (including the United States) than by the sterling exchange rates. Most of the South-American countries are in this category, as well as Canada (which in June devalued to parity with the United States) and several European countries; for example, Austria, Greece, Spain, Yugoslavia. In any period of crystallisation there is apt to be some movement from one group to another before all the currencies settle into a stable equilibrium.

Chief interest centres, however, in the exchange rates between the leading currencies of the principal groups. In practice, since the dollar and the franc are now both on gold, this means the movement of sterling. The yen has maintained a virtually stable exchange rate with sterling for almost two years. The principal unknown factor, apart from the dollar-franc-sterling ratio, is the future of the mark and other currencies now maintained at their nominal parities by means of exchange controls.

During the early part of 1934, sterling depreciated steadily in terms of the dollar and still more of the franc, the dollar devaluation bringing down the cross-rate in January and February. In the autumn of 1934, the three currencies seemed to settle for a few months into a position of temporary equilibrium. This was broken by a fresh depreciation of sterling, which from November 1934 to March 1935 amounted to a decline of 5%. Subsequently, sterling recovered the greater part of this decline, and at the end of June was back approximately to the ratios of October. Behind these fluctuations of sterling *vis-à-vis* the gold *bloc* lies an intricate story of pressures upon the exchange equilibrium exerted by price changes, trade restrictions and capital movements.

Sterling Exchange Rates on Paris and New York, 1934-35.



It was pointed out in Chapter I that the factors to be considered in this problem are extremely complex. The chief were: the currency policies followed, both in the sterling countries and elsewhere; the movements of relative prices, which were largely influenced by these currency policies; the changing trade balances as they were affected by relative prices and also by Government policies; and, finally, capital movements. Since these various factors constantly interact and there is always mutual causation, any attempt to explain the actual happenings of such a confused period must be unduly simplified if it is to be reasonably clear.

At the beginning of 1934, the devaluation of the dollar was the dominant factor, influencing not only exchange rates, but also prices, trade policies and capital movements. The first effects of this devaluation were described in the preceding *Survey*. The new exchange rate between the dollar and the gold currencies was established by the shipment of gold against dollars until the sale of these dollars had brought the exchange rates within the new gold points. The rates remained, however, very close to the point at which fresh gold shipments to the United States were profitable and, during the first year and a-half of the new devalued dollar, from February 1st, 1934, to July 31st, 1935, the gold reserves of the United States Treasury increased almost continuously. At the end of January 1934, the total reserves amounted to $4,033 million. By the end of February, they amounted to $4,393 million at the old parity and were revalued at $7,438 million. The rapid influx continued for some weeks, after which it was slower but continuous till the autumn. From November onward, it became very great once more, except in March 1935, the month in which the sterling

exchange broke. At the end of June 1935, the gold reserves of the United States amounted to $9,115 million.

It is evident therefore that, given the existing price-levels, monetary policies and trade restrictions, the value of the dollar, once stabilised, was low enough to cause a practically continuous flow of gold to the United States, amounting to $1936 million in the period from the end of January 1934 to the end of June 1935. There were three principal causes of this gold flow. The first was the return flight of capital to the United States after the devaluation of the dollar. Those nervous holders who had feared dollar depreciation and had bought securities (or gold) abroad now sold them in order to bring their capital home. It is probable that the sale of sterling realised in this way was the main factor in depressing the sterling exchange during the early part of 1934. Sales of securities and purchases of dollars in gold countries depressed the gold *bloc* exchanges to export point and started an automatic flow of gold across the Atlantic. Similar sales in London and other centres whose currencies were depreciated tended to depress their exchanges, of which sterling is the chief. The orderly fall of sterling shown in the diagram suggests that the Equalisation Fund may have sold gold to check the decline. In any case, it was profitable to sell gold to the United States Treasury. The sterling and other currencies acquired by the sale of securities were used to buy gold in foreign centres. The gold was shipped to the United States and sold to the Treasury for dollars. Since the dollar-franc rate was fixed, the effect on the exchanges took the form of a sterling depreciation.

The second cause of the gold flow was a movement of short-term capital into the United States. It became profitable to send gold to that country to purchase American securities, and the dollar proceeds could be used with advantage by foreign firms, and even Governments, to purchase their own securities or those of their nationals. During 1934, the United States experienced what might be called foreign dis-investment on a fairly large scale because of the cheapness of dollars compared with gold.

The official estimate of the United States balance of payments shows how considerable these movements of capital were. Provisional estimates of the United States' balance of payments for the calendar year 1934 show that the sales of securities exceeded purchases by $105 million, while there was a similar excess of sales on account of sinking funds, redemptions and direct investments, amounting to $116 million. Short-term capital, presumably belonging for the most part to Americans, was brought home to the extent of $200 million, and there was a

residual item, mainly capital movements, of another $549 million in the same direction. The fact that the bulk of these capital movements took place in the first half of 1934 supports the explanation given above and is consistent with the temporary stabilisation of the sterling exchange and cessation of the gold flow in the early autumn of 1934.

These figures, however, according to the official estimates, do not account for more than perhaps 75% of the total gold flow. After allowing for the return of American capital and substantial liquidation of American foreign investments, there still remains a substantial import of gold to be accounted for. This brings us to the third cause, which appears to have come into operation mainly in the second half of 1934, when there was a more rapid expansion of exports from the United States than of imports. Put in the simplest terms, this was because the industries of the United States had their export costs lowered by the cheapening of the dollar.

It is a remarkable fact that the great bulk of the increased exports went to countries not on the gold standard. Indeed, the statistics show more than this. The gold and exchange control countries actually reduced their passive balances with the United States.[1] It was to Canada, South and Central America, Asia and the countries of the sterling *bloc* that the United States sold more. Moreover, their increased purchases from the United States made it impossible for these countries to buy as much from other sources, since United States imports did not increase much and other markets were restricted. This increased thrust of American exports in the second part of 1934 seems to have been one of the main reasons for the adverse balance of trade in the sterling *bloc* described in Chapter I as one of the causes of the depreciation of sterling in March.

All such causes are relative, however. There would have been no difficulty if the increased imports from the United States could have been paid for by increased exports to that country. This was not possible, partly because of the tariff, but partly also because of the lower value of the dollar. In the first half of 1935, the United States export surplus did practically disappear; but in the meantime the abandonment of the industrial codes made it possible that costs might be reduced and prices fall, thus again making the United States a more attractive country to buy from than to sell in.

In the same way, if the increased exports from the United States could have been distributed more widely, the strain of the

[1] The reduction for these countries (Germany, France, Belgium, the Netherlands, Italy, Switzerland, the U.S.S.R., Algeria, Poland, Roumania, Hungary, Turkey, Bulgaria, Lithuania, Latvia, Syria, Netherlands Indies) was $43 million (former gold parity).

dollar undervaluation would not have been concentrated so decisively on the sterling exchanges. In fact, the gold *bloc* tightened its defences and drastically reduced imports by means of further quota restrictions. Prices also fell in France. These developments have already been described in Chapter I. Here it is important only to note the fact that — in face of the strain imposed by massive movements of capital back to the United States, and of an increased surplus of exports from that country — the drastic trade restrictions imposed by Germany and Italy, the stiffened quotas and tariffs of the gold-*bloc* countries and the restrictive effect of the clearing network that spread over Europe redoubled the strain upon the sterling exchange rate, which finally broke in March.

Here again, however, the causation is relative. The cheap credit policies of the sterling *bloc* must be reckoned as a vital factor in the equation. The gold-*bloc* countries have generally countered the depreciation of other currencies by price deflation. In 1934, the average level of wholesale prices in France fell by 16%. Such a fall, quite apart from trade restrictions, decreases imports and tends to increase exports. The combined effect of trade restrictions and deflation tends also to depress prices in world markets to the detriment of the raw-material-exporting countries in particular. In these circumstances, the continuance of cheap-money policies in the sterling group was bound to result in a strain on their balances of payments.

Australia offers a clear case in point. Imports increased by 25% in 1934, as compared with 1933, and were still increasing in the early part of 1935; but, largely because the price of wool fell sharply, the value of exports dropped by 12%. The sterling assets previously accumulated in London served in this case as a buffer, just as the Equalisation Fund was used in London to ease the decline of sterling; if such strains persist, a choice must ultimately be made between allowing the currency to depreciate or restricting domestic credit and thereby cutting prices and costs.

This consideration raises perhaps the most acute controversial question of the present time, the conflict that is presumed to exist between national recoveries and the restoration of an international monetary standard. Before considering this question, however, it is necessary to complete the narrative of events by referring to the attack on the gold currencies that followed the depreciation of sterling. Until sterling depreciated in March, the parities of the gold-*bloc* currencies were a fixed point upon which these pressures were pivoted. The devaluation of the Belgian currency in April was an indication that the point might not remain fixed. The relative pressures were greatly altered and sterling rebounded to its parity of the preceding autumn.

The actual forces at work were capital movements supplemented by speculative gambling. There were in the few weeks from March till June no very significant alterations in the other major factors — prices, trade balances, restrictions or currency policies. Observers differ as to whether the attack on the gold *bloc* began by a nervous flight of capital or was started by a speculative attack. Obviously, neither is a likely development except where some real weakness, in this case largely budgetary, gives cause for alarm as to the currency's future. Investors who foresee greater profits elsewhere and are able to shift their capital will shift it when the economic outlook in any country is darkened. As they sell their securities for foreign currencies with which to buy securities elsewhere, the exchanges fall and gold may be exported. The only lasting way to stop such a flight of capital is to remedy the domestic troubles from which capital is flying.

There were fears of the future in France and the other gold countries, and some nervous holders were transferring their capital. But these fears were exaggerated by a great speculative attack on the gold currencies. When sterling fell in March, it was apparently thought that Belgium would need to cut prices again in order to compete with British goods. Such price-cutting would not only have encountered political and social resentment, but might have endangered certain banks which had tied themselves up with advances to industrial establishments. When capital transfers were supplemented by heavy speculative sales of Belgian francs, the outflow of gold became alarming and the belga was devalued.

Both the capital withdrawals and the speculative attacks were then redoubled against the other gold currencies. The proportion of each is hard to estimate; but attention may be drawn to certain destructive aspects of speculation against a currency. As soon as such an attack on a currency gets under way, the market narrows. In other words, transactions are small and price fluctuations are exaggerated. A comparatively small sale therefore may produce quite disproportionate effects on the exchange rate and on public opinion. Much of the speculation is in fact gambling: a bet that in a month, or in three months, the exchange rate will be lower. No capital is transferred except, ultimately, the margin of profit or loss. Indeed, little capital is engaged. The possible profit is many times the loss which is risked. Those who from March to May 1935 sold forward francs in the expectation that they could buy them much cheaper in a month, or in three months' time, were unlikely to find francs much dearer if the speculative attack failed. If it succeeded,

they might be very much cheaper.[1] There has been a strong feeling that it is uneconomic and undesirable to encourage, or even permit, such gambling in currencies. It is, moreover, one of the few forms of gambling which tends to produce the result gambled on. The central banks, not only in the gold countries but also elsewhere, have taken measures to make it more difficult to get credit with which to gamble on currency depreciation.

In the event, the speculative attack was beaten off by the defensive measures of the central banks. Political action by the Governments concerned helped greatly by checking the flight of capital. Each central bank attacked raised its re-discount rate and limited credit for speculative purposes. Gold was lost in great quantities for a time; but the reserves were massive, and by the end of June were increasing slightly again. In France, after a series of political changes, a Government was formed which was given full powers by Parliament specifically to defend the franc parity. In Switzerland, a substantial majority voted against a programme of increased State expenditure, and taxation was increased to balance the budget. In the Netherlands, further deflation was enforced. By midsummer there was general acceptance of the fact that the spring crisis had passed.

Even the summary analysis of the preceding pages is sufficient to indicate the shifting complexity of the factors entering into international economic equilibrium. Exchange rates are not only the ratios at which currencies can be exchanged. They are the final expression of the relations between the economic life of the nations concerned. Prices of all sorts, interest rates, debts owing between peoples, capital movements across the frontiers, the freedom or restriction of trade and, indeed, the whole range of economic activity affect the rates at which currencies can be exchanged. If these rates are fixed, something else must be adjusted — prices must change, trade must move differently or loans must be made. The conditions of economic activity constantly change and there must be elasticity somewhere in the system or it will break down.

It is sometimes urged that the safest way of providing elasticity is to allow the exchanges to fluctuate. This is urged more often from the point of view of a single country than as a general proposition. It is, for example, frequently argued that stabilisation of the sterling exchange might involve the risk that the United Kingdom's domestic recovery would be checked. The argument is advanced that "the exchange fluctuations of recent years have not been due mainly to any alterations in our

[1] The sterling spot rate rose from about 72 to 75, or less than 5%; the forward premium rose in the crisis to fantastic figures, but it is doubtful whether professional speculators paid such premiums. The spot rate remained near 75 after the crisis passed.

balance of payments arising from ordinary trade or investment transactions, but to large-scale movements of short-term balances from one financial centre to another. These capital movements have occurred in accordance with vagaries of confidence, vagaries in the confidence entertained mainly by persons abroad and relating to the position, not only of this country, but of other countries too. It is these vagaries of foreign confidence that the advocates of stabilisation propose, in effect, to exalt as the supreme directors of our economic life, as the arbiters of the question whether our trade recovery should be allowed to proceed or should be roughly reversed."[1]

Two rejoinders are made to this argument. In the first place, the vagaries of confidence are mainly caused by the absence of stable exchange rates. If reasonable rates are fixed in the first place, capital transfers, it is argued, ought not to be so great that central bank co-operation could not control their effects on exchange rates. New devices are available, such for example as the Equalisation Funds, which might be used as buffers to take the shock of any "vagaries of confidence" that may occur. Secondly, delay in stabilising can only aggravate the damage already done to international specialisation.

It is not proposed here to weigh the arguments for and against the stabilisation of any one currency at any particular parity or time. Attention may be drawn, however, to the importance of the second point mentioned above. Fluctuating exchanges countered by trade restrictions have worked havoc with international organisation. Not only has the quantum of trade decreased and a persistent deflationary pressure been exerted on prices in world markets: the more important damage comes from the great gaps that have been opened up between prices in different countries. Behind the protection necessary to maintain these price differences, vested interests have grown up. Production is fostered in high-cost areas. It becomes more and more difficult, therefore, to re-establish international trade. But, as the next section will show, a great part of the international debts incurred before the depression still remain. Without some considerable revival of international trade, there must still be default or some other method of reducing these obligations to amounts that can be transferred between national economic systems.

There is some considerable difference of opinion also as to how much further recovery can go if international trade is not restored, and concerning the extent to which restoration of international trade is possible.[1] It is not intended to enter that controversy here; but it may be relevant to point out that there

[1] H. D. HENDERSON: "The Case against returning to Gold", Lloyds Bank, *Monthly Review*, June 1935.

has in fact been an international element in the recovery so far experienced by many countries. For the world as a whole, the quantum of international trade has not indeed perceptibly increased since the middle of 1933, but in some countries the increase has been considerable, if in others trade continues to shrink. Recovery is greatest in the former. It is also true that in many countries, especially those industrial countries for which statistics are readily available, production and employment have increased most in the industries catering for the home market. Recovery in other countries, and particularly the raw-material-exporting countries, has, however, depended greatly upon increased demand and higher prices in the export markets. Australia, the Argentine, Brazil, Canada, India, New Zealand, British Malaya, the Netherlands Indies and many other countries have profited from these external factors, and their prosperity has been at least partly responsible for the continuance of recovery in the industrial countries from which they import. The disturbances of international equilibrium in the latter part of 1934 were, indeed, mainly due to the checking of recovery in these countries by the import restrictions imposed in Europe.

The increased demand for raw materials which caused world trade to expand in the summer of 1933 (the only real increase in quantum was in the second quarter of that year) was followed by moderately increased exports of manufactured goods in 1934. Much of the increased production based on the greater quantities of raw materials, however, was absorbed on the national markets. The clearest case obviously is that of armament production; but re-armament was simply the extreme expression of nationalist policies. The stimulation of the home market in other ways also called for imports of raw materials, but failed to stimulate exports.

The purchase of raw materials without corresponding exports is possible by exporting gold, by setting such purchases against debt payments now in default, by drawing upon capital resources in some way, or by repudiating debts. Some part of the recovery of national markets has been in the nature of capital consumption. New tariffs and protective measures, the diversion from foreign to domestic investment, and subsidies to home production have diminished, or failed to replenish, capital assets abroad. In certain cases, there has been capital consumption; in others, merely a failure to add to capital, as was customary in the past. National markets are consolidated, but at some cost in both capital and leadership. As exports dwindle from the industrial countries, manufactures are more widely diffused. New industrial centres such as Japan open up new markets.

The further a great industrial country goes in the direction of autarchy, the greater its losses of capital and leadership. The raw-material countries, wherever they are situated — in Europe, Asia, South America or the South Seas — are at a simpler stage of economic development. They suffer somewhat from the increased self-sufficiency of agricultural production in the industrial countries; but the demand for their raw materials is relatively well sustained, and their own manufacturing industries constantly grow.

These trade developments are generally recognised. The proponents of stable currencies regard them as deplorable and costly consequences of the present international economic warfare and cite them, therefore, as reasons for stabilisation. Those who oppose stabilisation tend to lay emphasis on the "tide of economic circumstance" which for many years has been altering world trade and regard any great revival of that trade as unlikely. According to this view, national markets become more, and export markets less, important for recovery and future prosperity. A great part of international trade is considered as lost, and therefore a "formidable task of readjustment and transfer" within the national economy is envisaged as the most important way to recovery.

Shrinking Trade Balances and International Debts.

The first of this series of annual *Surveys* [1] drew attention to the difficulties created by policies of economic nationalism because of the existence of international financial commitments. As world trade has shrunk and prices have fallen during the depression, a widening gap has been opened between these international obligations and the commercial transactions by which alone they can be discharged in the long run. This is a particular aspect of the general problem of rigid indebtedness in a period of declining business activity, but an aspect of great importance since the strain thrown on the balances of payments of the debtor countries was responsible both for widespread currency depreciation and for a heavy downward pressure on the prices of raw materials and foodstuffs in world markets.

Not only has there been a general diminution of international trade, but the balances of commodity trade have greatly altered, and for the most part have shrunk in recent years. The following table gives these balances for a number of creditor and debtor countries.

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[1] *World Economic Survey, 1931-32*, pages 43-46.

Trade Balances. [a]

(Merchandise only)
in terms of old U.S. gold dollars (000,000's). [b]
(+) Surplus of exports; (—) Surplus of imports.

Country	1929	1932	1933	1934
U. S. A.	+ 818.5	+ 251.1	+ 160.6	+ 278.1
India	+ 261.6	+ 4.5	+ 73.6	+ 52.2
Netherlands Indies	+ 136.0	+ 64.6	+ 56.7	+ 93.4
Mexico [c d]	+ 100.4	+ 39.7	+ 26.6	+ 49.5 *
Argentine	+ 88.2	+ 115.0	+ 57.0	+ 66.4
Chile	+ 86.0	+ 8.3	+ 21.1	+ 36.0 *
Venezuela [c]	+ 63.8	+ 70.1	+ 67.9	+ 80.0 *
Iran [c e]	+ 58.9	+ 38.3	+ 41.0	+ 44.0 *
Cuba	+ 56.2	+ 28.9	+ 32.3	+ 5.0 *
Peru	+ 40.8	+ 19.5	+ 20.0	+ 19.5
Brazil [c]	+ 39.8	+ 72.3	+ 37.3	+ 48.5
Union of S. Africa [d]	+ 37.0	+ 157.2	+ 139.5	+ 32.4
U. S. S. R.	+ 28.4	— 66.4	+ 75.5	+ 96.7
New Zealand	+ 25.8	+ 31.8	+ 38.1	+ 36.0
British Malaya [c]	+ 22.3	— 22.1	+ 8.1	+ 28.4
Philippines	+ 17.3	+ 15.9	+ 27.5	+ 20.3 *
Czechoslovakia	+ 16.1	— 3.9	+ 1.3	+ 23.0
Germany	+ 8.5	+ 255.5	+ 159.1	— 66.8
Sweden	+ 8.0	— 39.1	— 3.9	— 1.2
Siam [c]	+ 7.8	+ 13.8	+ 11.8	+ 14.4 *
Ceylon	+ 7.0	— 1.9	+ 5.8	+ 10.7
Yugoslavia	+ 5.8	+ 3.8	+ 7.5	+ 5.3
Lithuania	+ 2.4	+ 2.3	+ 1.8	+ 0.8
Indo-China	+ 1.5	+ 2.0	+ 4.1	+ 10.5
Colombia [c d]	+ 0.5	+ 37.2	+ 14.7	+ 17.8
Uruguay	— 0.3	+ 2.4	+ 1.6	— 1.2 *
Estonia	— 1.3	+ 1.5	+ 1.2	+ 2.2
Roumania	— 2.7	+ 31.6	+ 14.6	+ 3.1
Hungary	— 4.4	+ 1.1	+ 13.6	+ 10.4
Bulgaria	— 13.9	— 0.6	+ 4.5	+ 2.2
Belgian Congo [d]	— 13.9	+ 5.7	+ 7.5	+ 12.7 *
Egypt	— 13.9	— 4.5	+ 7.0	+ 7.9
Finland	— 14.2	+ 17.4	+ 19.5	+ 18.7
Latvia	— 16.9	+ 2.4	— 1.9	— 1.9
Tunis	— 22.6	— 35.7	— 42.8	— 23.4 *
Japan	— 25.5	— 30.4	— 13.9	— 20.9

* Provisional figure or partly estimate.

[a] Figures have been calculated simply as the difference between the value of recorded imports and exports of merchandises (excluding, unless otherwise stated, bullion and specie)—that is to say, no adjustment has been made in order to arrive, for countries for which such adjustment would be necessary, at the commercial value c.i.f. for imports and f.o.b. for exports. In the case of countries whose currency fluctuated widely during the period covered, trade figures have been converted month by month into gold dollars, in order to obtain a weighted rate of exchange for each year. The countries selected are the most important in world trade, and *the order followed in the table is determined by their trade balances in 1929, beginning with the most active, and ending with the most passive.* Most of the figures for 1934 and some for 1933 are still provisional. The figures are monthly averages. — [b] Old U.S. gold dollar of 1.50463 gramme of fine gold. — [c] Balance of general trade. — [d] Including gold. — [e] Years beginning March 21st.

(+) Surplus of exports; (−) Surplus of imports.

Country	1929	1932	1933	1934
Denmark	− 26.6	− 3.1	− 9.2	− 16.4
Palestine	− 27.1	− 19.1	− 28.0	− 35.2 *
Poland-Danzig	− 33.4	+ 24.8	+ 14.9	+ 19.8
Turkey	− 49.8	+ 7.3	+ 13.3	+ 12.9 *
Morocco (Fr. Z.)	− 51.5	− 43.1	− 36.5	− 25.6
Portugal	− 65.0	− 29.3	− 33.7	− 30.9
Irish Free State	− 65.4	− 55.1	− 53.6	− 61.5
Canada	− 74.4	+ 103.6	+ 137.2	+ 140.6
Algeria	− 77.6	− 6.2	− 10.0	− 20.9
Greece	− 82.1	− 30.2	− 18.4	− 18.6
Norway	− 86.0	− 22.1	− 18.0	− 23.8
Belgium-Luxemburg	− 104.2	− 38.5	− 22.0	− 7.2
Switzerland	− 115.1	− 182.9	− 141.5	− 113.9
Australia [c]	− 116.5	+ 81.4	+ 113.1	+ 40.1
Spain	− 121.4	− 45.8	− 32.2	− 48.2
Austria	− 151.1	− 80.6	− 41.5	− 31.8
China [f]	− 160.1	− 203.3[f]	− 150.8[f]	− 99.8[f]
Netherlands	− 306.7	− 182.8	− 194.3	− 131.2
France	− 316.8	− 396.9	− 390.3	− 205.4
Italy	− 338.3	− 74.7	− 75.1	− 124.8
United Kingdom	− 1,857.6	− 996.2	− 853.1	− 857.4

* Provisional figure or partly estimate.

[c] Balance of general trade. — [f] Since 1932, excluding Manchuria and Jehol.

There are several comments to be made on these figures. In the first place, the sharp contraction of import surpluses, or, in the United States, the expansion of an export surplus, in the creditor countries must be pointed out. Up till 1933, France and the United States, and to a less extent Sweden and Switzerland, were apparently content to receive an increasing import surplus; but all these countries managed to reduce their passive balances or expand their active balances in 1934. The only creditor country which, in that year, had a greater passive balance than in the previous year was the United Kingdom, and in that country the balance remained much below the figure for 1929.

The statistics of the debtor countries naturally show the reverse trend. In almost every case, they made strenuous efforts to increase their export surpluses or to diminish their excess imports when borrowing ceased in the early years of the depression. There were some cases — India, the Irish Free State, the Netherlands Indies, British Malaya, Roumania, the U.S.S.R. and Yugoslavia — where this object had not been achieved in 1932; but in all these cases the year 1933 showed some improvement. In 1934, however, the great majority of the debtor countries found their balances of commodity trade less

satisfactory than in the previous year. Germany was a striking example. The main exceptions were countries which benefited from restriction schemes raising the prices of their exports (British Malaya and the Netherlands Indies), those which depreciated their currencies further and also gained from restriction schemes elsewhere (the Argentine and Brazil), and Austria, which benefited by a conversion loan and favourable trade treaties.

The year 1934 was unfavourable on the whole to the debtor countries, and the statistics for the first quarter of 1935 as compared with the first quarter of 1934 show that the new trade restrictions were continuing to affect them adversely. The only creditor countries to show a greater tendency at the beginning of 1935 to accept larger imports relatively to exports were the United States and Sweden.

It is perhaps unnecessary to insist further on this point. For a certain number of countries, the following diagrams illustrate both the general tendency for the balances of commodity trade to shrink and the even more important tendency for the balances to move against the debtor countries during 1934.

Detailed statements of the "invisible" items in the balances of payments of most countries are not yet available for 1934. Later in the year, the annual volume prepared on this subject by the Economic Intelligence Service of the League of Nations will give this information.[1] The statements already published for particular countries are not a sufficient basis for generalisation. For the United States, the net tourist expenditure abroad seems to have increased slightly; but immigrants' remittances decreased. The invisible items in the Canadian balance of payments showed a general tendency to increase in 1934, and the same is true of the Australian statement for 1933-34. The summary table of the United Kingdom balance of payments for 1934 also shows some improvement in the "invisible" items:

Balances of Credits and Debits in the Transactions (other than the Funding and Repayment of Capital) between the United Kingdom and All Other Countries.[a]

£ (000,000's).

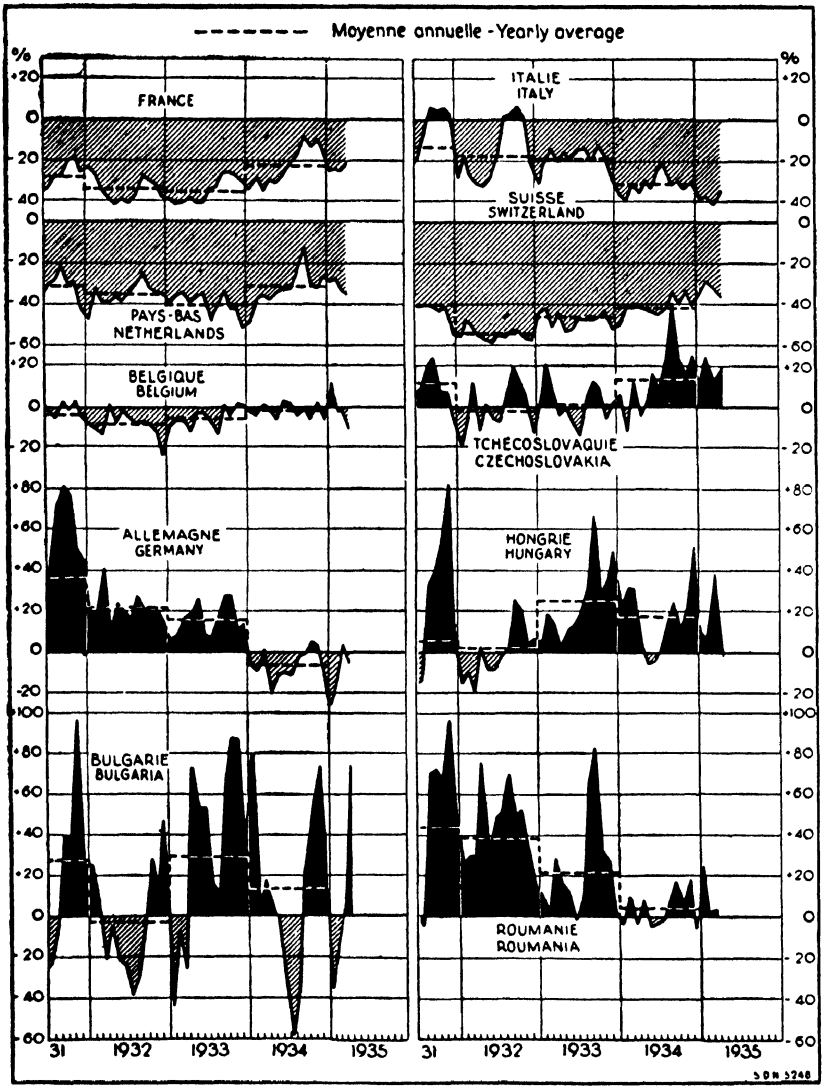
Particulars	1932	1933	1934
Estimated net national shipping income . . .	70	65	70
Estimated net income from overseas investments	150	160	175
Estimated net receipts from commissions, etc.	25	30	30
Estimated net receipts from other sources . .	15	10	10

Board of Trade Journal, February 21st, 1935, p. 276.

[1] League of Nations: *Balances of Payments, 1934*, to be published before the end of 1935.

Movement of Trade Balances in Certain Countries.[a]

\+ Export surplus as percentage of import value.
\− Import surplus as percentage of export value.



[a] League of Nations: *Monthly Bulletin of Statistics*, June 1935, pages 246 and 247.

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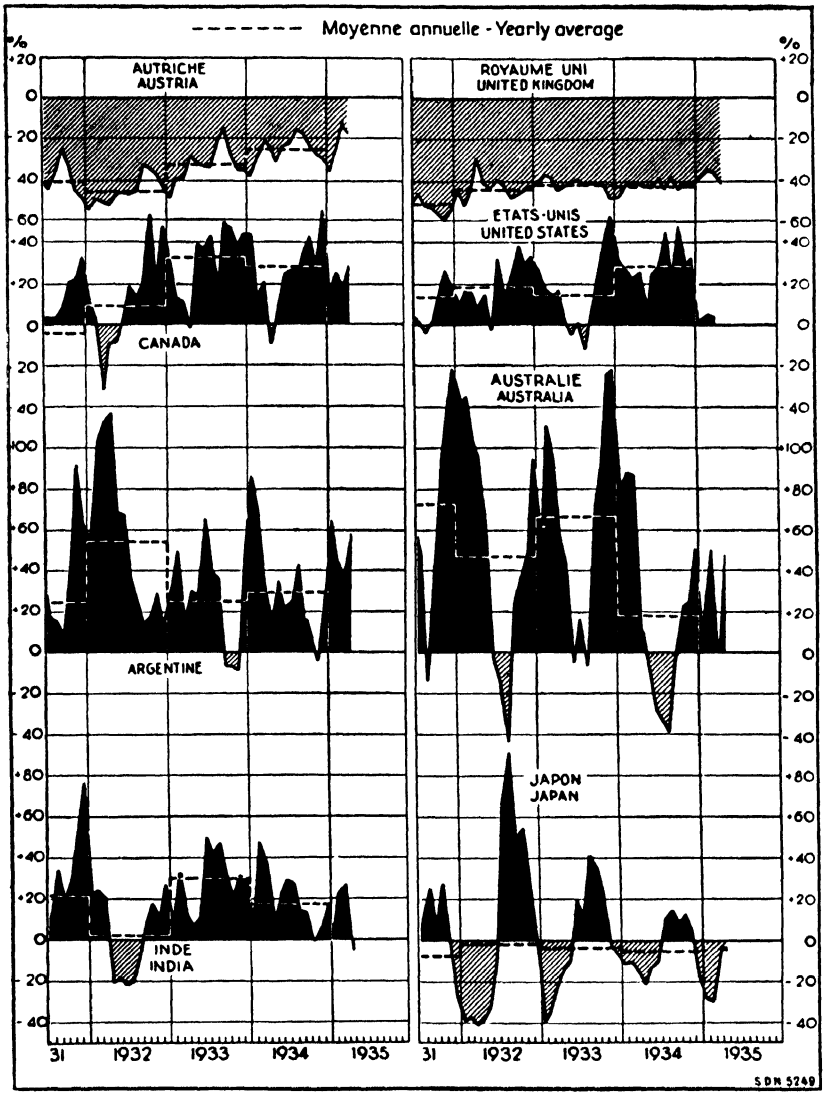

[a] League of Nations: *Monthly Bulletin of Statistics*, June 1935, pages 246 and 247.

While it is probable that, for some countries, there were increased "invisible" imports and exports — heavier freight payments, larger tourist expenditures, and increasing dividend payments — such increases were not universal in 1934 and cannot in any case have gone far to counteract the great shrinkage of such payments in previous years. Tourist expenditures in 1933, for example, were estimated to have fallen to about a third of the 1929 amount. [1] Immigrants' remittances in 1933 were about 40% of what they were in 1929. [2] Shipping income had also fallen heavily. The amount estimated for the United Kingdom in 1934 was little more than half what if had been in 1929, while the estimated receipts from interest on short-term capital, and commissions were less than half.

Not only were the international balances of payments, both of "visible" commodities and of "invisible" items, much reduced in 1934, but there were difficult transfer problems arising from the shifting of these balances between the nations. From the information given in Chapter VI concerning the effects of bilateral trade agreements and the spread of clearing systems, it is obvious that these problems were aggravated in many countries during 1934. The multilateral exchanges upon which international trade was formerly built have been further disorganised, thus creating a fresh series of transfer difficulties. [3]

In these circumstances, international indebtedness remains an important problem in any attempt to rebuild the international economic system. It is not possible to give complete and up-to-date statistical information concerning the international indebtedness of the principal countries. For such information to be of value in a study of equilibrium, it should include private investments as well as public borrowings and should take account of the real domicile of the creditors. In recent years much of the foreign debt has been bought in by nationals of the debtor countries. What is important for an analysis of equilibrium is the actual amount of debt service that needs to be transferred across national frontiers. At the present time, the interest and dividends which are so transferred have greatly shrunk. The extent of this shrinkage in terms of former gold dollars may be estimated roughly from the following table:

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[1] League of Nations: *Balances of Payments, 1933*; Geneva, 1934, page 46.
[2] *Ibid.*, page 41.
[3] For a discussion of these problems in 1933, cf. *ibid.*, pages 23-31.

Receipts and Payments of Interest and Dividends.[a]

Former U.S. gold dollars (000,000's).

Country	Gross Receipts				Gross Payments			
	1929	1932	1933	1934	1929	1932	1933	1934
United Kingdom.	1,217[b]	508[b]	514[b]	526[b]	.	.	.	.
United States . .	1,118	523	372	234	419	68	51	75
France	247	81	78	...	27	35	10	...
Sweden	29	31	20	...	21	7	6	...
Irish Free State .	57	35	...	...	29	20	...	...
Germany	95	48	36	...[c]	286	262	202	...[c]
Canada	87	49	37	...	257	219	201	175
Australia	15	6	5	...	185	105	96	...
Netherlands Indies	5	3	2	3	132	49	49	50
India	16	2	1	...	131	92	84	...
China	1	.	1	...	119	.	24	...
Un. of S. Africa .	1	1	1	...	77	62	58	...
Japan	47	24	19	...	56	35	29	...
Poland	4	2	2	...	46	34	26	...
New Zealand . .	3	1	1	...	45	28	26	...
Czechoslovakia .	21	14	11	...	31	23	21	...
Hungary	3	—	...	...	31	3	...	...
Denmark	11	6	5	2	28	20	16	15
Norway	4	3	2	2	23	18	16	13

[a] League of Nations: *Balances of Payments, 1933;* Geneva, 1934.
[b] Net figure.
[c] Net payments, for eleven months only, amounted to $106 million.

The gaps in this table are unavoidable in the absence of more complete and up-to-date national statistics, and the figures which are given need to be handled very carefully. They are calculated for the sake of uniformity in United States gold dollars at the former parity. Thus, in the case of the United Kingdom, the decline of net receipts measured in sterling is from £250 million in 1929 to 175 millions in 1934, or 30%. The fluctuation of the exchanges must be constantly borne in mind in any such calculations.

Since, for debt service, the nominal value of the mark has been maintained, Germany, the largest debtor in 1929, has gained considerably from the depreciation of the dollar and the pound sterling. Some of her debts, however, are in gold currencies and the great reduction of debt payments shown in the table is partly due to the transfer moratorium imposed from July 1934. Two factors — default on certain obligations and the repurchase of securities at a discount — have reduced the amount transferred and, since the transfer moratorium imposed on July 1st, 1934, took effect only in the second half of the year, the amount transferred in 1935 will obviously show a still greater decline.

The case of Australia is different. There has been substantial relief, mainly in 1934, from conversions on the London market to lower interest rates; but the bulk of the reduction shown in the table above is due simply to the exchange rate used in calculating debts in terms of the dollars. The Australian pound is depreciated 20% below sterling, so that the amount transferred for debt service in 1933-34 was £A38.1 million, a sum almost as great an amount as the £A39.1 transferred in 1929-30.

Another element to be considered is illustrated by the sharp decline in payments from the Netherlands Indies, caused mainly by a reduction in dividends on private capital invested there.

In some cases, there have been considerable changes in the inward and outward items. Thus, in the case of France, the decline of outward payments in 1933 was occasioned by the cessation of war-debt payments to the United States. The most significant changes, however, took place in the balance of the United States itself. Outward payments from that country amounted in 1929 to $419 million. In 1934, they were only $75 million (at the old valuation), the difference being due in large part to the withdrawal in the meantime of foreign capital from the United States. Inward payments fell from $1,118 million to $234 million, or by a greater percentage than that of any other creditor country. It is, indeed, essential always to bear in mind that throughout the depression some debtor countries have continued to discharge the greater part of their debt, while defaults have been concentrated in other countries. It has become increasingly difficult to collect the debt service due from countries whose currencies have greatly depreciated or from those which maintain a precarious balance of payments only by drastic exchange controls. The countries on the gold standard (including the United States until 1933) found it difficult to obtain debt payments, owing to their high exchange rates.

The statistics are sufficient to show that the actual payments transferred on account of debt service have not declined in most countries as much as international trade has fallen. Debtors have made great efforts to pay, and debt service forms a larger part of the balances of payments. This in itself is a strong argument for restoring a greater volume of international trade; but it should be added that the nominal obligations of debtor countries and their nationals have in most cases remained at their pre-depression amounts, or have even increased in terms of the national currencies. Where the obligations were, or have been transformed into, equities such as industrial shares, the nominal amount of indebtedness is not a serious problem; but, in the case of fixed interest securities such as mortgages, debentures and bonds, the nominal amounts owing determine the

amount that ought to be transferred. Public indebtedness, and much private international debt also, is of the latter type.

There has, however, been some reduction of international indebtedness in recent years, very considerable and widespread in the case of short-term debts, less substantial and confined to fewer countries in the case of long-term debts. The Bank for International Settlements makes a rough annual estimate of outstanding short-term indebtedness, the total of which is believed to have declined since 1931 from 70 million to 30 million Swiss francs.[1] Part of this apparent reduction is due, not to a shrinkage of funds held in foreign centres, but to depreciation of the currencies in which they are held. There has, however, been a considerable amount of debt repayment and composition, and also of capital repatriation. A clear case is that of the "standstill" agreements, in respect of which debt is being progressively, if in some cases slowly, reduced. During 1934, the Austrian agreement lapsed, the amounts owing having been so greatly reduced that they could be carried as free credits. The German standstill debts were further reduced in 1934 by over RM. 500 million. In July 1931, the first standstill agreement covered RM. 6,300 million. [2] By December 1934, this amount had been reduced to RM. 2,007 million, of which only RM. 1,734 million were being used.

During 1934, however, there were conflicting tendencies in respect of international short-term debt. In addition to the standstill agreements cited above, there has been much liquidation of the debts "blocked" in earlier years. On the other hand, the clearing arrangements in certain cases resulted in fresh accumulations of commercial claims in arrears. The sale of blocked currencies at a discount for special purposes such as tourist expenditure, and various commercial bargains, many of them highly ingenious, by which private debts have been repaid in some form have probably reduced the total outstanding. Among the European debtor countries, Roumania was able to conclude a commercial debt agreement with her English creditors in February 1935. Germany, on November 1st, 1934, concluded an agreement, subsequently revised, with her English creditors on commercial account. Yugoslavia, in January 1935, repaid French short-term credit granted in 1931 by reducing the currency reserve ratio from 35 to 25% and utilising the reserves thus freed.

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[1] Bank for International Settlements "Fifth Annual Report, April 1st, 1934, to March 31st, 1935", Basle, May 13th, 1935, pages 31-35.

[2] The total short-term debt at that time was estimated as RM. 13,100 million.

Some South-American countries were also able to get rid of or reduce their blocked short-term indebtedness. Brazil, in the early part of 1935, concluded agreements for this purpose with the United States, Italy and the United Kingdom. At the end of May, the Argentine floated a loan in London to repay commercial balances owing to British traders, and had earlier liquidated Spanish commercial debts. In Ecuador, under a law passed in December 1934, 25% of the foreign exchange received from exports was set aside in order to reduce foreign commercial debts.[1] Besides the continuation of these processes of adjustment between debtor and creditor, there was an important return flow of short-term capital, largely through London, to the United States. This movement, to which attention was called in the preceding section of this chapter, was mainly a repatriation of refugee capital and, while disturbing at the time, should probably be regarded as freeing the money markets from a potentially dangerous element.

The Bank for International Settlements comes to the broad general conclusion that, "during the year 1934, the total amount of purely financial indebtedness further decreased, but the volume of trade financing and monetary reserves in foreign currencies increased, especially within the sterling area". Financial indebtedness is defined as "balances resulting from security and arbitrage dealings, current accounts between companies and their branches or subsidiaries abroad, credits raised in anticipation of long-term loans, 'short-term savings' money seeking 'security' and 'vagabond funds in general'". Such funds, it is pointed out, "may constitute a very real danger to the monetary mechanism, particularly on account of their tendency to move *en masse*". Their decrease may be interpreted, therefore, both as a symptom of more settled monetary conditions and as a lessening of potential danger to the monetary mechanism.

On the other hand, the foreign short-term holdings of central banks and other monetary and banking reserves held abroad increased during the year. This was partly because of the consolidation of the sterling standard. The new central banks of the British Dominions and India (but not Canada) are operating what is, in fact, a sterling-exchange standard, the central reserves of which are held in London. In addition, there was an increase in the short-term assets held in London to the credit of other countries whose currencies were linked with sterling. Towards the end of 1934, the London assets of some of the Dominions ran down as a result of their adverse balances of

[1] *Wirtschaft und Statistik*, 2. Juni-Heft, Supplement.

trade; but it is significant that these funds were adequate to act as a buffer against the renewed strain and that no further depreciation took place *vis-à-vis* of sterling.

As far as short-term debt is concerned, therefore, it is evident that the dangers to international economic equilibrium have on the whole decreased. Long-term debt has proved more difficult to adjust; but even in this field some progress has been made. There has been little, if any, reduction in the nominal amounts of public long-term foreign indebtedness. Certain debts, however, are not being paid. The outstanding example is that of the war debts to the United States, the amounts of which have been given in previous *Surveys*. The only country which has continued to pay at all is Finland. There are many other examples of recent Government defaults, either complete or partial.

During recent years there has been not only a sharp decline in dividends on shares owned abroad, but the payments on many fixed-interest bearing securities have fallen into arrears also. It is impossible to get complete statistics of such defaults, but at least partial information is available for many countries, and the extent of default may be judged by the summary of this information which follows.

According to official estimates, about 32% of the foreign bonds issued in the United States were in default at the end of 1933. During 1934, new defaults occurred and this proportion probably increased, but later figures are not available. The areas of worst default were Europe and South America, but in the former commercial, and in the latter Government, debt was the important factor. The proportion of complete as distinct from partial default was greatest in South America.

The American Foreign Bondholders' Protective Council, in its first annual report, gives the following table of defaults on December 31st, 1934.

$ (000,000's).

Area	Total capital outstanding	Amount on which interest service was in default
Latin America	1,564	1,189
Europe	1,590	630
Canada	1,776	1.5
Far East [a]	539	5.5
Total	5,469	1,825

[a] Far East: For interest: China only.

The following table has been compiled from the reports of the London Corporation of Foreign Bondholders. It is not comparable with the preceding table for American loans. For instance, the British table does not include loans in which arrangements to pay lower interest have been accepted by

creditors. The decline in the amount of European loans shown in default in 1933 and 1934 is due to the removal of Greek loans from the defaulting list, though these loans are included in the American statement above.

Defaulted Loans on the London Money Market. [a]

(000,000's.)

Area	1932	End of 1933	1934
South America	£68.6	£86.5	£87.2
	$11.2	$11.2	$11.2
Central America	£13.7	£12.8	£12.8
	$84.2	$84.2	$84.2
Central and Eastern Europe	£42.8	£11.0	£11.0
China	£12.0	£10.9	£9.9

[a] Excluding Russian pre-war loans.

Another estimate, giving the amount of interest and sinking fund that has not been paid is reproduced in the following table:

Service in Default since the End of 1930 [a] *on Foreign Government and Municipal Loans.*

£ (000,000's).

End of	Interest	Sinking Fund	Total
1931	1.5	1.1	2.6
1932	9.0	5.4	14.4
1933	9.5	7.7	17.2
Total since the end of 1930	20.0	14.2	34.2

[a] Sir Robert KINDERSLEY: "Estimates of British Overseas Long-term Investments", *Economic Journal*, September 1934.

These figures for the United Kingdom relate, however, to the total loans outstanding, irrespective of their domicile. It is known that about 45% of all foreign Government bonds and about 25% of foreign municipal bonds whose interest is payable in London are really owned abroad. The loss to British investors is therefore estimated at £11.1 million interest and £8.2 million sinking.

It has been estimated also that, as a result of default, failure to transfer and conversions, the rate of interest received on bonds and debentures of British companies operating abroad fell by 25% between 1929 and 1932.[1]

For Sweden, an official estimate published in December 1934 [2] gave the total amount of foreign bonds held in that country at the end of 1933 as 1,412 million kronor, if conversion

[1] Sir Robert KINDERSLEY: "Estimates of British Overseas Long-term Investments", *Economic Journal*, September 1934.

[2] Kommerskollegium: *Kommersiella Meddelanden*, December 15th, 1934, and January 15th, 1935.

into kronor was made at the rates of exchange then current. Of this total, about 45%, or 631 million kronor, was in default, partial or complete. During 1934, this amount rose to about 900 million kronor, or two-thirds of the total.

Statistics concerning default are not available for other creditor countries and it is not possible therefore to hazard a guess concerning the total extent of default. It is evident, however, that the amount is considerable, and there has been little possibility as yet of arranging permanent agreements regarding long-term indebtedness to the satisfaction of both creditors and debtors.

The third annual report of the Committee organised to protect the interests of bondholders in respect of loans issued under the auspices of the League of Nations gives a detailed account of the present position of these loans.[1] Danzig and Estonia have maintained the full service of their League loans and Austria has never at any time been in default to the bondholders on the service of either interest or sinking fund of her League loan. Hungary, during 1934, continued, despite a poor harvest, to keep her agreement with the Committee to pay 50% of the current interest, plus 10% of the unpaid interest due in 1934, amounting altogether to 55% of the current interest due. The Bulgarian Government failed to carry out its agreement, and no agreement could be reached with Greece. During April 1935, the Committee acquiesced in the proposals of the Bulgarian Government to provide 32½% of the interest due in effective leva, 15% being transferred. The bondholders' representatives were " by no means convinced that the Bulgarian Government could not make available a greater amount for transfer if it would follow the advice which the Financial Committee had offered to it. They were, however, satisfied that some time must elapse before any such additional amounts of exchange became available, and that there was no prospect of obtaining them for the present". For the financial year 1935-36, the Greek Government offered individual bondholders the same interest payment (35%) as in 1934-35. The Committee considered that a greater amount could be transferred, and reported in June that few bondholders either in London or in New York had accepted the Government's offer. The Committee continued to resist attempts to make "definitive " settlements. They also declined suggestions that they should apply part of the interest paid by countries in partial default to redeeming bonds of those countries at the current low prices. Other suggestions that were declined were that facilities should be given to enable blocked interest to be used for tourist expenditure, and that the Committee should

[1] League Loans Committee (London), " Third Annual Report ", June 1935.

press for the imposition of clearing arrangements against certain debtor countries. The Committee preferred to press for the priority of League loans and for their full payment in national currency, when full transfer was not possible, even when it was necessary to re-borrow the untransferred amounts for budgetary purposes. The principle has been followed of urging the maximum transfer of current interest and of making short-period agreements for this purpose.

The situation of Austria may be used to illustrate the method which has up to the present proved most effective in relieving the situation of those debtor countries that have been able to maintain their credit abroad. During 1934, the Austrian Government, after consultation with the Financial Committee of the League of Nations and in agreement with the guarantor States, was able successfully to convert the 6% loan issued in 1923 to rates of interest ranging from 4½% at 98.5 in the United Kingdom to 5% at 87 in Austria and France, and at 86.5 in Czechoslovakia. The average saving in interest is 1.6%. The new loan is free of amortisation for three years. The saving will therefore amount to 60 million schillings annually until 1937 and thereafter to 45 million schillings.[1] In March 1935, the 7% Austrian loan issued in 1930 reached par and this loan is potentially convertible in 1936.

Australia is another debtor country which has been able to convert a large part of its foreign debt. Between October 1932 and February 1935, £147 million were converted with an annual interest saving of £2.5 million. Other loans fall within the conversion zone within the next few months, and Australia's credit remains high. New Zealand also floated a conversion loan of £8 million in London in July 1935 at the low rate of 3%, and an issue price of 98½. The Argentine, by a series of operations in the London market, during 1934, converted a total of £13.5 million from 5 to 4½% and, in November 1934, floated a domestic issue of $50 million pesos to repatriate the other foreign *tranches* of two of the loans of which the British portion was converted in London. The external floating debt was completely paid off in September 1934 by a loan of £12 million.

In addition to these conversions of external debt by debtor countries, there have been numerous conversion operations of a domestic character in both debtor and creditor countries. The great British conversion of £2,479 million in 1932, followed by subsequent smaller conversions giving a grand total of £2,944 million, the Australian and New Zealand operations in 1931

[1] The conversion of the American *tranche* of the original loan was achieved by increasing the amounts of the new loans floated in London and in Vienna; but on December 31st, 1934, Austria was removed from the list of debtor countries declared in default under the Johnson Act, so that American bondholders were enabled to accept the new conversion bonds.

and 1933, and the Italian conversion of February 1934 have been described in previous *Surveys*. The United States Government in recent years has borrowed heavily for its extraordinary expenditure so that the public debt, which had been reduced to $16,185 million at the end of June 1930, had increased by the end of June 1934 to $27,053 million. Most of the new borrowing was on short and medium terms at low rates of interest and, during 1934 and the first half of 1935, several important conversion operations were also carried through.[1] The Swedish Government also took advantage of the conversion opportunities presented by its cheap credit policy. An attempt to raise funds to convert a 5% loan due in September 1933 was only partially successful, but before the redemption date expired a new 4% loan at 98¾ was over subscribed. In the same month, an external loan, together with domestic loans, to a total amount of 72 million kronor was redeemed by floating a 4% domestic loan at 98½. As conversions continued during 1934, the rate fell to about 3½%. The total saving of interest during 1933 and 1934 was 2 million kronor. In December 1934, however, an attempt to float a 3% conversion loan was a partial failure.

In November 1933, the Argentine converted the whole of the domestic obligations of the Federal Government from an average rate of about 6 to 5%. This operation, like the earlier domestic conversions in Australia and New Zealand, was followed in 1934 by the external conversions already mentioned. The most important domestic conversion in recent months, however, was that carried through by the German Government in February 1935. In the preceding month, the interest on the most important categories of private debt had been reduced. The February operation reduced the rate of interest on bonds and bills issued by States, municipalities and the Federal Government from 6% or over to 4½%. There were elements of compulsion in the operation which, however, excluded recent Treasury bills and also all Treasury bills maturing up to the middle of 1937, as well as various other categories of public debt. Altogether four-fifths of the total Government, State and

[1] The chief of these were:
April 1934: $1,000 million 4¼% Fourth Liberty Bonds and $250 million maturing Treasury notes, converted or redeemed by an issue of 10-12 year bonds at 3¼%.
June 1934: $520 million maturing Treasury notes and certificates exchanged for 12-14 year bonds at 3%, in addition to issues for cash of $300 million of these bonds for cash and $500 million of 5-year Treasury notes at 2¹/₄%.
September 1934: $1,250 million of 4¼% Fourth Liberty Bonds and $525 million maturing Treasury certificates converted or redeemed by issues of 10-12 year bonds at 3¼% or 4-year Treasury notes at 2½%.
December 1934: $992 million of 2¼% maturing Treasury certificates converted by issues of Treasury notes at 1¹/₄% maturing June 1936 or at 2¹/₄% maturing June 1939, in addition to issues for cash of $450 million of the former, and another $450 million of 15-18 year bonds at 3¹/₄%.
March 1935: The balance ($1,870 million) of Fourth Liberty Bonds redeemed by issues of 20-25 years Treasury bonds at 2¹/₄%.

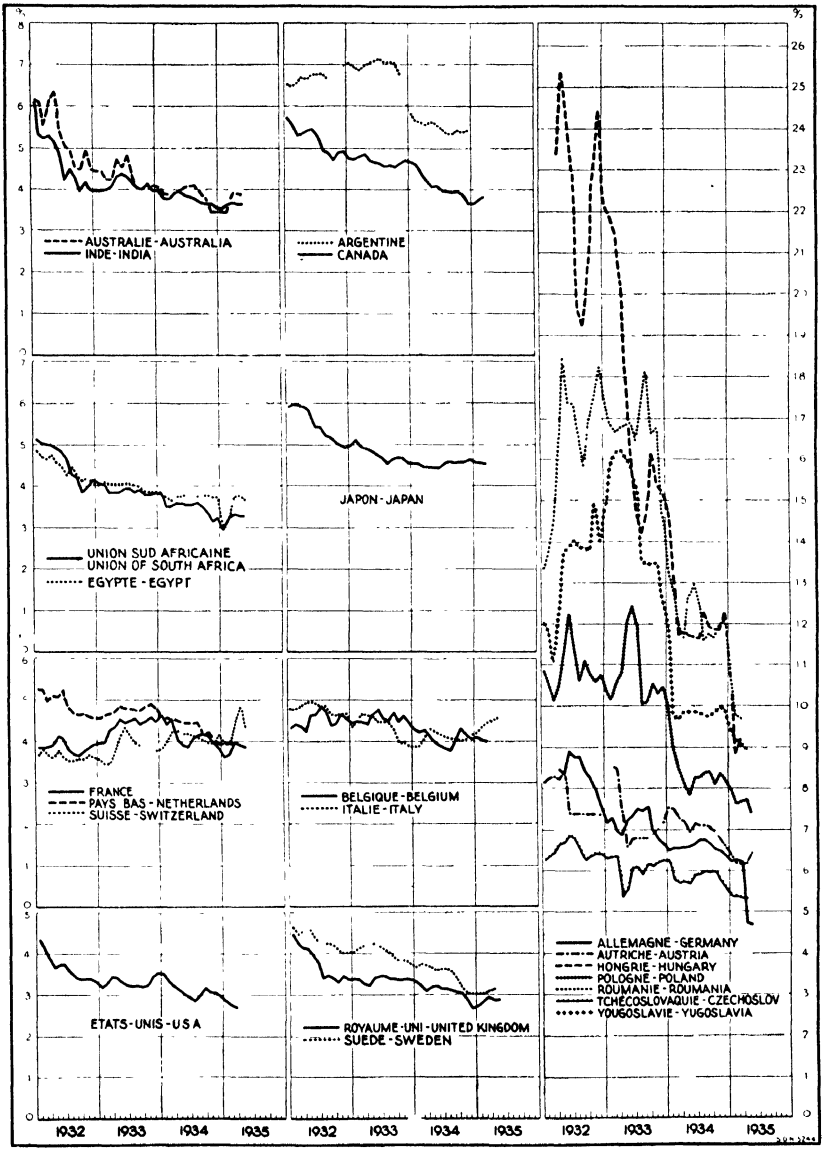
municipal debts was excepted in one way or another, but the interest saving on the remainder will be about RM. 29 million in 1934 and eventually RM. 37 million. After the devaluation of the franc, Belgium also carried through a conversion which, though voluntary, gave only a limited number of days in which to refuse conversion and attached disadvantages to such refusals so that there was strong inducement to accept the Government's terms. By this Decree of May 11th, 1935, 14,500 million francs of a total of 30,000 million francs of internal debt was converted to a 4% basis.

The deflationary policies followed in the countries which remained on the full gold standard made conversions much more difficult for them. This is one of the important respects in which France, the Netherlands and Switzerland are at a disadvantage at the present time.

Though not complete, the foregoing summary of internal and external conversions is sufficient to illustrate the importance of the adjustments that have been made in the debt burdens of both debtor and creditor countries. It is not yet possible to gauge the final adequacy of such adjustments either in particular cases or in general. The principal trading countries appear to be moving gradually towards a new equilibrium that may make possible a reconstruction of the international trading and monetary mechanism. The removal of exchange restrictions that were designed largely to safeguard debt payments constitutes one of the problems to be dealt with in such a reconstruction. Ultimately there must be either agreed debt settlements or acceptance of the defaults that have occurred and may still occur. All that it is possible to say at the moment is that, for a considerable number of debtor countries, the recent conversions of long-term and reductions of short-term debt have facilitated the approach to exchange stabilisation and the revival of international lending. Among the sterling group at least, the exchange stability already achieved has in turn facilitated conversion operations. Exchange uncertainties, trade restrictions, defaults and the paralysis of capital movements go in a vicious circle which has fortunately now been broken for many countries, but remains a problem in many others.

There is another aspect of the recent debt adjustments, both external and internal, that is of great importance from the point of view of international equilibrium. As the accompanying diagrams demonstrate, there has been a strong downward movement of the long-term interest rate in all except the full gold-standard countries. Even in the European debtor countries where crisis rates of interest were ruling three years ago, the rates are coming down to much more normal levels.

Actual Percentage Yields of Bonds. [a]



[a] League of Nations: *Monthly Bulletin of Statistics*, June 1935, page 249.

As the capital markets lose their crisis psychology, the disequilibrium between them diminishes. Not only is there less difference between the rate of interest ruling in different centres, but industrial costs come more into line also, so that the necessity for extraordinary measures of protection from external competition becomes less urgent. As has already been shown in Chapter IV, there is much evidence that, in the countries where the long-term rate of interest has fallen most, production has expanded rapidly and profits have increased so that there is emerging a distinct upward tendency of the price-level. This, in itself, is a factor working towards a restoration of equilibrium.

The Approach to Stabilisation.

The disintegration of the international monetary system began with the depreciation of the currencies of several raw-material-exporting countries which were adversely affected by the sharp fall in agricultural prices. This was before the industrial countries of the northern hemisphere were plunged into depression at the end of 1929. Before the United Kingdom left the gold standard in September 1931, the currencies of Uruguay, the Argentine, Brazil, Bolivia, Australia, New Zealand, Venezuela and Mexico were depreciated by percentages ranging from 9 to nearly 50. Since September 1931, the currencies of more than thirty other countries have depreciated or have been devalued. The average level of gold prices, as one currency after another left the international system, continued to fall, and it gradually became apparent that the first effect of this wholesale depreciation was deflationary rather than inflationary. The world market for basic raw materials constantly shrank as national price-levels diverged and fresh restrictions were imposed on international trade. Nowhere has the rise in domestic prices been at all commensurate with the external depreciation of the currency. Wholesale prices in sterling, perhaps the most important trading currency, after an initial rise, fell steadily till the end of 1933, and only in the first months of 1935 rose again distinctly above the level of September 1931. It is significant that the sharper upward tendency of sterling prices in recent months has coincided with greater prosperity, exchange stability and trade within the sterling area.

Meantime, the widely differing degrees of depreciation had not been accompanied by commensurate changes in national price-levels. The inertia of prices has, indeed, been a striking and rather unexpected feature of the whole period of depreciation. The result is that purchasing power parities have diverged widely from the exchange rates. If the average levels of wholesale

prices in the principal trading countries are compared with the rates at which the currencies exchange, a preliminary if superficial measurement of the disequilibrium that prevails may be obtained. Such a measurement is given in the following table: [1]

Cost of French Franc and Sterling as Percentage of Purchasing-power-parity Cost.

(Base: 1929 = 100.)

	Cost of franc			Cost of sterling		
	XII 1933	XII 1934	V 1935	XII 1933	XII 1934	V 1935
Germany	92.5	74.5	73.9	72.3	62.6	62.8
Hungary	111.8	80.6	75.3	87.2	67.8	63.9
Austria	98.4	83.1	80.6	76.8	69.9	68.5
Czechoslovakia	91.6	86.6	84.0	71.5	72.8	71.4
Switzerland	100.4	87.0	87.3	78.5	73.3	74.2
Italy	112.6	98.0	92.1	88.0	82.5	78.4
Poland	108.5	98.7	98.8	84.8	83.0	84.0
Bulgaria	129.7	104.4	99.1	101.3	88.0	84.2
France	—	—	—	78.1	84.2	85.0
China	134.5	119.0	101.9	105.1	100.2	86.7
Albania	119.6	107.4	102.0 [a]	93.5	90.6	86.7 [a]
Netherlands	119.6	101.1	102.6	93.5	85.1	87.2
Peru	127.7	110.1	104.9	99.6	92.6	89.2
Portugal	109.0	103.3	107.0	85.2	87.0	90.9
United States	136.3	114.3	108.3	106.6	96.2	92.0
Yugoslavia	133.4	115.3	110.9	104.1	97.2	94.3
Un. of South Africa	106.8	99.2	114.7 [a]	82.8	83.0	97.6 [a]
Belgium	115.2	102.9	115.4	90.0	86.8	98.0
Finland	123.9	115.9	116.1	96.7	97.5	98.6
Greece	137.0	116.0	116.2	107.0	97.7	98.8
United Kingdom	128.0	118.7	117.6	—	—	—
Sweden	130.9	118.2	118.0	102.3	99.4	100.4
Norway	129.1	118.6	118.5	100.8	100.0	100.8
Canada	139.6	122.4	120.6	109.1	103.1	102.5
New Zealand	136.1	126.6	123.5	106.0	105.7	104.9
Denmark	138.2	124.5	128.2	108.0	104.8	109.0
Estonia	126.7	127.4	130.6	98.8	107.2	111.0
Spain	158.4	132.7 [b]	132.7 [b]	123.7	113.0 [b]	113.0 [b]
Chile	188.0	150.9	139.7	147.0	127.1	118.8
India	152.8	145.3	139.9	119.3	122.3	119.0
Australia	152.1	141.6	144.7 [a]	118.4	118.4	122.9 [a]
Argentine	132.8	152.9	151.2 [a]	103.9	128.8	128.5 [a]
Japan	206.0	193.9	190.7	160.8	163.4	162.0

[a] April. — [b] November.

[1] Abridged from League of Nations *Commercial Banks, 1929-1934*, page LXXX. The relationship between the general level of wholesale prices in each country and in (*a*) France and (*b*) the United Kingdom in 1929 is taken as 100. The relationship in each subsequent period (on the basis 1929 = 100) is taken as the purchasing-power-parity exchange rate, and the actual exchange rate prevailing in that period is then expressed as a percentage of the purchasing-power-parity rate.

The first impression given by this table is one of confusion. The countries whose percentages are below 100 are, by this test, over-valued in relation to the franc or sterling. Those whose percentages are above 100 are under-valued in terms of their purchasing power parities. The results of such a calculation must obviously vary according to the currency which is chosen as a criterion: a complete picture could be obtained only by testing each currency against all the others.

More important than the range of dispersion at any given moment is the trend revealed in recent months. If the percentages at the end of 1934 are compared with those at the end of 1933, it will be seen that, in the great majority of cases, they approached more nearly to 100 as far as the franc parity was concerned, and the figures for the middle of 1935 show that the approach to equilibrium was continuing. This development may be put more simply by saying that the franc, which was greatly over-valued compared with most other currencies at the end of 1933, was brought more nearly into line with them because of the heavy fall in the French price-level during 1934. This nearer approach to equilibrium was not shared, however, by the other gold currencies, which became more, rather than less, over-valued in relation to sterling, as the exchange value of the latter fell while their prices remained steady or rose.

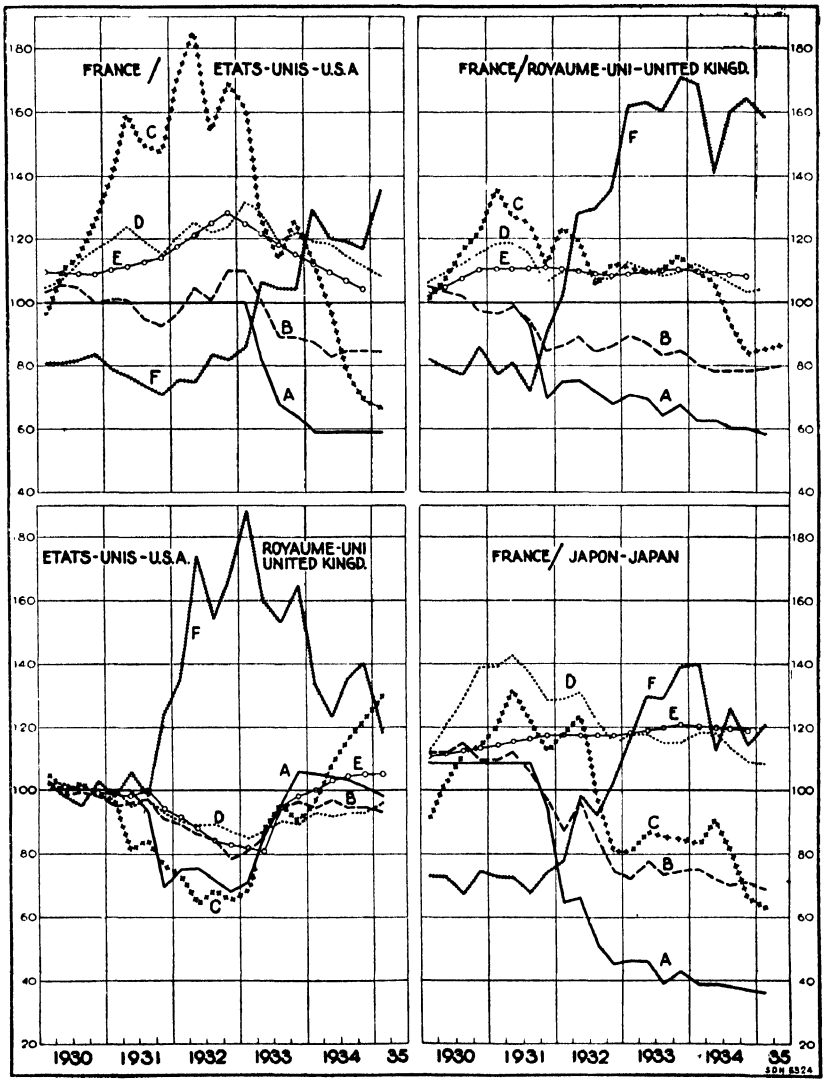
Index numbers compiled by different methods in particular countries and recording only the average movements of wholesale commodity prices cannot, however, give more than a rough indication of the approach towards international equilibrium. Trade is conducted in individual commodities, and far more cost elements enter into the continuous comparison of their prices than can be measured by index numbers mainly based upon the wholesale prices of a comparatively few important commodities. Some light may be thrown upon recent developments by considering important price groups such as those charted in the diagrams which follow. A similar set of diagrams was given in the preceding *Survey*, and it is significant that the subsequent developments in 1934 have on the whole considerably lessened the discrepancies between national price systems that were noted at the beginning of that year.

These diagrams are based upon the relationships existing between the various currencies and national price-levels in 1929, and there is nothing sacrosanct about this relationship. It may indeed be argued that sterling was over-valued in 1929 and that, so far from being in a state of equilibrium, the national price-systems were in disequilibrium — as was later shown by the breakdown of the international monetary system. The diagrams cannot therefore be regarded as measuring the extent of

Exchange Rates (Reversed) and Price Ratios, 1930-35.

(Base: 1929 = 100.)

A: Exchange rates.
B: Wholesale prices of raw materials.
C: Wholesale prices of foodstuffs.
D: Cost of living.
E: Wage rates.
F: Bond yields.



present disequilibrium. The movements of the various series charted may, however, be used to discover whether recent developments have been in the direction of a better equilibrium or not.

Two outstanding developments may first be noted: the sharp rise in the prices of foodstuffs in the United States and the equally marked fall in those prices in France. The former was caused partly by the measures taken by the American Government to restrict production, partly by the adverse weather in the farming areas of the United States. The latter represents a particularly important feature of the deflationary policy pursued in France throughout 1934.

It will be seen that, as far as the United Kingdom and the United States are concerned, the further depreciation of sterling and the greater upward movement of prices which has taken place in the United States have checked the tendency which was apparent at the beginning of 1934 for the lines to move apart again after having been brought back to their 1929 relationships. At the same time, there has been a very great cheapening of credit in the United States, so that the price of capital has come closer to the British level. On the other hand, the sharp upward trend of food prices and of the cost of living and wages relieved the pressure on sterling that might be feared from a resumption of the 1929 relationship.

The gradual decline of the cost of living and of wages in France appeared in 1934 to be slowly restoring a greater degree of equilibrium between that country and the United Kingdom. The difficulties of the deflationary method are clearly demonstrated, however, both by the slowness with which the cost of living falls and by the uneasiness of the capital market, reflected in the movement of bond yields. It has already been pointed out that the countries with over-valued currencies are practically debarred from the important cost reductions made possible by debt conversion. On the other hand, as long as currency instability persists and trade restrictions cannot be removed, upward price movements in the countries with depreciated currencies seem destined to be short-lived. After the sharp financial crisis caused by distrust of the gold currencies in the spring of 1935, prices began to fall again, aided probably by the adverse judgment of the Supreme Court of the United States against the National Recovery codes. Sterling prices, for example, fell substantially till towards the end of July, and there was a similar fall in all the great trading countries. The repetition of this experience lends point to the warning issued by the International Chamber of Commerce, at its meeting in Paris in June 1935, that "postponement of stabilisation until the price-level has first been raised may lead to a deterioration of the position,

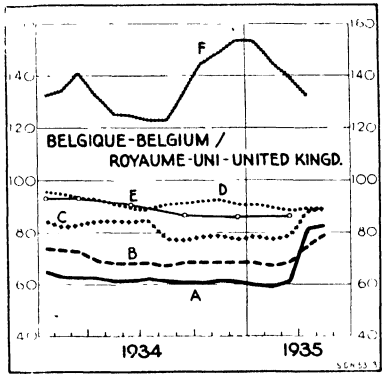
since currency instability and currency depreciation may have themselves a deflationary effect ".[1]

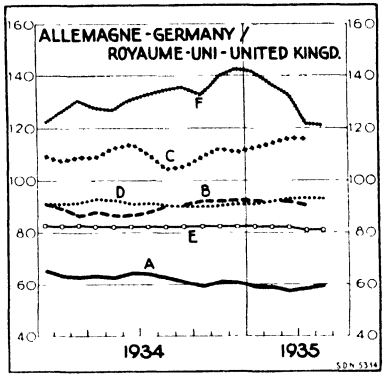
Two diagrams have been added to show the situation in Belgium, which has recently devalued its currency, and in Germany, which maintains the nominal gold parity for certain purposes but conducts a proportion of its external trade at depreciated rates. In both cases the comparison made is with the United Kingdom.

Exchange Rates (Reversed) and Price Ratios, January 1934 — May 1935.

(Base: 1929 = 100.)

A: Exchange rates.
B: Wholesale prices of raw materials.
C: Wholesale prices of foodstuffs.
D: Cost of living.
E: Wage rates.
F: Bond yields.





[1] International Chamber of Commerce, Paris Congress (1935) Resolution No. 2, "Monetary Policy". The complete text of the resolution reads as follows:

"The International Chamber of Commerce declares that stabilisation of the foreign exchange rates on the basis of gold is imperative for effective world economic recovery. Therefore, the Chamber urges the principal Governments concerned to inaugurate immediately appropriate consultations for the purpose of formulating and putting into effect an agreement for provisional stabilisation in order to enable Governments to take the speediest possible measures for adjusting their national economic and financial policies to ensure the safe functioning of an international gold standard over a long period.

"This declaration is based on the following considerations:

"1. Uncertainty as to the monetary policies of the principal trading nations and instability of the foreign exchanges rates have led to a breakdown of international trade and must continue to lead to its further dislocation.

" 2. Monetary uncertainty and foreign exchange instability inevitably lead to such developments as the establishment of 'compensatory' tariffs and quotas designed to protect local markets from invasion by countries with depreciated currencies; to the cessation of international long-term investments; to flights of capital and increases in the volume of international short-term debts; to exchange control and embargoes on the free movement of capital; to the hoarding of gold and foreign exchange.

"3. Postponement of stabilisation until the price-level has first been raised may lead to a deterioration of the position, since currency instability and currency depreciation may have themselves a deflationary effect. Far from hindering a rise of prices, stabilisation is one of the quickest methods of permitting natural forces to bring about a general recovery in the price-level.

" 4. Postponement of stabilisation until harmony has first been established between internal and external price-levels must lead to a deterioration of the position, since the disharmony is itself in large measure the effect of currency instability and the restrictions which have resulted from that instability.

" 5. Permanent monetary stabilisation can in practice be obtained only by the re-establishment of an international gold standard."

From the diagram showing the relations of British and Belgian prices it is clear that, up to the time of devaluation, Belgium was at a relative disadvantage compared with 1929 — greatest in respect of the price of capital and least in respect of food prices. This corresponds broadly with the situation in all the countries remaining on the full gold standard. During the latter part of 1934, the price of capital rose even higher as distrust of the currency increased. Devaluation brought the exchange rates back towards the former parity and this reduced the former disadvantages at least temporarily. The prices of foodstuffs and raw materials (both indexes being composed of identical commodities in each country) rose sharply, but not as much as the exchange movement. The cost of living and wages was not immediately affected, while the price of capital fell. The relative fall in bond yields was probably due to the fact that plans were immediately made to convert a large part of the public debt to lower interest rates. Business enterprise was encouraged, therefore, by three factors — cheaper capital, cheaper imported raw materials relatively to export prices, and a practically stationary cost of living.

The comparisons between Germany and the United Kingdom show the effect of the German conversion operations in the first quarter of 1935, which brought the long-term interest rate down sufficiently to restore the 1929 ratio with the British rate. Compared with British prices, food prices are relatively higher in Germany because of agricultural protection, but raw materials, the cost of living and wages are relatively lower than in 1929. The exchange ratio given on the diagram is that obtained by comparing depreciated sterling with the nominal gold parity of the Reichsmark. It is obvious that, if one or other of the depreciated "blocked mark" rates were taken, the apparent discrepancy between the exchange rates and the price series would be greatly reduced. The Register-mark is depreciated about as much as sterling and, if that rate were taken, the exchange ratio would run about 100.

All these measurements are rough approximations. The adequacy of the index numbers, which are the only measurements available, differs a good deal from country to country, and in such a time as the present these index numbers are apt to be less reliable than in more normal periods.

In the summer of 1935 there was more widespread discussion of currency stabilisation than there had been since the adjournment of the Monetary and Economic Conference two years earlier. The Bank for International Settlements, in its annual report, issued on May 13th, stated that, "with the passage of time, it becomes more and more clear that no fundamental,

durable recovery can be hoped for unless and until a general stabilisation at least of the leading currencies has been brought about." At the July meeting, the Directors of the Bank, representing practically all the central banks of Europe, took note of the measure that had recently been taken to defend the gold currencies and "unanimously decided to take common steps in future immediately there are signs that a new attack is pending on any currency".[1] The Annual Congress of the International Chamber of Commerce held in June, after discussion participated in, among others, by British, French and American representatives, unanimously adopted the resolution which has been cited on a previous page. Other statements of a similar character could be cited; but these are sufficient evidence of the growing body of opinion in favour of stabilisation. On the other hand, considerable doubt has been expressed, particularly in the United Kingdom, concerning the wisdom of stabilisation at the present time. The most authoritative of these statements was that made by the Chancellor of the Exchequer at the annual dinner of the British Bankers' Association on May 16th, 1935. A few days earlier, the Secretary of the United States Treasury, in a broadcast speech, had concluded a review of monetary policy by stating that "the world should know that, when it is ready to seek foreign exchange stabilisation, Washington will not be an obstacle". The Chancellor of the Exchequer, after citing statistical evidence of the recovery in the United Kingdom and expressing the view that the combination of cheap money and a moderate tariff system had not yet "exhausted its effectiveness", proceeded to discuss the desirability of reviving international trade. In this connection, he made the following statement: "I fully realise all the difficulties which arise from the constant fluctuation of exchange, and I think it not at all unnatural that those who are daily faced with difficulties of that kind should show some impatience at the long delay in arriving at a settlement which, if it could be made upon satisfactory lines, would benefit every country in the world.

"But exchange rates cannot be controlled without reference to other economic factors, and exchange rates are the outcome of the exchange of goods, and of capital transfers, and, just as it is no use to try to anchor a ship if the anchorage itself is always shifting, so it seems to me that it would be futile to attempt to bring about stabilisation until we can see some prospect of stability of conditions after stabilisation has taken place.

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[1] *Financial Times*, July 8th, 1935.

"What I can say, therefore, is that stabilisation is one of our ultimate objectives, and we are now watching and shall continue to watch the situation with a view to taking action when it seems to us that action is likely to bring about useful results."[1]

The economic factors to be considered in any approach to currency stabilisation have often been canvassed.[2] It is generally agreed that the relations between the price-levels in the principal trading countries are of primary importance in fixing the exchange rates at which the currencies might be stabilised, at least provisionally. There is also general agreement that, if the exchange rates now ruling were to be maintained, the price-levels of the countries now on the full gold standard would be too high relatively to price-levels elsewhere. Three possible avenues of adjustment naturally suggest themselves; price deflation in the gold countries, devaluation of the gold currencies as part of a stabilisation agreement, or a strong upward movement of prices in the countries whose currencies are already depreciated. The advocates of immediate stabilisation argue that the third possibility is so likely that stabilisation could probably be achieved and the present rates maintained, without the necessity for further devaluations. There is, however, a considerable body of informed opinion, particularly in the countries whose currencies are already depreciated, which fears that, without a devaluation in the gold countries, the deflation necessary to bring their price-levels into competitive adjustment with the rest of the world would cause a downward pressure on world prices. This pressure would probably strain the balances of payments and necessitate measures, such as a raising of discount rates, that would check the recovery now being brought about by cheap money policies. Without entering into this controversy, the point may be made that it is obviously desirable in any stabilisation, even of a provisional character, that the exchange rates chosen should be those that will call for the least possible disturbance of national price systems.

The great increase of monetary gold reserves in the world as a whole renders it probable that — perhaps after a period of preliminary adjustment — there will ensue a considerable credit expansion and rise of prices. If such expansion should develop very unevenly in the main trading countries, there is always the likelihood that large and comparatively sudden movements of short-term capital might be directed towards the opportunities of profit afforded by greater apparent prosperity in one country

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[1] *Financial Times*, May 17th, 1935.

[2] Cf., *e.g.*, Sir Arthur SALTER: "Conditional Stabilisation", *The Economist*, July 6th and 13th, 1935.

than another. In recent years, such shifting of capital has been governed largely by the search for security against sudden currency depreciation; but if, after stabilisation, profit differentials were so great as to cause violent capital movements, difficulties might well arise in maintaining the exchange rates that had been fixed.

The choosing of the rates so as to minimise these possibilities and avoid the risks inherent in divergent national price movements is neither a simple matter nor one capable of precise calculation. It is possible, indeed, that cautious experiment in provisional *de facto* stabilisation without definite commitment may prove necessary. The closer co-operation now possible between central banks, if only by the exchange of information, may minimise the dangers of temporary pressures arising from short-term capital movements. In most countries also, the monetary gold reserves have been greatly augmented during the depression and, in some, large equalisation funds are available as a first line of defence. In the sterling-exchange standard countries, the short-term assets held in London may serve the same purpose.

Apart from these more immediate considerations, there are well-recognised conditions of a more permanent character that must be fulfilled if stabilisation is to be successfully maintained. It is not sufficient to reconstitute an international monetary standard; it must be worked. In order for it to be worked, goods must be allowed to move more freely across national frontiers; quotas, exchange controls and other extraordinary impediments to trade must be removed; and there must be debt settlements. The main virtue of an international monetary system is to make it possible to reconstruct the international specialisation and economic co-operation that was the basis of former prosperity. If Governments are not willing or able to carry through the national adjustments necessary to enable such co-operation to develop, no international monetary standard, however carefully restored, can long survive.

Chapter VIII.

AN EXPANDING BASIS OF CREDIT.

The Reflation of Commercial Banking.

The contraction of bank credit, which was so marked a feature of the early stages of the depression, came to an end in most countries during 1933. After prices began to fall generally during 1929, an increasing disequilibrium between costs and prices slowed up production and forced a prolonged pressure of liquidation of liabilities upon both business and banking. Preceding *Surveys* have recorded this process until it came to an end with the gradual improvement of business and the arrest of the price-fall in the latter part of 1932.[1] The *Survey* for 1933-34 noted the fact that contraction had apparently come to an end, except in a few countries where price deflation was still proceeding as a measure of adjustment to exchange depreciation elsewhere. The tendency towards an increase of bank deposits, accompanied by the normal indications of more liquid credit conditions, was gathering strength in the latter months of 1933 and the early part of 1934.

Though checked by the hesitation of recovery in the middle of 1934, this progress towards the expansion of deposits continued for 1934 as a whole and even more strongly in the early months of 1935. The countries which maintained their currencies at the former gold parities offered a notable contrast to the rest of the world in this respect. Their bank deposits, under the pressure of continued deflation and withdrawals of capital, continued to shrink. The necessity of adjusting their price-levels to the new valuation of the dollar and the return flow of capital to the United States following provisional devaluation at the end of January 1934 was followed by further pressure from the downward tendency of sterling in the early part of 1935.

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[1] A more detailed analysis is contained in the Introduction to *Commercial Banks, 1929-1934*, League of Nations, Geneva, 1935.

In the countries which had abandoned the gold standard, there was no external strain to hamper the efforts made to extend the bases of commercial credit. The policies followed in these countries differed considerably. In the United Kingdom and most of the sterling group, chief reliance continued to be placed upon cheap-money policies, balanced budgets and the gradual re-financing of Government, local body and business obligations. These measures were supplemented, however, by open-market operations in the case of the United Kingdom. There was also an expansion of central bank credit in Australia, Canada and New Zealand as a result of the creation of local Treasury bill markets.[1] In other countries, notably Japan and the United States, there was a more positive policy of Government expenditure, necessitating heavy borrowing, ultimately in great part from the commercial banks, which largely increased the proportion of Government securities in their assets and received larger deposits as a result of the Government payments to private individuals. In several of the South-American countries, there was direct expansion of central bank credit and deposits increased greatly in consequence. It is not the intention here to analyse or even summarise the variety of Government and central bank policies pursued, but merely to draw attention to the fact that they were influential, in combination with a substantial business recovery, in promoting the expansion of bank deposits, the main features of which are set forth below.

The first phenomenon to be noticed is the widespread tendency towards increasing deposits in the commercial banks, and particularly demand as distinct from time deposits. The following table summarises the percentage movement of current account deposits from the middle of 1932 to the end of 1934:

Movement of Current Account Deposits.

(Percentage increase or decrease from December 1931.)

National currencies

Country	December 1932	December 1933	December 1934
Ecuador	+ 73	+ 193	+ 273
Chile	+ 72	+ 116	+ 159
Peru	+ 10	+ 43	+ 98
Union of South Africa	+ 2	+ 86	+ 96
Colombia	+ 29	+ 43	+ 75
Mexico	+ 32	+ 79	...
Brazil	+ 36	+ 24	+ 45

[1] In New Zealand, the Treasury bills were issued before the Reserve Bank opened, in order to purchase the sterling assets which accumulated after the exchange rate was lowered, but were taken over by the Reserve Bank when it began operations in August 1934.

Country	December 1932	December 1933	December 1934
New Zealand	+ 7	+ 20	+ 36
Latvia	+ 2	+ 10	+ 33
Portugal	+ 4	+ 11	+ 28
Lithuania	— 5	+ 11	+ 28
Estonia	— 10	— 5	+ 25
United Kingdom	+ 15	+ 17	+ 21
Greece	— 9	+ 3	+ 19
Japan	+ 9	+ 14	+ 18
U.S.A.	— 6	— 9	+ 17
Australia	— 1	+ 7	+ 16
Finland	— 2	+ 8	+ 15
Argentine	+ 8	+ 16	+ 11
Denmark	— 2	+ 4	+ 5
Poland	— 7	— 6	+ 5
Canada	— 18	— 11	+ 2
Sweden	+ 1	+ 2	— 2
Uruguay	+ 26	+ 2	...
Salvador	+ 13	0	— 8
Norway	— 12	— 27	— 12
Czechoslovakia	— 4	— 8	...
Italy	— 3	— 7	— 14
Hungary	— 4	— 3	— 15
Germany	— 10	— 19	— 15
France	— 1	— 14	— 19
Yugoslavia	— 16	— 28	— 25
Switzerland	— 2	— 14	— 27

It is evident that there have been many forces at work to produce such variant movements. [1] The importance of bank money varies greatly in different countries, and in any case the increase or decrease of demand deposits does not necessarily bear a direct relation to business activity. Moreover, account must be taken, not only of the aggregate of deposits available for use, but of the rapidity or "velocity" of their turnover. It would be obviously wrong to presume that, because deposits were greatly expanded in the five countries at the head of the list (the obverse of this inflation having been substantial exchange depreciation, which in most cases was still continuing in the early months of 1935), they were in a healthier economic position than countries in which deposits had expanded less or had contracted.

At the other end of the scale, the contraction of deposits has been caused partly by deflationary pressure upon the national economies of the gold-bloc countries; but, particularly in the case of France and Switzerland, in large part also by the withdrawal of foreign refugee capital.

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[1] For detailed studies of the situation in each particular country, see *Commercial Banks, 1929-1934*, League of Nations, Geneva, 1935.

The process of deflation in the gold-standard countries has for some years now caused restricted business activity and losses which have gradually eaten into the liquid resources of industrial establishments. Cash balances and deposits have been drawn upon to cover these losses and also to provide working capital in an effort to keep establishments together. A further drain on the deposits of industrial firms has recently come from the operation of the clearing agreements. In many cases, exports have been paid for in blocked currencies, so that, while production has gone on and credits in foreign currencies have accumulated, it has been necessary to draw upon deposit balances to provide the working capital necessary for production. The general stagnation of domestic demand, the decline of invisible imports from shipping and debt services, and reduced tourist traffic have been supplemented by diminishing receipts from exports, and bank deposits have therefore been drawn upon rather heavily.

Up to the beginning of 1935, the commercial utilisation of the increased deposits lagged behind the supply. There were many factors of difficulty in the situation — incomplete liquidation of past losses in many countries, the continued drastic restrictions on international trade and investment, strain that threatened further exchange disturbances and much hesitation and lack of confidence in Government policies on the part of industrial organisers. While bank deposits were increasing, their velocity of circulation remained low.

Measurements of velocity of circulation are not generally available, but comparison of the increasing deposits with the indices of business transactions suggests that the turnover of credit in most countries was much slower than before the depression. [1] In the United States, the index calculated by the Federal Reserve Board shows the importance that must be attached to this factor.

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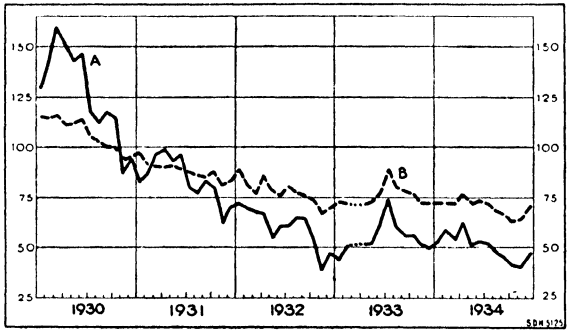
[1] Cf. the following measures of the velocity of circulation in other countries as given in *Commercial Banks, 1929-1934*:

(Base: Corresponding quarter of 1929 = 100.)

Year	Quarter	Australia	Canada	France	Germany	Japan	Union of South Africa	United Kingdom
1932	I . . .	70	69	69	62	95	105	101
	II . . .	81	78	65	49	98	94	94
	III . . .	100	85	49	52	105	101	87
	IV . . .	108	85	59	51	122	98	82
1933	I . . .	97	72	77	57	104	123	83
	II . . .	103	88	74	52	106	90	81
	III . . .	100	110	67	57	142	94	84
	IV . . .	100	95	78	59	145	76	76
1934	I . . .	97	86	91	64	109	88	93
	II . . .	103	96	70	59	103	95	91
	III . . .	94	98	56	64	116	94	91
	IV . . .	92	101	66	63	123	84	87

Velocity of Circulation of Demand Deposits in the United States.

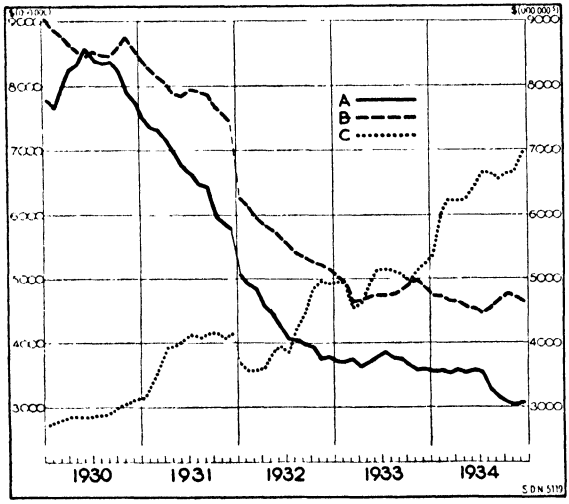
A New York City. B Outside New York City.



The deposits received, and largely created, by banks are employed by them mainly in the granting of loans and advances, discounts and the purchase of securities. During the depression, there was in most countries a sharp decline in both the absolute amount and the relative importance of loans and advances, while the banks increased their holdings of Government securities. Despite the signs of economic recovery since 1932, there was little evidence of increase in commercial bank loans and advances to industry during 1933 and 1934.

Loans and Investments of Reporting Member Banks of Federal Reserve System.

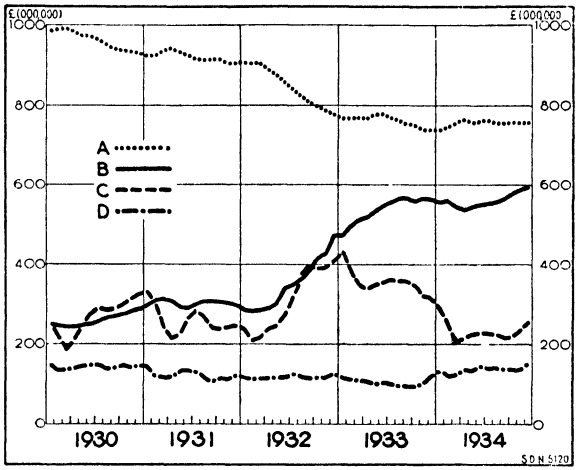
A Loans on securities. B All other loans.
C U.S. Government securities.



In the United States, there was a substantial fall in bank loans on securities during the latter part of 1934, while bank investments in Government securities continued to mount rapidly. The same tendency for advances to fall while security holdings rose was clear in Japan and Germany.[1]

[1] Discounts rose in both countries apparently because of increased discounts on Government securities.

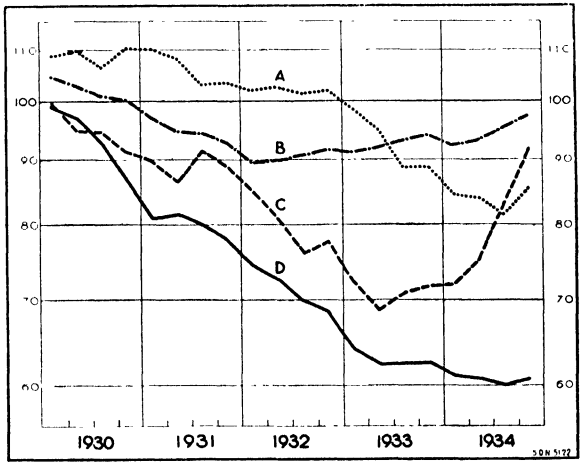
Principal Assets of London Clearing Banks.



A Advances.
B Investments.
C Bills discounted.
D Money at call.

In the United Kingdom also, advances did not increase in 1934, while investments continued to rise. In Sweden, Finland, Estonia and Denmark, among the countries with depreciated currencies, the fall in advances continued; but in the British Dominions, with the exception of Canada, there was a distinct tendency towards increase in 1934.

Discounts, Loans and Advances of Commercial Banks.
(1929 = 100.)

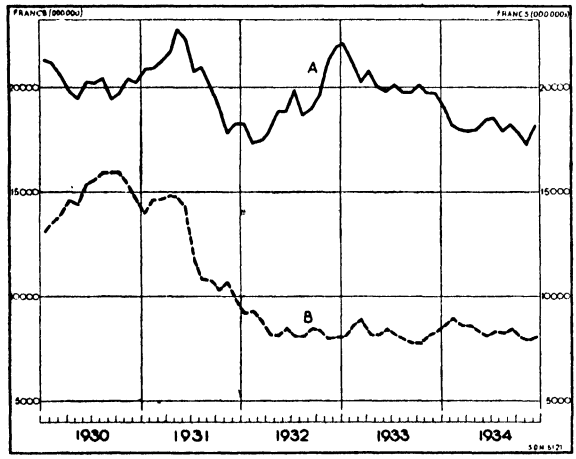


A New Zealand.
B Australia.
C South Africa.
D Canada.

The situation in France is best indicated by the diagram showing the principal earning assets of the French deposit banks. It is chiefly through commercial discounts that the French deposit banks extend credit to industry, but these are not separated in the published returns from discounts on Treasury bonds, and the upper line in the diagram therefore includes both. It is probable, however, that the fall of five milliard francs in 1931 was mainly due to a contraction of commercial discounts, while the rise in 1932 was exclusively due to Treasury bills. The subsequent sharp fall in 1933 and 1934 coincided with budgetary deficits in France and, in view of the heavy State requirements of funds, it is obvious that at least the greater part of the fall must have been caused by a big contraction of commercial advances.

Principal Earning Assets of French Deposit Banks.

A Discount portfolio.
B Current accounts and correspondents.



While the statistics, therefore, are not wholly free from obscurity, it is reasonably clear that the commercial discounts, loans and advances of the most important banking systems have in general continued to decrease during 1934, even though bank deposits have in many countries expanded considerably. The banks have therefore continued to buy Government securities as a means of finding employment for their available funds. In the gold-standard countries, the contraction of business during 1934 was obvious enough; but elsewhere, production was expanding and the price decline had stopped. Hence the

failure of industry to draw upon the banks for advances needs some explanation. In part, this failure may be explained as a natural lag. There is, in every depression, a period during which deposits accumulate while the existing equipment, resources and cash assets of industry are fully adequate to finance the first expansion of production without fresh bank loans or advances. During the years 1930 to 1932, business firms postponed the replacement of amortised capital and tended to accumulate liquid balances that were abnormally large in relation to current income. These balances were available in 1933 and 1934 to finance the expenditure contingent upon expanding production. Moreover, in some countries, such as the United Kingdom and Sweden, the prices of Government securities have risen and their yields have fallen, so much that it has paid to sell them rather than pledge them as collateral for fresh advances at relatively high rates. The issue of fresh debentures at low rates in the new capital market has been another means of raising money, some of which has been used to repay bank advances.

In any case, despite the recovery so far registered, there remains a fairly considerable leeway of production to be made up. Business confidence is still lacking in many countries, partly because of the inherent complexities of the financial situation both in particular businesses and in general, partly because of the distrust of Government policies. This is perhaps most marked in the United States, where a detailed survey of the credit conditions in an important area showed that the unsatisfied demand for bank advances in 1934 was relatively small, despite the fact that these advances were still falling. [1]

An increase in the commercial banks' holdings of Government securities is noticeable, not only in the countries mentioned above, but in many others. Statistics are not yet available for many countries for 1934; but the following table will show how widespread this tendency is, even though in many cases Government securities remain a minor proportion of banking assets:

[1] Charles O. HARDY and Jacob VINER: "Report on the Availability of Bank Credit in the Seventh Federal Reserve District", U.S. Government Printing Office, Washington, 1935. The report, however, draws attention to what the investigators describe as a "wave of righteousness among the banks and bank examiners" regarding the character of loans that ought to be granted. The application of strict standards at a time when business is slowly recovering after a prolonged depression obviously makes borrowing more difficult than it otherwise might be.

Percentage Composition of Commercial Bank Credits, 1929-1934.

a = discounts;
b = loans and advances;
c = Government securities;
d = other investments and participations.

Country		1929	1932	1933	1934
Denmark	a	16.5	15.9	15.3	14.7
	b	59.6	58.0	57.1	56.8
	c	4.2	4.0	5.1	28.6
	d	19.7	22.1	22.5	
Estonia	a	45.7	39.9	42.0	46.4
	b	53.0	57.7	54.9	49.6
	c, d	1.3	2.4	3.1	4.0
Finland	a	34.1	21.5	17.7	16.7
	b	63.2	73.7	76.3	72.6
	c	0.3	0.5	1.0	10.7
	d	2.4	4.3	5.0	
Germany	a	23.3	19.1	22.1	26.0
	b	70.9	69.1	65.6	61.1
	c	0.2	5.1	4.9	4.0
	d	5.6	6.7	7.4	8.9
Greece	a	27.8	10.7	18.4	17.1
	b	54.0	70.7	64.0	66.1
	c, d	18.2	18.6	17.6	16.8
Italy	a	45.0	56.0	61.6	60.6
	b	42.7	34.5	29.4	31.5
	c, d	12.3	9.5	9.0	7.9
Latvia	a	39.0	29.3	29.9	31.9
	b	58.6	62.5	64.1	60.4
	c, d	2.4	8.2	6.0	7.7
Norway	a	25.6	26.8	26.3	26.8
	b	54.0	55.1	55.8	56.5
	c	6.0	5.0	5.1	16.7
	d	14.4	13.1	12.8	
Poland	a	43.7	32.5	33.5	30.5
	b	51.1	60.1	58.2	58.5
	c, d	5.2	7.4	8.3	11.0
Sweden	a	22.5	26.4	26.3	24.8
	b	69.0	64.5	63.3	61.0
	c, d	8.5	9.1	10.4	14.2
Canada	a, b	83.3	64.7	61.0	57.2
	c	14.3	32.5	36.1	40.5
	d	2.4	2.8	2.9	2.3
Colombia	a	48.9	30.7	23.4	26.1
	b	40.4	45.9	44.7	37.6
	c, d	10.7	23.4	31.9	36.3

Country		1929	1932	1933	1934
Ecuador	a	21.9	24.3	44.7	50.8
	b	68.1	65.6	47.5	42.6
	c	0.2	0.2	0.2	0.2
	d	9.8	9.9	7.6	6.4
Peru	a	37.0	34.6	31.6	34.4
	b	46.3	53.7	52.8	52.6
	c	16.7	2.2	2.9	2.8
	d		9.5	12.7	10.2
Japan	a	10.2	9.7	9.7	10.3
	b	53.0	54.3	52.3	45.9
	c	36.8	36.0	38.0	43.8
	d				
Union of South Africa	a	23.8	15.6	15.8	15.1
	b	68.8	67.6	67.5	69.4
	c	6.3	15.1	15.8	12.6
	d	1.1	1.7	0.9	2.9

In some countries, the increase of Government securities has been caused by direct lending on the part of the central bank, which in turn sells the securities as occasion offers to the public or the commercial banks. This has been the case in Japan. In other countries, heavy Government borrowing for public works and similar purposes has resulted in the banks holding a larger proportion of their assets in this form. In general, however, in the countries where reflation is in progress, the increased holding of Government securities reflects the continuing lack of adequate commercial demand for loans and advances.

It is obviously difficult at the present juncture to summarise adequately the divergent movements of bank credit sketched above. The most marked development during 1934, however, was the continued increase of deposits in the countries with depreciated currencies. In some, the possibilities of further expansion are very great and, in all, there appears to be the prospect of abundant and cheap credit for some time to come. Up till now, however, Government financing has absorbed the greater bulk of the credit that has been made available, and there is a noticeable lag in commercial demand.

Banking Reorganisation.

The year 1934 brought further difficulties to the banking systems of several gold-standard countries. [1] The double strain of heavy foreign withdrawals and shrinking domestic transactions not only caused a big decline in the deposits of the big trading banks, but also tended to impair the liquidity of some of

[1] For the situation in particular countries, cf. *Commercial Banks, 1929-1934, passim.*

the smaller banks. In addition to the failures and reconstructions mentioned in the preceding volume, another big bank in Switzerland, Leu & Co., reduced its capital by 20 million francs in May 1934, and there were one or two failures of smaller banks. In Holland, also, three of the larger banks wrote down their capital during 1933 and 1934. In Poland, deflation was wholehearted, but the State banks have carried the burden of agricultural and industrial long-term indebtedness, so that the reduction of deposits in the commercial banks did not impair liquidity. In Czechoslovakia, after the devaluation of the currency, a Rediscount and Lombard Institute was created (on May 1st, 1934) to utilise part of the potential credit made available.

The most far-reaching changes of policy, however, were those introduced in Belgium, where the banking situation was particularly difficult after the depreciation of sterling, both because of the importance of foreign (including colonial) trade and because of the extensive participations in industrial enterprises undertaken by the banks. The two largest banks had gained a dominant position and were heavily committed with industrial undertakings, for the handling of which holding companies had been formed. The troubles of the Banque Belge du Travail, which had extensive connections with numerous co-operative enterprises, brought matters to a head. The bank suspended payments on October 2nd, 1934, but, before that time, a series of emergency decrees in August and September began a thorough reorganisation of the banking system. The chief reform aimed at was a separation of deposit and investment banking. By the end of 1935, banks must choose one or other type of operation, or divide into separate institutions for the conduct of each type. An existing semi-Government bank, the Société nationale de Crédit à l'industrie, was expanded to take over long-term assets from such banks as desired to relinquish them, paying by Government debentures at 3% and charging 4¼% to the borrowers. At the same time, the decrees provided facilities whereby borrowers might take advantage of the lower rates of interest ruling in advance of the expiration of their contracts. The rediscount rate of the central bank was lowered also and steps were taken to reduce other interest rates. These decrees were issued in August and were supplemented in September by further measures to regulate financial operations of practically all kinds and to provide increased facilities for small borrowers. The whole programme, however, was overtaken by renewed deflationary pressure when sterling depreciated in March 1935. A strong speculative attack on the belga, combined with local agitation for devaluation, forced a

sharp crisis in early April, as a result of which the belga was devalued by 28%.

The German banking structure had already come virtually under State control before the inauguration of the recovery plans initiated by the National-Socialist Government necessitated heavy credit advances. The financial and trading connections with the outside world were cut to a minimum, the gold and foreign assets in the reserves of the Reichsbank dwindled, debts were not paid and imports fell heavily. Within the country, interest rates fell and production increased. Towards the end of the year, a banking commission reported against the nationalisation of credit, and its proposals for closer supervision of banking operations and for a sharper separation of deposit and investment banking were passed into law in December 1934.[1]

A previous *Survey* drew attention to the creation in Italy of special credit institutes designed to take over from banks and industries the burden of long-term indebtedness. The work of these institutes has proceeded steadily and has involved the re-financing of past obligations on an extensive scale. In March 1935, a further stage in this process was signified by the disappearance from the Stock Exchange lists of the shares of the four big banks, dealings in which had for some time been nominal.

The progress of banking reorganisation in other countries was largely dependent upon economic developments. Where economic conditions remained unfavourable, little or nothing could be accomplished. In Roumania, for example, "the banking position remained strained during 1933-34. The majority of Roumanian credit institutions are still operating under a system of special protection pending reorganisation or final liquidation".[2] In Bulgaria, the Crédit bulgare was created in October 1934 by an amalgamation of eight banks, to which four provincial banks were later joined, and another amalgamation produced the Banque agricole et coopérative de Bulgarie.

In the spring of 1934, action was taken by the Austrian Government and the Central Bank to conclude a further reorganisation by which the Austrian Creditanstalt took over the banking business of the Escompte Gesellschaft and absorbed the Wiener Bankverein, the Escompte Gesellschaft being converted into an investment trust issuing its own debentures and not accepting short-term deposits. The capital necessary to accomplish these changes was provided partly by a revaluation

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[1] Cf. *Commercial Banks, 1929-1934.*
[2] *Ibid.*, page 96.

of the gold reserve of the central bank, by which means the *de facto* devaluation of the currency was recognised, partly from the seigniorage on the new silver currency and partly from central bank funds.

Elsewhere there was a general tendency to the elimination, by failures or amalgamation, of the smaller and weaker banking institutions. Such a tendency may be noted in many widely separated countries and is a natural result of prolonged depression. It has been marked for many years in the United States, where the number of banks has been halved since 1920. In that country also, there is a strong tendency, as elsewhere, for increasing State control. One result of the advantages offered by the Federal Deposit Insurance Corporation has been to subject the banks which joined the Corporation to some Federal control, even though branch banking is still hindered by State laws and there is, in consequence, great decentralisation. The purchase of preferred stock giving the Reconstruction Finance Corporation a voice in the control of some thousands of banks, and the inauguration of direct loans to industry both by the Corporation and by the Federal Reserve System, even though the loans made have so far been restricted in amount, give the Federal Government an increasing control over banking. The concentration of the gold stock in the hands of the Treasury and the large profits placed at its disposal by the revaluation of that stock are steps in the same direction. The monetary policy pursued by the Treasury in consequence of the Gold Reserve Act and Silver Purchase Act of 1934 gives it still more power in the monetary field, and the proposed amendments to the Federal Reserve Act now before Congress may go far towards centralising banking policy in the hands of a nominated board over which the Treasury has considerable influence. One other step in the direction of unification and centralised control was taken in March 1935 by utilising a substantial part of the profit of revaluation to redeem the Government securities upon which the national banks were entitled to issue notes, thus forcing a replacement of these notes by other issues under more direct control.

It remains only to mention briefly the necessary adaptations of commercial banking practice that have followed the creation of central banks in Canada, India and New Zealand. These adaptations have not greatly altered the character of deposit banking in those countries; but they have systematised and centralised certain banking functions, such as the holding of currency reserves and the conduct of foreign exchange policy.

Some South-American countries, notably Brazil and the Argentine, are moving in the same direction, but monetary

policy in those countries is largely concerned with exchange controls and the liberation of frozen debts. In Mexico, however, national policy appears to have caused several foreign banks to relinquish their activities.

Thus the progress of banking reorganisation is, on the whole, slow and chequered. On the other hand, as a result of the depression, some advance has been made in many countries towards the elimination of weak and financially dangerous elements in the banking structure. There is a gradual trend towards greater integration of national financial institutions and towards a recognition of their public responsibilities.

A Redistribution of Gold Reserves.

It will be evident from the preceding sections that vast and complex influences have been at work during the last year or two altering the balance of international economic and financial relations. These influences flow in part from the positive actions of Governments and central banks in the countries which have devalued their currencies or allowed them to depreciate. In these countries, in clear contrast to the attitude of monetary authorities in the countries still remaining on the gold standard, there has been a variety of measures aiming at the provision of cheap and abundant credit. While there has, as yet, been a rather slow response on the part of the investors and organisers of production in most countries, the basis has been laid for a considerable credit expansion in the future. The condition of such policies, however, has been a release from pressure on the external balance of payments, giving freedom for national credit expansion. This release has been achieved in somewhat different fashion in three groups of countries. The United States has provisionally devalued at a level which gives ample scope for domestic credit expansion, provided that the level of other important currencies is not greatly altered. It is too soon yet to ascertain whether the devaluations in Czechoslovakia and Belgium will prove great enough to afford a similar release. The second case is typified by Germany, where domestic credit expansion has been made possible by default on external debt obligations and a very drastic curtailment of international trade. The third, and largest, group consists of those countries, such as the United Kingdom, Japan and countries more or less closely connected with the sterling group, where the currencies have depreciated and there has as yet been no return to a fixed parity with gold or with other currencies, but where the exchanges have continued to fluctuate in response to the market.

The interaction of depreciation and trade restrictions in causing shifts in the balances of payments was well illustrated during 1934, but in the rapid confusion of events it is very difficult to measure. Broadly speaking, the drift of events may be summarised as follows. When the depreciation of sterling and its allied currencies had had time to take effect in the normal processes of competitive trade, the comparative advantage conferred by the undervaluation of these currencies displayed itself in a marked tendency for short-term assets, and ultimately for gold, to flow primarily to London. The Annual Report of the Bank for International Settlements printed in May 1934 drew attention to the rapid accumulation of sterling assets in London by countries in the sterling group, particularly the British Dominions and the Scandinavian countries. In many cases, the sums thus accumulated exceeded even the amounts held in 1929. During the year 1933, also, large amounts of gold flowed to London and the Bank of England added substantially to its gold reserve.

The devaluation of the dollar, which became definite at the end of January 1934, changed this situation. The first obvious result was a diversion of the gold flow across the Atlantic, from the gold-bloc countries — through London or direct — to the United States. The United Kingdom, apart from the holdings of the Equalisation Fund, which are not known, did not lose gold on balance, but was not able to add further to its stocks. Meantime, certain of the gold countries countered the strain on their balances of payments, not only by vigorous deflationary action, but also by fresh trade restrictions. The exchange-control countries, to which Italy was added in this period of strain, were placed in a difficult situation which was solved in some cases by tightening trade restrictions and exchange controls, in others by allowing segments of the currency to depreciate or by a combination of both these expedients.

The result of these developments was deflationary. Prices tended to fall in world markets and, as the new season's products were sold, the agricultural exporting countries were badly hit. The effect on Australia, for example, was very clear. The price of wool fell so much and other export prices also were so low, that the London balances began to run down quickly by the end of 1934. The ultimate result of this trade development and of the return movement of capital to the United States was such a heavy pressure on sterling that in March 1935 there was a fresh wave of depreciation throughout the sterling group, and within a month Belgium, Luxemburg and Danzig had, largely in consequence, devalued. Strong speculative attacks and flights of capital developed against the remaining gold currencies

and especially against the Swiss franc and the Dutch florin. Renewed gold flows across the Atlantic set in, adding to the already very large stocks of gold in the United States. These flows of gold, important as they are as adding to or detracting from the bases upon which credit may be created in the different countries, are also important as indicating the final transactions by which balances of international payments are settled.

This tug-of-war between national economic systems is, indeed, one of the disconcerting results of the abandonment of the international monetary standard. As will be evident from the tables that follow, the tendency of the free exchanges is markedly downward. Adjustment to the new levels of prices thus reached in world markets becomes progressively more difficult for the countries that have maintained the former gold parity. Whenever the exchanges remain relatively stable, even for a few months, there are definite signs of a nearer approach to equilibrium. Prices fall and costs are reduced in the countries with overvalued currencies, and in the meantime the ordinary trading processes tend to correct disequilibria in the balances of payment. Any fresh devaluations or renewed depreciations, however, cause further dislocation of the precarious equilibria that have been achieved and are met with fresh trade restrictions and renewed pressure upon the price-levels in world markets. A vicious circle is thus set up in which world trade constantly tends to diminish as trade restrictions and currency depreciation succeed one another. This whole process was summed up by Sir Percy Bates, Chairman of the Cunard Steamship Company, in his address to the shareholders at Liverpool on April 24th, 1935, when he said: "There is a war to-day — a universal war — and the weapons are not navies, armies or aeroplanes, but tariffs, quotas and shifted currencies. There is no authorised standard of international money exchange, and each change in a tariff, a quota or currency is nothing other than a move, a hostile move, in this war. The worst of it is that the situation is not officially recognised as a war."

The heavy costs of this trade and currency struggle must be reckoned as a general loss and borne in mind when analysing the shifting advantages gained by one country or another. There is general agreement that the continued decline of world trade, the plight of shipping and the prolonged and extensive unemployment which persists almost everywhere by reason of the failure to restore international economic co-operation are deplorable. An increasing number of responsible voices is heard pleading the necessity for currency stabilisation and freer trade,

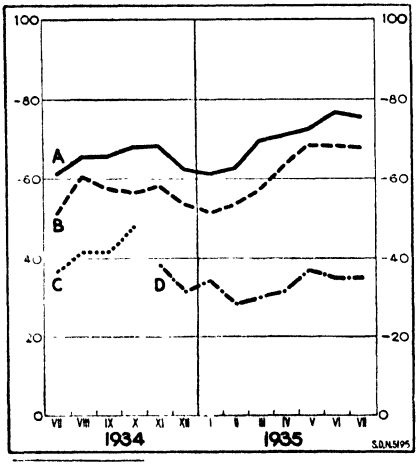
not as independent or prior, but as vitally connected and simultaneous, necessities for the restoration of sound economic conditions. There is, moreover, some evidence of greater readiness to prepare for these steps, as witnessed by the stability of the dollar since January 1934. Meantime, however, the strains imposed on the international system by exchange fluctuations and trade restrictions, and even by such tentative steps towards stabilisation as the dollar devaluation at a low level, threaten fresh dislocations of equilibria and further confusion.

The tables that follow measure the depreciation of thirty-nine countries, whose currencies in March 1935 stood at levels ranging from less than a quarter to just over three-quarters of their 1929 gold parities. It is particularly significant that twenty of these currencies, including that of the United Kingdom, reached new low levels in March. In April, Belgium devalued its currency, and Luxemburg also. In May, Danzig followed, so that it is obvious that the tendency both for lower exchange rates and for fresh devaluations remains strong. The only currencies which have substantially appreciated from their lowest levels are those of Uruguay, Venezuela and Salvador. There was, however, some recovery of the sterling and allied exchanges after the March depreciation. A speculative attack on the gold currencies caused a flight of short-term capital to London, and the demand for sterling thus created brought the sterling exchange, and with it the exchanges of the sterling group, back to the parities ruling in the latter part of 1934.

The Exchange Value of Blocked Marks as Percentage of Parity.

July 1934 to July 1935.

A = Effektensperrmark.
B = Kreditsperrmark.
C = Registermark.
D = Reisemark.



In the Argentine, Brazil, Chile, Colombia and Ecuador, as well as in Bulgaria, Germany, Hungary, Roumania and Yugoslavia, there are substantial differences between the official parities and the exchange rates privately negotiated.[1] The complication of these deviations from the official parities is greatest in Germany, where many

[1] Cf. *Statistical Year-Book of the League of Nations, 1934-35*, pages 220 and 221.

Gold Value of Currencies (I).

Year	Month	Uruguay	Argentine	Brazil	Bolivia	Australia	New Zealand	Venezuela	Mexico	United Kingdom	India	Straits Settlements	Denmark	Norway	Sweden	Canada	Austria	Salvador	Finland	Portugal
			[1]																	
1929	III	100																		
	X	94.5	100																	
	XI	93.6	97.4	100																
1930	I	89.9	94.7	92.7	100															
	II	86.0	89.7	93.2	97.7	100														
	III	86.1	88.8	96.1	97.4	95.9	100													
	VIII	80.2	85.5	83.2	97.0	94.1	95.8	100												
1931	VII	52.5	72.4	60.1	95.7	76.6	91.1	90.1	100											
	VIII	44.5	66.9	53.2	95.4	76.6	91.2	89.4	60.2	100	100	100	100	100	100	100				
	IX	40.5	61.9	49.4	90.0	71.5	85.0	88.1	67.0	93.1	92.9	94.3	94.3	94.8	97.3	96.3	100	100	100	100
	X	33.7	53.9	47.0	77.0	61.4	73.0	86.2	73.4	79.9	78.6	79.5	82.2	82.4	86.3	89.1	92.1	96.2	91.7	88.8
1933	IV	44.1	59.9	61.0	46.8	55.9	56.0	76.7	51.8	70.3	70.3	69.4	56.9	65.3	67.0	80.9	75.7	65.2	59.9	69.4
	X	46.1	60.1	47.7	43.1	51.4	51.5	69.8	38.1	64.6	64.7	64.7	52.4	58.9	60.5	65.7	78.2	42.9	55.3	69.0
	XI	46.1	59.6	44.8	44.1	52.6	52.8	72.1	34.9	66.2	65.7	66.1	53.6	60.4	61.9	63.3	77.9	39.2	56.3	68.7
1934	V	46.1	47.5	42.6	42.2	49.6	49.7	91.7	33.0	62.2	62.2	62.4	50.4	56.7	58.2	59.4	78.6	48.0	53.0	62.5
	VII	46.0	47.1	41.9	42.3	49.0	49.2	97.1	33.1	61.5	61.7	61.8	49.9	56.2	57.6	60.1	78.6	47.0	52.6	62.0
	IX	46.1	46.1	40.8	41.8	47.9	48.1	86.0	32.7	60.3	60.4	60.5	48.9	55.0	56.4	60.5	78.3	46.8	51.5	60.5
				Free rate																
1935	III	46.0	44.3	30.6	40.5	46.0	46.3	80.3	32.9	58.1	58.4	58.0	47.1	53.0	54.4	58.6	78.0	47.4	49.6	58.1
	VI	46.0	45.9	27.2	42.2	47.6	47.9	80.2	33.0	60.1	60.4	59.9	48.7	54.8	56.3	59.2	79.1	...	51.3	60.1

[1] Official buying rate.

Gold Value of Currencies (II).

Year	Month	Chile	Japan	Costa Rica	Greece	Peru	Ecuador	Siam	Yugoslavia	Union of South Africa	Colombia	U.S.A., Cuba, Guatemala	Philippines	Nicaragua	Estonia	Czechoslovakia	Belgium	Luxemburg	Danzig
1931	VIII	100[1]																	
	XI	63.5	100																
	XII	57.5	87.2	100															
1932	III	42.2	64.5	94.1	100														
	IV	33.9	65.8	94.1	94.9	100													
	V	31.9	64.1	88.9	51.2	94.8	100	100											
	VI	23.8	60.8	88.9	49.2	76.3	83.9	74.6	100										
	XII	19.9	41.6	88.9	41.8	61.6	80.0	67.9	76.4	100									
1933	I	18.9	41.6	88.9	41.6	62.3	80.0	69.7	77.0	71.0	100								
	III	18.8	42.7	84.2	43.7	58.5	84.2	71.1	77.9	69.8	88.6	100	100	100					
	V	19.0	41.1	74.5	43.3	51.2	72.1	69.5	77.9	68.2	75.6	85.3	85.7	83.6	100				
							Free rate												
1934	I	20.5	38.1	58.7	43.5	49.4	30.9	66.0	78.2	64.7	43.4	63.1	63.2	61.8	65.9	100			
	IV	20.3	36.0	55.7	43.1	49.3	28.2	63.2	76.4	62.0	36.5	59.2	59.5	58.1	63.0	83.3			
	IX	19.4	35.1	55.3	43.3	49.0	26.9	60.8	77.2	59.6	34.8	58.7	58.7	57.6	60.6	83.3			
	XII	20.5	34.3	55.9	42.9	50.0	24.7	60.9	76.7	59.7	39.4	59.4	59.3	54.0	60.7	83.3			
1935	III	20.2	33.2	...	42.9	50.9	28.2	58.5	76.8	57.4	32.9	59.5	59.2	53.8	58.4	83.3	100	100	
	IV	20.3	33.8	...	42.8	50.0	28.3	59.5	76.7	58.4	33.6	59.4	59.5	54.0	59.3	83.3	72.4	90.5	100
	VI	...	34.5	...	43.0	51.0	...	60.6	77.1	59.4	33.1	59.3	59.1	...	60.4	83.3	72.2	90.3	56.9

[1] Export draft rate.

different varieties of blocked marks are obtainable at varying discounts.

The statistics of gold production and distribution are interesting in themselves as potential bases for credit expansion. Under the stimulus of higher prices, gold production has increased greatly during the depression and is still increasing, particularly in Soviet Russia.[1] In 1934, it was approximately 40% greater than it had been in 1929. At the same time, there has been an immense amount of " dishoarding ". The amount released from hoards in India during the last five years is approximately $560 million, in China about $70 million and in the Straits Settlements about $40 million. If to these figures is added the gold melted down in other countries, it is probable that the total extra supply made available by dishoarding is from $850 to $1,000 million. Since, however, the total increase in monetary gold reserves is about equal to the new gold coming from the mines, it is evident that a large part of the amounts released from hoards in the East may be regarded as having gone into hoards in the Western countries. It has been estimated that gold in private hands approximates $1,000 million at the old valuation of the dollar. The fact that it is not possible to know how much gold is held in the various equalisation accounts and not included in the published statistics of central gold reserves leaves any estimate open to doubt, but the total hoarded is considerable. Even so, the central monetary gold reserves of the world have increased greatly in amount during the last five years. Without reckoning the new valuation at which these reserves will ultimately become effective in terms of the depre-

[1] *World Production of Gold, 1929-1934.*

(Former U.S. gold dollars, 000,000's.)

	1929	1930	1931	1932	1933	1934 (estimated)
Union of South Africa	215.2	221.5	224.9	238.9	227.7	216.6
Canada	39.9	43.5	55.7	62.9	61.0	61.4
Australia	8.8	9.6	12.3	14.8	17.2	18.2
Southern Rhodesia	11.6	11.3	11.0	11.9	13.3	14.3
British India	7.5	6.8	6.8	6.8	6.9	6.6
Rest of British Empire	8.6	9.3	10.4	12.9	15.7	16.4
Total British Empire	291.6	302.0	321.1	348.2	341.8	333.5
U.S.A.	42.6	44.2	46.0	48.2	47.6	56.5
South America	11.8	12.2	12.6	14.7	18.8	23.6
Mexico	13.5	13.8	12.9	12.1	13.2	13.7
Japan	6.9	8.0	8.3	8.3	9.1	10.1
Rest of World (excl. U.S.S.R. and China)	18.6	20.5	25.1	31.5	39.4	44.4
World (not incl. U.S.S.R. and China)	385.0	400.7	426.0	463.0	469.9	481.8
U.S.S.R.*	17-22	22-29	21-35	25-39	51-59	73-83
China *	2	3	3	...	...	...

Source: *Commercial Banks, 1929-1934.*

* Approximate figures.

ciated currencies, there is a total increase of world stocks of from 20 to 25 %.[1] A rough calculation based upon the present extent of depreciation shows that, if the gold reserves as they stand to-day in each individual country were revalued, there would be a nominal increase in the last five years of at least 75%. The probability that a large part of the great amounts of gold now hoarded would return to central reserves may be set against the likelihood of a renewal of hoarding in the Eastern countries if a greater measure of prosperity should return. It is obvious, therefore, that the danger of a shortage of gold for monetary purposes in the near future has disappeared and that ample reserves are available to support a much larger volume of credit than is at present in use. This is all the more obvious when it is remembered that prices have fallen a great deal in the last five years.

[1] *Central Monetary Gold Reserves, 1929-1934.*

(In millions of old U.S. gold dollars.)

	Dec. 1929	Dec. 1930	Dec. 1931	Dec. 1932	Dec. 1933	Dec. 1934
1. Gold bloc	*2,240*	*2,734*	*3,983*	*4,632*	*4,275*	*4,399*
France	1,631	2,099	2,683	3,257	3,015	3,218
Switzerland	115	138	453	477	386	368
Belgium	163	191	354	361	380	348
Netherlands	180	171	357	415	371	338
Poland	79	63	67	56	53	56
Other [a]	72	72	69	66	70	71
2. U.S.A. and Philippines	*3,903*	*4,228*	*4,054*	*4,046*	*4,013*	*4,866*
3. European countries whose currency situation is characterised chiefly by exchange control	*987*	*988*	*724*	*700*	*670*	*548*
Germany	560	544	251	209	109	36
Italy	273	279	296	307	373	306
Other [b]	154	165	177	184	188	206
4. British Empire and sterling bloc	*1,344*	*1,380*	*1,223*	*1,216*	*1,584*	*1,610*
United Kingdom [c]	711	722	590	587	933	938
British Dominions and colonies [d]	444	169	430	402	398	419
Egypt and Siam	19	20	44	61	33	32
European countries with currencies linked to sterling [e]	170	169	159	166	220	221
5. European countries with fluctuating currencies not included in 4 above [f]	*527*	*508*	*472*	*465*	*487*	*488*
6. Latin America:	*715*	*555*	*370*	*363*	*360*	*376*
Argentine	405	411	252	248	238	238
Brazil	150	11	—	—	—	4
Other [g]	160	133	118	115	122	134
7. Japan	*542*	*412*	*234*	*212*	*212*	*232*
World total, excluding U.S.S.R.	10,258	10,805	11,060	11,634	11,601	12,519
8. U.S.S.R.	147	249	328	—	416	439

[a] Danzig, Lithuania, Albania, Algeria, Morocco, Belgian Congo, Netherlands Indies.
[b] Czechoslovakia, Roumania, Hungary, Bulgaria, Latvia, Turkey, Yugoslavia.
[c] Including Irish Free State.
[d] India, Canada, Union of South Africa, New Zealand, Australia, Straits Settlements.
[e] Sweden, Norway, Denmark, Portugal, Finland, Estonia.
[f] Spain, Austria, Greece.
[g] Uruguay, Venezuela, Mexico, Colombia, Chile, Peru, Bolivia, Ecuador and other countries.

Almost two-thirds of the world's monetary gold reserves are still concentrated in two countries — France and the United States — and during 1934 gold still tended to flow to them. All of the countries in the gold bloc except France and Poland lost gold on balance during 1934, and those that lost most were forced out of the bloc — Italy into exchange control, Belgium, Luxemburg and Danzig into devaluation. Of the exchange-control countries, Germany lost practically all that was left of her reserves; but most of the other European countries under exchange control managed to increase theirs.

Obviously the most important factor of change in 1934 was the importation of over $850 million of gold (at the old valuation) into the United States. This increase of over 20% in the gold stocks of a country whose reserves were officially stated as more than adequate was largely due to a return flight of capital; but the recurrence of the gold flow is evidence of a serious disequilibrium in the balance of payments. The disequilibrium persisted in the first half of 1935, causing further heavy strains on the monetary systems of other countries, resulting in the tightening of trade restrictions, devaluations and widespread further depreciation.

The Drain of Silver to the United States.

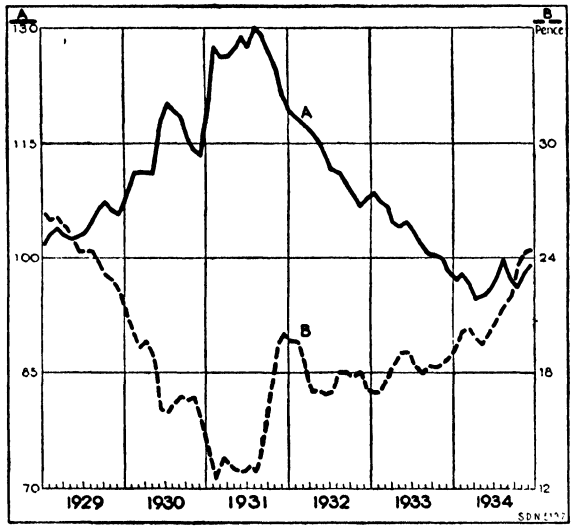
The situation in respect of gold reserves has been paralleled during 1934 and early 1935 by the silver policy of the United States. Indeed, these are the two commodities whose prices the American policy has been most conspicuously successful in raising. The world, however, is not a single economic area, and national policy in one country, even the wealthiest and most powerful, is apt to be counteracted by reactions in other areas. It has been shown that, by raising the value of gold in terms of American currency, very large amounts were attracted to the United States. To prevent even larger amounts being attracted, other countries imposed fresh trade restrictions, tightened their exchange controls, devalued or allowed their currencies to depreciate further. There were, in the United States, a fairly sharp rise in the prices of internationally traded commodities and a general upward pressure on the price-level. Reverse movements in other countries, however, went far to neutralise these American movements. Indeed, the downward pressure on prices in world markets, as trade outlets closed and deflation continued, appears to have rather more than neutralised them. The main result, therefore, of raising the price of gold was to

attract more of it to the United States and in doing so to disorganise international economic relations still further.

Much the same results have followed the bidding-up of the price of silver in recent months. These results are most evident in China, the most important country remaining on a silver bullion standard. As the following diagram will show, a drastic deflation of commodity prices in China began in the latter part of 1931, immediately after the abandonment of the gold standard by the United Kingdom and the rise in the sterling price of silver.

Wholesale Prices in Shanghai (1926 = 100) *and Silver Prices in London.*

A Shanghai prices. **B** Silver prices.



In the earlier years of the depression, the silver standard had safeguarded China from deflation. Indeed, wholesale prices rose substantially between 1929 and 1931. After the depreciation of sterling, however, prices fell heavily in China, and at the end of the first quarter of 1934 the fall from the peak level in September 1931 was over 30%. There is ample evidence to prove that the interior economy of China was badly deranged by this sudden appreciation of money and heavy deflation of commodity prices. Rents, in so far as they were paid in money, taxes and other fixed charges were an increasing burden; tenants unable to pay such charges only too often found their lands pass into the hands of moneylenders; silver was drained from inland

markets to Shanghai and exported from Shanghai in large quantities.

The measurement of price movements in such a country as China, and with such currency disturbances as China has undergone in the last year or two, is particularly difficult. When conditions differ so much between the ports and the interior and import prices change in relation to export prices, average measurements obscure the confusion of price relationships which is always one of the worst features of such a period.[1] Average movements over the whole year 1934 fail to give an adequate picture of what actually happened. The heavy fall of wholesale prices in China continued for some months after the price of silver had steadied down in the middle of 1933. At the Monetary and Economic Conference, an International Silver Agreement was signed on July 22nd, 1933, "with a view to mitigating fluctuations in the price of silver". After some months' lag, wholesale prices in China, influenced by stable silver prices and the rise of sterling in the latter part of 1933, began to move upward in March 1934; but their upward trend was reversed sharply when the effects of the American silver policy became apparent.

The steps by which the United States embarked on the policy of raising silver prices are well known. At the end of 1933, the Government announced that it would buy 24 million ounces of newly mined domestic silver at 64 1/2 cents per ounce. Prices in the world market hardened under speculative pressure; but there followed a period of indecision and it was not till June 19th, 1934, that the Silver Purchase Act made the purchase of silver obligatory until it should constitute 25% of the American monetary stocks. Buying began in the autumn of 1934 at 50.01 cents, but by early April 1935 these purchases, aided by speculation, had raised the world market price to parity with the American domestic silver price of 64 1/2 cents an ounce. This price was calculated at the old U.S. mint price of $1.29 per ounce, less 50% seigniorage; but, when the world price had reached this point, the Administration reduced its seigniorage charge and so raised the domestic price, first to 71.11 cents and on April 26th to 77.57 cents. By this time, speculation had raised world prices even above this parity and expectations were aroused that the American purchases would eventually force both world and American prices to $1.29 per ounce or even to the $2.18¾ necessary to achieve the old bimetallic ratio of 16 : 1 with gold.

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[1] Cf. *Nankai Index Numbers, 1934*, Nankai Institute of Economics, Tientsin, China, April 1935, for detailed price movements of particular commodities and groups of commodities.

At this stage, however, a halt was called and speculation was checked.

The amount of silver necessary to provide the proportion of 25% of American monetary reserves was estimated at the end of 1934 as 1,120 million ounces. Moreover, as gold is attracted to the United States, the amount of silver needed also increases. The world production in 1934 was about 181 million ounces, and it is estimated that, at the present higher price, annual production may reach 200 to 250 million ounces. It is obvious, therefore, that either purchases must be made over a long period of years or silver must be drawn from other sources if the legislation is not rescinded or the President does not make use of his power under the Gold Reserve Act of 1934 to reduce the silver content of the silver dollar.

The main source from which silver was drawn in 1934 and early 1935 was China, which lost 268 million ounces in the year 1934 alone.[1] The pressure which in consequence was imposed on Chinese commodity prices led inevitably to Government action in that country. In September and October 1934, not only was a 10% export duty imposed (less 2¼% minting charges), but an equalisation charge was levied "equal to the deficiency, if any, between the theoretical parity of London silver and a rate of exchange officially fixed by the Central Bank of China, after making allowance for the export duty". By these measures, China modified the silver bullion standard so greatly that the level of prices in that country was, temporarily at least, relieved from undue deflationary pressure. The temptation to smuggle silver out of China was strong, however, and the prospect of an increasing currency shortage forcing down prices still further is not yet averted, as is shown by the heavy fall of prices again in March 1935, when the price of silver began to rise sharply in London.

China, however, is not the only country affected in this way, although, being the only country on a silver bullion standard, it was injured more directly and immediately than those which use silver token currencies. The spectacular rise of silver prices in April brought them close to the point at which it would become profitable to melt Mexican dollars and export the bullion. The result was that the Mexican Government was forced to call in Mexican dollars from circulation within thirty days and to substitute paper notes and copper coins. At the same time, negotiations were opened with the United States the results of which are not known at the moment of writing (May 1935). Peru also prohibited free silver exports.

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[1] *Nankai Social and Economic Quarterly*, Vol. VIII, No. 1, April 1935.

The rising tendency of silver prices has brought within sight a similar position of danger for the Indian token currency. The New York price was 81 cents per ounce in late April; at $98^{3}/_{8}$ cents the melting price of rupees would be reached if exchange rates remain at present levels. Any fall in the rupee or sterling exchange would bring the danger-point nearer. The Indian Government has large reserve stocks of silver amounting to 339 million ounces, but under the London Agreement of 1933 cannot sell more than 50 million ounces in a single year or 140 million ounces in four years. The other Governments signatory to the Agreement bound themselves not to debase their silver coinages by the issue of new coins with a lower silver content. It is difficult, therefore, to see where the large amounts of silver necessary to fulfil the mandate given by Congress to the President can be found without imposing further strain upon the currencies of the silver-using countries.

The United States in the second quarter of 1935 was attracting both silver and gold from the monetary reserves of the rest of the world. In so far as silver purchases were obviating the necessity of gold imports, the strain was being shifted from gold- to silver-using countries. The fundamental difficulty remained, however, that the balance of payments in the United States was so strongly favourable that its pressure was exerting a deflationary influence on the rest of the world, without up till the present producing a sufficiently higher domestic price-level to ease the strain of international adjustments.

Chapter IX.

THE ECONOMIC SITUATION IN JULY 1935.

Further Deflation in the Gold Bloc.

The narrative of events contained in the first chapter of this *Survey* was written in April and May 1935. At that time there was considerable uncertainty and some disquietude about the international economic outlook. Prolonged pressure upon the balances of payments of the sterling countries had culminated in a break of the exchange-rates in March. This proved to be the signal for several weeks of intense currency disturbance. The Belgian franc was devalued in April. Luxemburg and Danzig quickly followed. A sustained speculative attack was launched against the principal remaining currencies of the gold *bloc*. Two French Cabinets fell before a Government was found able to secure the necessary powers from Parliament to defend the franc. The crisis was in full swing and its upshot by no means certain when the earlier chapters of the *Survey* were being written.

Events have since moved fast. As this final chapter is being written at the end of July, they are still moving fast. A political crisis in the Netherlands arose over the deflationary proposals of the Government, which resigned on July 25th. Despite the intervening events chronicled in this chapter, there was renewed weakness of the gold currencies, a flight of capital from the Netherlands and to a less extent from Switzerland and France, and further losses of gold from the central bank reserves of those countries. In the Netherlands, the losses were heavy and the bank rate was raised again, from 3 to 6½%. In the same week, the Italian Government announced that it had suspended the legal requirements for the gold cover of central bank liabilities, and the lira at once weakened on the foreign exchanges. There were rumours also of devaluation in Roumania.

Before attempting to summarise these developments, it is necessary to record the principal economic happenings since the end of May. Scattered references to them may be found in the preceding chapters of the *Survey* dealing with particular aspects of the economic situation.

The struggle of France, the Netherlands and Switzerland to remain on the gold standard must be viewed against the background of events elsewhere. On the one hand, there was the undoubted fact that production was increasing and unemployment was falling rapidly in the countries which were pursuing reflationary policies. Belgium also had gained a considerable measure of relief by devaluation. On the other hand, there were obvious elements of instability in the countries which had pushed reflation furthest, a fear that fresh international disequilibria would be created if the remaining gold-standard countries were forced to depreciate or devalue their currencies, and a general expectation that a vast credit expansion centred in the United States was, if not imminent, at least probable in the comparatively near future.

In the defence of their currencies, the central banks of the gold-standard countries were aided by the central banks of other countries, by the Bank for International Settlements, and by the United States Treasury. Discount rates were raised and efforts were made to restrict speculative transactions in their currencies. It was quickly demonstrated that their technical position was very strong. As soon as the French political crisis was solved, there was a marked slackening of the pressure on all three principal gold currencies. The outward gold flow ceased and it was possible in June and July to lower the discount rates once more. [1]

The weekly movements of the gold and foreign assets reserves are shown in the table on the following page.

There was therefore a lull in the currency struggle in June and the greater part of July. During that lull, not only was there an opportunity to discuss means of closer technical co-operation among the European central banks, but also strong deflationary action was taken by the French Government in pursuance of the extraordinary powers granted to it by Parliament. The mandate which it received was clear and precise: to defend the franc. In order to do so, a series of decree-laws were issued on July 16th. These decrees sought

[1] The Banque de France had raised its rate from 2½% in April to 6% at the end of May, but lowered it again to 5% on June 20th, and to 4% on July 4th. The Netherlands Bank raised its rate from 2½% in March to 5% at the end of May, but lowered it to 4% in June and 3½% on July 6th. The Swiss National Bank raised its rate from 2% to 2½% on May 2nd and maintained it at that figure.

Gold and Foreign Assets Reserves of the Three Principal Gold-Standard Countries, April-July 1935.

National currency (000,000's).

Around	France			Netherlands		Switzerland	
	Gold	Foreign assets		Gold	Foreign assets	Gold	Foreign assets
		At sight	Bills				
April 1st	82,635	10	1,007	780	—	1,713	6
8th	81,986	9	1,065	674	—	1,594	6
15th	81,385	10	1,094	662	1	.	.
23rd	81,024	12	1,094	643	1	1,457	3
29th	80,933	9	1,056	645	1	1,402	4
May 6th	80,627	9	1,057	645	1	1,365	7
13th	80,283	10	1,056	645	1	1,343	3
20th	79,762	10	1,128	653	1	1,265	2
27th	76,596	208	1,172	646	1	1,208	1
June 3rd	71,779	976	1,174	621	1	1,193	7
11th	70,725	73	1,173	618	1	1,162	11
17th	70,753	3	1,173	620	1	1,163	11
24th	70,770	4	1,174	627	1	1,169	11
July 1st	71,017	7	1,203	658	1	1,195	11
8th	71,272	8	1,203	681	1	1,221	11

to eliminate excessive public expenditure and to reduce allowances and pensions. The budget was further relieved by reducing the State's contribution to the social insurance fund and by the Caisse autonome d'amortissement taking over additional sinking-fund payments. The greatest effort was made, however, by an all-round economy of 10% in Government payments, including those of local bodies, Algeria, the colonies, protectorates, mandated territories and leased or subsidised public services. Certain exceptions were made, salaries under 8,000 francs a year being reduced only by 3%, and those between 8,000 and 10,000 francs by 5%. At the same time, the interest payable on the long-term public debt (*rentes*) was also reduced by 10%, but bondholders whose total income was less than 10,000 francs were to be partially compensated for this cut in interest. Measures were taken to check fiscal frauds, and additional taxes were imposed on bearer bonds other than *rentes*. Incomes above 80,000 francs were subjected to special taxation. A special tax was imposed upon profits from armament enterprises. The net effect of these measures was estimated to reduce the deficit by 10,959 million francs, as follows:

	Francs (000,000's)
State budget (economies and new taxes)	7,063
Caisse d'amortissement	195
Departments and communes	1,385
Railways (including previous economies)	2,316
	10,959

These fiscal measures were supplemented by a first series of decrees intended to stimulate economic activity by lowering prices. The price of bread was reduced by 10 centimes per kilogramme, charges for gas and electricity were lowered, the price of coal reduced by 5 to 15%, that of fertilisers by 5%, and rents by 10%.

By another decree of great potential importance, debtors are released from the inconvertibility of their contracts and permitted to repay their loans before they fall due if they can find cheaper accommodation elsewhere. Other economic measures were announced as in preparation.

The comprehensive nature of the sacrifices demanded and the bold steps taken to lower prices were sufficient to relieve the immediate tension of the currency situation. Devaluation was categorically rejected, the report which the President of the Council addressed to the President beginning with the following emphatic statement: "On June 8th, the Government received from Parliament the right to take, by decree-laws, the steps necessary to defend the franc. There is no obscurity about our mandate or about the means to fulfil it. In asking us to defend the franc, Parliament, like the Government, decided against monetary devaluation. We do not wish to devalue and shall not do so."

While the budgetary and Treasury difficulties will be met at least temporarily by the measures so far decided, [1] it is recognised that the ultimate problem is one of restoring economic activity. The purpose of economies and new taxation may be defeated if revenue continues to fall because of declining production and trade. It is for this reason that steps have already been taken, and others are foreshadowed, to reduce the cost of living and of production generally. Throughout the official announcement, there are statements recognising the exceptional nature of the sacrifices demanded. The gravity of the decision to break contracts, enforce price, interest and rent reductions and, above all, to cut the interest paid on the public debt is frankly stated. The tone of the whole statement is an appeal for national sacrifice to save the country from financial chaos. As far as might be judged at the end of July, the Government's programme had been accepted as necessary; but time is needed to determine its adequacy. Success depends partly upon events elsewhere. Further currency depreciation abroad would go far to nullify the effects of deflation in France. On the other hand, rising prices in the countries off gold would relieve the strain

[1] The Banque de France, on June 7th, disclosed an increase of 4,400 million francs in its discounts, as compared with May 16th, part of which appears to have consisted of advances to the Treasury.

on the French balance of payments unless capital moved to take advantage of profit opportunities in sufficient amount to hamper a fall in French interest rates. With the cost of living reduced and wages lowered, the main problem that lies immediately ahead is to lower interest rates and stimulate industrial activity.

In May 1935, production was 8% below that of May 1934 and still falling. Building activity had decreased by over 20% and unemployment had increased by over 25%. Share prices had risen, but, as the following table will show, this was mainly because of a flight from the currency, the prices of foreign shares rising greatly and those of French shares less as the price of fixed-interest securities fell:

The Price of Industrial Shares and Fixed-Interest Securities in France, May-July 1935. [a]

		French shares	Foreign shares quoted in Paris	Bonds, incl. *Rentes*
March	9th	181	178	87.4
	23rd	178	173	86.1
April	6th	184	194	84.2
	20th	185	196	84.6
May	4th	192	205	83.8
	18th	206	226	82.3
June	1st	205	223	82.4
	15th	197	215	83.3
	29th	192	200	82.8
July	6th	186	194	80.7
	13th	186	197	81.8
	20th	185	196	83.0

[a] Statistique générale de la France: *Indices économiques hebdomadaires*, July 20th, 1935.

Economic conditions in the Netherlands were no less depressed. The latest official report of the Central Statistical Office at The Hague summarised the situation as one in which "industrial activity continues to decline. The import of raw materials, especially for capital goods, is moving at a very low ebb. Unemployment, corrected for seasonal fluctuations, has continually increased since the middle of 1933. In the building industry, the situation is continually becoming worse; in the textile and metal industries also. The development in the movement of trade is also very unfavourable. Owing to the low quotas allowed, accompanied by the continual decline of the purchasing power in the home market, imports show the greater decrease. But exports are also continually decreasing. The situation in agriculture is characterised by a rise in the output of dairy products, which are thrown on the world market at a loss. The Government has therefore taken measures to restrict production. Market-gardening is suffering badly under the difficulties of our clearing regulations with Germany and the raising of tariffs in several countries. To these unfavourable factors an unsatisfactory development of

the money and capital market has been added during the last few months." [1]

The report goes on to point out that, as a result of the raising of the bank rate to check heavy gold losses, "the abundance of available money was reduced", and an end was made to the conversions that had been proceeding.

In face of these difficulties the Government, convinced that devaluation was no solution of the problem, in the early part of July, introduced a Bill providing for further deflationary measures, mainly aiming at the reduction of house rents and mortgage interest. Growing opposition was manifested to these proposals and the Government resigned on July 25th. The resulting political crisis was resolved at the end of July by a reconstruction of the former Ministry. Meanwhile, the energetic measures taken by the central bank had brought the guilder back above the gold export point after a few days of heavy losses from the reserve. On the last day of July, all three of the principal gold currencies appreciated sharply in the foreign-exchange markets, while the discounts on forward purchases decreased.

The situation of Switzerland differs considerably from that of France and the Netherlands, since there has so far been little further deflation in Switzerland either of budgetary expenditure or of prices. The technical position of the central bank is strong. The gold reserve is massive and recent speculative attacks on the currency have been defeated. The failure on June 2nd of the "initiative de crise" removed a factor of uncertainty regarding the Government's economic policy and some improvement of the capital market has followed. The following table shows recent movements of bond and share prices. At the end of May, bond prices had fallen heavily while the prices of industrial shares (but not bank shares) had risen. By the end of July bond prices had recovered somewhat, but share prices remained high while bank shares had fallen further.

Index-Numbers of Bond and Share Prices in Switzerland, May-July 1935.

		Bonds Percentage of nominal value	Bank shares Percentage of paid-up capital	Industrial shares Percentage of paid-up capital
1934:	June 9th	104	86	156
	December 22nd .	106	87	152
1935:	February 25th. .	110	78	160
	March 25th . . .	103	64	164
	April 25th . . .	91	56	167
	May 25th . . .	92	54	160
	June 11th . . .	98	52	167
	June 25th . . .	99	51	170
	July 10th . . .	100	51	169

[1] *Economisch-Statistisch Kwartaalbericht*, July 17th, 1935, page 627.

Because production costs and the cost of living have proved difficult to reduce, the exporting industries and the tourist traffic have been hard hit. The import of raw materials decreased by 10% in the first quarter of 1935 as compared with the corresponding quarter of the preceding year. At the end of June 1930, the percentage of hotel beds occupied was 37.4 At the end of June 1935, it was 18.2. The value of the tourist traffic was estimated in 1930 at 350 million francs and in 1934 at 108 million francs.

The budgetary difficulties caused largely by the increasing subsidies have been partially met by increased taxation. Thus, at the end of June 1935, the import duties on petrol and sugar were substantially raised. The continued lack of budgetary balance, however, is reflected in a price for bonds which precludes any large conversions of public or private debt. The difficulty of reducing interest charges is an important factor in maintaining production costs, and agricultural debt is heavy. There is a vicious circle, therefore: subsidies create budgetary strain which precludes interest reductions and thereby causes fresh subsidies to be demanded.

In these circumstances, production is declining and unemployment increasing. The rise in unemployment between June 1934 and June 1935 was 27%. In the building trade, unemployment increased in this period from 9,400 to 17,800, a rise of 90%, while the building permits for apartments fell from 5,038 in the first half of 1934 to 2,892 in the first half of 1935. Meantime, the cost of living fell by two points, from 129 to 127 in the year ending June 1935.

Poland is the only country of the gold *bloc* which has escaped currency disturbances in recent months. Deflation continues to be severe, the level of wholesale prices having fallen by almost 6% from May 1934 to May 1935. Prices of manufactured goods fell more than those of agricultural products, but food prices fell by 9% and the cost of living by 6%. Production increased slightly in this period, and producers' goods increased more than consumers' goods. The index of investment calculated by the Bank of Poland was about 18% higher in the first quarter of 1935 than in the corresponding quarter of 1934. Building activity also increased and railway car-loadings were over 11% greater in May 1935 than in May 1934. Unemployment was considerable and increased substantially in the early months of 1935, but the continued ease of the money market enabled the Government in April to float an "investment loan" of 200 million zlotys for public works. The budget deficit was expected to decrease substantially in 1935-36, bank deposits and monetary circulation were increasing and the central bank

reserves were well maintained. As throughout the depression, Poland was therefore pursuing a policy of cost deflation, together with a policy of public works financed by loans. The thoroughness of the deflation policy has maintained financial liquidity. After the experience of two previous inflationary periods, there appears to be a general acceptance in Poland of the necessity for thorough-going deflation in order to maintain currency stability.

The Changing American Scene.

While the European countries were preoccupied with currency problems, a dramatic turn was given in May to events in the United States by a series of judicial decisions the net effect of which was greatly to modify important elements of the "New Deal" programme. As pointed out in Chapter I, there was in any case a distinct tendency for the Government's programme to pass from experiment to administration. This tendency became clearer in the second quarter of 1935. There was, in the first place, a stable currency policy. The broadcast speech by the Secretary of the Treasury on May 13th contained the announcement that the United States was ready to participate in negotiations for currency stabilisation. In April, the silver market had been disturbed by the Treasury's policy in raising its price for domestic silver. Speculation on a great scale bid up the price of silver and the silver-using countries were put under great strain. The Treasury, however, did not raise its price again after April 25th, and a few weeks later there were signs of a collapse in the speculative position that had been built up, particularly in London and Shanghai. While official American purchases prevented this collapse from becoming serious, the market was not further disturbed by a continuance of the price-raising policy.

Moreover, the Administration's resolute opposition to currency inflation was convincingly demonstrated by the unprecedented action of the President on May 23rd, in delivering personally to Congress his veto of the War Veterans' Bonus Bill: this had required the issue of "greenbacks" to pay in cash bonuses amounting to $1,600 million. The Bill was immediately passed again by the House of Representatives, but the Senate failed to muster the two-thirds majority necessary to override the President's veto.

Meantime, the Supreme Court rendered a series of decisions which declared much of the emergency legislation enacted since March 1933 to be outside the constitutional limits of the Federal Government's powers. Some warning that important

parts of the new experimental legislation might be declared invalid had been given by the decision concerning the abrogation of the gold clause in loan contracts. A majority of the Court held the abrogation to be unconstitutional in respect of United States Government loans, but declared that bondholders must prove damage to obtain redress. While the practical effect of this decision did not seriously affect the Government's financial policy, it was felt necessary to introduce new legislation closing the door to actions for damages. There were many also who interpreted the verdict as a sign that later decisions would lay down constitutional limits narrower than those assumed by much of the "New Deal" legislation. On May 6th, the Railway Pension Act and, on May 27th, the crucial section 3 of the National Industrial Recovery Act, and also the Frazier-Lemke Farm Moratorium Act, were declared unconstitutional. In July, there were several decisions of the lower courts adverse to other important measures, including the power granted by the Agricultural Adjustment Act to levy processing taxes. The Supreme Court has not pronounced the final verdict in regard to these questions, but the May decisions have already laid down a definition of Federal powers which narrowly limits the function of the Federal Government in respect of economic legislation.

Immediately after the Court's ruling on the National Industrial Recovery Act, prosecutions for breaches of the codes were abandoned and the powers of the code authorities suspended. On June 16th, the National Recovery Act, shorn of its code and price-fixing provisions, but retaining the power to regulate minimum wages and hours, prohibit child labour and encourage collective bargaining, was renewed for a period of nine months.

At the end of July, Congress remained in session with a long list of Administration measures still undecided. New amendments to the Agricultural Adjustment Act and the Social Security Bill providing for unemployment insurance and old age pensions were still the subject of conferences between the House and the Senate. The Banking Bill, which, as passed by the House of Representatives, gave greatly increased influence to the Treasury in the administration of the Federal Reserve system, had been drastically changed in the Senate, but its final form was still uncertain. The Utility Holding Companies Bill, one of the main features of which was the "death-sentence" clause providing for the compulsory dissolution of holding companies, had also been amended in the Senate, which had modified this important clause. The Tennessee Valley Authority Reorganisation Bill was not finally adopted, though opposition to it had lessened. Taxation proposals

satisfactory to the President had yet to be adopted. The Administration's legislative proposals were clearly encountering much more critical opposition than in preceding years.

Moreover, there was a growing tendency for Congress to tie the hands of the Administration. The Appropriation (Work Relief) Act, passed in April, giving authority to raise $4,000 million for relief projects, specified that, of the $900 million set aside for loans and grants for non-Federal projects, 25% of the cost of each project was to be expenditure on wages and direct labour costs. There was some inevitable delay in launching such a large programme and the limitation stated above made it difficult to find suitable projects. The slowness with which the work-relief programme came into operation made it clear that it would serve more as a relief than as a recovery measure.

With currency policy moving away from earlier experiments, the attempt to achieve recovery through reform by measures such as the National Recovery Act practically abandoned, and Government expenditure taking the form rather of relief than of a stimulant to private enterprise, the main reliance for business improvement was placed upon a cheap-money policy. The extent to which the banking reserves of the United States have recently increased is shown in the following table:

Gold Stock and Credit outstanding in the United States. [a]

$ (000,000's).

	June 30th				
	1929	1932	1933	1934	1935 [b]
Monetary gold stock . . .	4,324	3,919	4,318	7,856[c]	9,109
Member-bank reserves . .	2,359	1,998	2,235	3,819	5,029
Member-bank deposits . .	35,893	27,864	26,587	31,012	35,200
Currency in circulation .	4,746	5,695	5,721	5,373	5,498

[a] National City Bank of New York, *Monthly Letter*, July 1935.
[b] June 26th.
[c] Revalued at new gold parity of dollar.

Compared with June 30th, 1933, both gold reserves and the deposits of member banks with the Federal Reserve Banks have more than doubled; but deposit accounts with the member banks have increased by little more than 30% and note circulation has decreased from the peak level reached in the banking panic. Before the depression, and indeed until 1931, deposits in member banks were, on the average, about fifteen times greater than member-bank reserves. " If, on existing reserves of approximately $5,000 million, credit were to be expanded in the ratio of 15 to 1, the resulting member-bank deposits would

be about $75,000 million, or more than twice as large as in the 1928-29 boom."[1] Vast possibilities of credit expansion exist. The difficulty up to the present has been to start the expansion.

Rates of interest for gilt-edged short-term loans have remained very low and long-term interest and overdraft rates have shown a distinct falling tendency in recent months. Short-term rates in 1935 have ranged from about 1% on four- to six-months commercial paper to practically zero on three- to six-months United States Treasury notes and certificates. The yield on United States Government bonds had fallen to 2⅝%, and that on ten "high-grade railroad" bonds to 3¾% at the middle of July. New industrial bond issues were made in 1935 at rates of interest down to and below 3¾%. Such very low rates, while causing difficulties to institutional and other bond-holders, facilitated conversions and stimulated the employment of funds in the share market.

There was some increase of capital issues, but mostly for refunding former debt. The United States Government continued to be the most important borrower on the market. "In the first half of 1935, the Treasury made forty-five new issues of securities, including refunding issues and exchanges, equivalent to an average issue of about $150,000,000 every four days."[1] Other public borrowings, by municipalities, States and Government agencies accounted for 71% of the new issues other than Government loans. Of the 29% of private borrowing, 24% was for refunding issues and only 5% for new industrial capital.

New Security Offerings in the United States.[1]

$ (000,000's).

		First half-year		
	1929	1933	1934	1935
Corporate:				
New capital	4,699	60	99	87
Refunding	865	159	102	470
Total	5,563	219	202	557
Municipal, State, etc.:				
New capital	663	209	451	352
Refunding	8	17	69	243
Total	670	226	520	595
U.S. Government Agencies:				
New capital	—	11	54	9
Refunding	—	—	244	762
Total	—	11	298	771

[1] National City Bank of New York, *Monthly Letter*, July 1935.

		First half-year		
	1929	1933	1934	1935
Foreign Government, etc.:				
New capital	72	—	—	—
Refunding	8	60	—	—
Total	80	60	—	—
Grand total:				
New capital	5,433	280	604	449
Refunding	880	237	416	1,474
Total	6,314	517	1,020	1,923

While the increased capital issues of the first half of 1934 were largely for conversions and new capital issues remained very small, there was a great deal more activity on the Stock Exchange and share prices rose substantially. In December, the index had fallen to 80.3 (1926 = 100) as compared with 81.4 in June 1934; but by June 1935 it stood at 88 and was rising rapidly in July.

Increased activity and higher prices on the Stock Exchange were not the only signs of reviving confidence at the middle of 1935. Among the multitude of economic commentators and forecasters in the United States, there was practical unanimity concerning the underlying strength of the economic situation and the probability of greater business activity and higher prices after the summer recession. In fact, though some improvement was discernible, business activity remained low. The general index of production stood at 76.6 in June 1935 as compared with 74.8 a year earlier (1928 = 100).

Despite this low level of production, there were many signs that demand was reviving. The automobile industry, which had reduced prices and improved the quality of its products, went from strength to strength during 1935 and was the main support of the heavy industries. Department-store sales were increasing, though the retail price index fell steadily. [1] Building activity, especially in the private construction of houses, was substantially greater than in the preceding summer. Farm income was higher and industrial employment fairly well maintained. Despite the fears expressed after the Supreme Court's decision regarding the National Recovery Act, there was no great disturbance of existing wage scales and prices. [2]

[1] *Annalist*, July 19th, 1935. Wholesale prices and the cost of living were rising.

[2] Cf. *ibid.*, page 69: "The termination of the N.R.A. should result in a gradual elimination of a considerable amount of the artificiality which has permeated the business structure, although up to date it has not been a cause of important economic changes."

There was a tendency for prices of manufactured goods to fall, but the shortage of agricultural products caused the indices both of wholesale prices and of the cost of living to rise.

Indices of general business activity were rising. Electric-power production, even in midsummer, was close to its winter peak. Bank debits outside New York City were more than 10% greater than in the summer of 1934. Profits declared in the second quarter of 1935 were substantially greater than in the previous year. Gold was still flowing into New York and new security issues were increasing. Though the heavy industries lagged behind and unemployment was slightly worse than in June 1934, the production of steel was well maintained in the slack season, mainly because the automobile boom continued. Moreover, orders for machine tools — implements for new and increased production — rose by nearly 50% in the first half of this year over their total a year ago.[1] Considerable importance was attached to this improvement in the demand for new equipment in the heavy industries.[2]

The business outlook was therefore more promising in the summer of 1935 than it had been since the first burst of recovery in the spring of 1933. The chief cause for hesitation was uncertainty regarding the political programme, coupled with the fear of increasing taxation. The abnormally low rates of interest ruling in the money market were due largely to the lack of commercial and industrial borrowers; but the potential credit expansion on the basis of greatly augmented gold reserves was so vast as to render possible a very considerable increase of business activity before serious financial stringency was at all likely. Ultimately, the Government's extraordinary expenditure must be reduced, and higher taxation may become necessary to meet public debt charges and the increased social expenditure authorised by the new legislation. With remarkable unanimity, however, the numerous economic forecasts which are published by various agencies in the United States relegated these financial difficulties to a future more distant than the expected recovery of business activity in the autumn. In the United States, more than in any other country, there was general expectation,

[1] Cf. *The Times*, London, July 29th, 1935.

[2] Cf. Pacific Company *Digest*, July 15th, 1935: "Residential construction has shown marked expansion, although, with few exceptions, activity in the heavy industries still remains relatively stagnant. There exist a number of indications, however, that this group will experience improvement during the remainder of the year. The first division of the heavy industries group to show such improvement should be the machine-tool and railroad equipment companies. A high degree of obsolescence exists in almost every phase of American industry. A number of competitors, such as the Japanese, have gone far during the depression years in increasing the efficiency of their industrial plants. The modernisation of American industry will be essential if such foreign competition is to be met effectively, and will do far more in increasing the general level of economic well-being in this country than the many "pump-priming" attempts by the Government."

that, when recovery began in the heavy industries, it would be reinforced by a considerable credit expansion.

The Persistence of Recovery.

After the sharp depreciation of sterling in March and its recovery in April and May, when weakness developed in the continental gold currencies, it was widely recognised that any further aggravation of international disequilibrium was likely to menace the prospects of economic recovery. There were obvious elements of instability in the national economic situations of many countries, even where recovery had been substantial. The decline of sterling was evidence that the sterling area as a whole had been under pressure because of the movement of capital back to the United States and the increased trade restrictions in Europe. There was a distinct check to Japanese industrial expansion. The balance of payments in Germany and Italy gave cause for apprehension, and the domestic situation in the United States was greatly altered by a series of judicial decisions adverse to the "New Deal". The Belgian devaluation in April 1935, after more than five years of deflation, gave rise to a fear that, in default of agreed stabilisation, there might ensue a series of such national adjustments, either by devaluation or by further currency depreciation. Czechoslovakia in February 1934 had devalued by 16.67%, while Austria in April 1934 revalued its gold reserves at a parity 22% below the former gold value. The Belgian devaluation in April 1935 was by 28%. There arose the possibility of successive "ledges" of devaluation, the latest country to seek adjustment in this way fixing the new value of its currency sufficiently low to secure at least a temporary export advantage and an inflow of short-term capital.

Behind these national adjustments, however, there loomed the prospect of a vast credit expansion based upon the increased and revalued gold reserves of the principal trading countries. The accumulation of gold is greatest in the United States, and the commercial banks of that country have built up amounts of credit with the Federal Reserve Banks greatly in excess of their legal reserve requirements. In many other countries also, gold reserves have increased and have been revalued. It is estimated that the gold reserves of the world at the end of 1934, valued in the new currencies of the countries where they were held, were at least 75% greater than in 1929. Every fresh depreciation or devaluation, and every movement of gold from the gold-standard countries to those with depreciated currencies,

increases the nominal value of the gold stocks. Up till the present time, in all but a few countries, the credit expansion which might be built upon such greatly increased gold reserves has remained potential rather than actual. This is especially true of the United States, where the increase of reserves has been greatest. So many factors affecting price movements are uncertain while currency instability persists that no one can foresee the future movements of the price-levels; but the prevailing low level of gold prices, together with the larger gold reserves now available, make an upward movement more than probable whenever currency confidence is restored. Commenting upon these facts, the Annual Report of the Bank for International Settlements points out that " the present British price-level is about 15% below the previous lowest point ever recorded since 1800. In view of the large current gold production, the magnitude of the currency reserves (particularly as revalued at present rates of exchange) and the amount of gold that may come out of hoards consequent upon stabilisation, it would indeed be strange if prices did not show a rising tendency after a general return to gold." [1]

Statistics for the second quarter of 1935 are as yet scattered and incomplete, but those that are available leave no doubt that the fears of a check to recovery that were freely expressed at the beginning of the year have not been realised. In part, this may be due to the inherent strength of the forces making for recovery. Partly also, the most recent improvement of the economic situation must be recognised as reflecting the comparative stability of the foreign exchanges, despite the alarms and excursions that have attended the recent attacks on the gold currencies. Those currencies have so far held firm, while sterling and the currencies associated with it have not depreciated further, but have been restored to the parities prevailing before the March depreciation. The Belgian devaluation was skilfully carried through without any great strain on either the gold or the free currencies. Purchasing-power parities depend upon the base which is chosen for comparison, but, if August 1931 is chosen, it will be found that the Belgian devaluation, followed by the subsequent slight rise in wholesale prices, brought the Belgian, British and American price-levels into almost exact equilibrium again. The Belgian action was not followed by trade reprisals and the Belgian Government took steps to restrain any great increase of exports. The United States did not take advantage of the clause in its trade treaty,

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[1] Bank for International Settlements, " Fifth Annual Report, April 1st, 1934-March 31st, 1935 ", page 11.

negotiated with Belgium barely a month before devaluation took place, enabling it to revise the agreement in the event of any substantial change in monetary policy. Belgium renounced the trading advantage that might have accrued from devaluation, preferring to maintain export prices and lower the prices of raw materials in order to improve the profits of the exporting industries. A trade treaty was negotiated between Belgium and France on April 6th, by which Belgium agreed to authorise exports only on condition that prices were no lower than they would have been without devaluation, and to maintain the volume of French imports.

Throughout the currency crises of May-July also, the central banks have remained in close touch and their co-operation appears to have moderated the crises in considerable measure. The equalisation funds which now exist in several countries, and are sometimes regarded with suspicion as possible instruments of currency warfare, appear on the contrary to have been used as instruments of co-operation. While it would be premature to regard these developments as decisive or the future as free from currency anxieties, the fact that fresh international disequilibria have not so far been created by a new series of exchange fluctuations must be recognised; it has contributed substantially to the marked improvement of the general economic situation in the summer of 1935. While there was for a short time a downward tendency of wholesale prices, production continued to increase and with it the demand for raw materials.

Statistics of world production and unemployment are not yet available for May and June, but in April world production was 7% greater than in April 1934. In May, for the first time since the depression began in 1929, the gold value of world trade was slightly greater than in the corresponding month of the previous year. In June, however, it was again below the level of a year earlier.

The following table shows, for the most recent months for which statistics are available, the increase of production that has taken place in the countries where reflationary policies are being followed. For convenience of comparison, the gold-standard countries are added. Production has fallen in the gold-standard countries, but where positive deflationary measures have been taken, the cost reductions so affected — provided no further important currency depreciation occurs elsewhere — are bringing the price-levels of the countries concerned more nearly into equilibrium with price-levels in the countries whose currencies have depreciated.

Indices of National Production, 1934-35.

(Base: 1928 = 100.)

Country	Month	1934	1935	Percentage increase or decrease
U.S.S.R.	March	.	.	+ 23
Italy	June	86	102	+ 19
Germany	June	81	95	+ 17
Chile	May	126	148	+ 17
Japan	April	140	159	+ 14
Hungary	Jan.-March	95	108	+ 13
Austria	May	71	79	+ 11
Poland	June	62	68	+ 10
Belgium	June	66[a]	71	+ 9
Norway	June	117	124	+ 7
Sweden	May	108	115	+ 7
United Kingdom	April-June	103	110	+ 6
Denmark	June	124	130	+ 5
Canada	June	81	85	+ 5
United States	June	75	78	+ 4
Roumania	March	134	130	— 3
Czechoslovakia	April	73	69	— 5
Finland	June	111	105	— 5
France	June	78	72	— 8
Netherlands	May	80	71	— 11

[a] Labour dispute (wool).

The order of the increase of production in these countries is not without interest. Positive official action is responsible for the greatest increases and, in many of the countries at the head of the list, rearmament is proceeding very rapidly. In Italy, domestic production has increased, but difficulties have arisen in connection with external payments. In the latter part of July, the foreign commercial debt had accumulated to the point where some further action was necessary to forestall default or exchange depreciation. For several months, the Government had controlled the foreign exchange market and had mobilised all the foreign assets that could be utilised for external payments. Silver coins were replaced by notes in order to strengthen the banking reserves. It became necessary, however, to release more gold for foreign payments. The central bank's gold reserve was so close to the legal minimum that, if more gold was to be used abroad, it was necessary either to suspend the legal reserve requirements or to reduce the note circulation and sight liabilities. The latter course would have involved deflationary action that would have checked the increase of domestic production. On July 22nd, therefore, the legal requirements were suspended. The immediate result was a sharp fall in the exchange value of the lira, but this was quickly restored to the former level (8-9% below gold parity). Com-

mercial debts amounting to about 500 million lire were paid and the gold reserve dropped below the former legal minimum. Prices have risen rapidly in Italy — by nearly 14% between January 2nd and July 3rd, 1935. Imports are strictly controlled and exports are falling. Some apprehension is expressed also by merchants in other countries concerning the prospects of future payments.

Production has risen rapidly in Germany also, but wholesale prices have fallen slightly in 1935. There is considerable activity in the armament industries and also in the work-creation schemes. The statistics of unemployment continue to decline. The budget which was sanctioned on March 29th has not been published, and it is not therefore possible to ascertain the extent of Government borrowing which has taken place. The balance of payments remains a source of difficulty and imports are strictly controlled. Exports have fallen heavily, but a large subsidy scheme came into operation during July. A levy imposed on domestic industry is reported to have yielded a fund of RM. 720 million, which will be supplemented by profits on the purchase of German bonds at depreciated values abroad; but no information is available concerning the methods by which exports are being subsidised. Default on debt transfers was extended on April 15th.[1] Payment agreements were negotiated with the United Kingdom on April 16th, with Switzerland on May 1st, and with the Netherlands on June 19th. The increase of domestic production, however, was not due solely to the Government expenditure, which is reflected in a strain on the balance of payments. There have been considerable reductions of both labour and capital costs. The Stock Exchange is strong and the committee of the Bourse intervened in July by issuing a statement intended to check the rise of share prices, which amounted to 14% in the first five months of 1935. It was stated that trade and industry could expect new burdens and that recent share quotations were unwarranted. Share prices remained relatively firm, however, and bond prices did not rise.

With regard to the other countries where industrial production increased very rapidly, little can be added to what has already been written in Chapter IV. The index for Japan is not at the moment available beyond March 1935. Trade restrictions on Japanese exports, however, were increasing and, in July, an important market was partially closed when Egypt imposed quotas on Japanese goods. There were some signs

[1] The coupons which, on October 15th, 1934, were paid partly in Reichsmarks and partly in foreign currencies were paid wholly in Reichsmarks.

of a slackening of production in the middle of the year, but the new budget for 1935-36 called for further heavy armament expenditure.

Production was increasing and unemployment steadily falling throughout the sterling area. In the United Kingdom, *The Economist's* index of business activity rose in June 1935 to a level above that of 1929. Compared with June 1934, employment was 2% greater, the production of iron had increased by 14% and that of electricity by 18%. Building activity was 11% greater, but was slightly less than in May. Building permits in June also decreased. There was some difference of opinion as to whether this decline portended the slackening of the building boom. [1] Wholesale prices, the cost of living and share prices all showed a rising tendency and there was increasing activity in the capital market.

There was no apparent sign of a check to recovery in the near future, but the decline in building activity emphasised the importance of getting the export industries under way before the stimulus of cheap money was exhausted in the consumption industries. This, indeed, is a problem common to all the countries where reflation is in progress. The increase of industrial activity up till now has not been accompanied by a commensurate increase in international trade. The limits of national recovery may not have been reached, but in most countries the export industries have lagged far behind and their improvement still awaits currency stabilisation and freer trade. In the case of the United Kingdom, there was some improvement in the value of manufactured exports, reflecting for the most part increased purchasing power in the sterling area. In June 1935, they were, in terms of sterling, about 2½% greater than in June 1934. Seasonal movements are very pronounced and it is difficult to tell from month to month whether exports are increasing or not. The greater part of the increase seems to have taken place in the autumn of 1934, and there has been some discussion as to whether the increase has continued in recent months.[2] Some progress was clear, however, in June 1935, the exports for that month, when allowance is made for seasonal fluctuations, being the highest since April 1932.

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[1] Cf. London and Cambridge Economic Service, *Monthly Bulletin*, July 23rd, 1935, page 205: "The June statistics for building contracts suggest that this activity will soon pass its climax, unless a further stimulus is given", with *The Economist* "Trade Supplement", July 27th, 1935: "The index of building activity is slightly lower than in May, as the value of building plans passed in June was considerably less than a year ago. But in view of the fact that the plans passed in May were unusually high, the decline in June does not necessarily portend the end of the building boom."

[2] London and Cambridge Economic Service, *Monthly Bulletin*, July 23rd, 1935, pages 205-8.

There was some decline during recent months of the raw-material imports into the United Kingdom, but this mainly reflects the reduction of agricultural production in the agricultural exporting countries, as described in Chapter III. Raw material and, still more, food prices on the whole appear to be rising. The economic outlook is therefore improving again in the agricultural exporting countries such as the British Dominions and South America. The latest Australian and New Zealand reports show an all-round improvement of business activity following rising prices for wool, butter and metal exports. In South Africa, as in the United Kingdom, building activity was slackening; but employment was increasing rapidly. In Canada, production in May was higher than at any time since 1930 and — apart from a fall in wholesale prices caused mainly by improved crop prospects in Canada and the United States — all the principal economic indices showed substantial improvement. In the Scandinavian countries and Finland also, production continued to increase and unemployment to diminish.

It would be idle to pretend that the evidence of increasing economic activity over a wide area, summarised in the preceding pages, is sufficient to indicate the final passing of the depression. After the confusion and threatened international disequilibria in the earlier months of 1935, the situation in July was more encouraging. There still remained many areas of difficulty. The agricultural countries of Eastern and South-Eastern Europe were adversely affected by the bad harvest of 1934 and their economic activity remained at a low ebb. Several of the great agricultural countries of Asia, notably India and China, were still depressed. Further drastic deflation had become necessary in the gold-standard countries. Production was still falling in France, the Netherlands and Switzerland. Among the countries which remained on the gold standard, but had devalued their currencies, Austria continued to show steady improvement and Belgium had gained a great measure of relief; but there was little or no further improvement in Czechoslovakia. Though international trade was increasing slightly, the increase was only in the area of relatively free trade and there were few signs of the removal of trade restrictions where these were most effective.

In the past, efforts in the gold-standard countries to achieve a new equilibrium by means of deflation and increasing trade restrictions have been followed either by falling prices or by exchange depreciation in the countries off gold. There has been a persistent falling tendency of gold prices. Whether that tendency will reassert itself in the coming months cannot be foreseen. There are strong forces making for credit expan-

sion and rising prices outside of the gold *bloc*. The key to the situation probably lies in the United States. If the recovery of the heavy industries gathers way in that country, the gold and banking reserves available are sufficient to support a great credit expansion, which would not only relieve the strain on, but communicate itself to, other areas. In the United Kingdom and the sterling area generally, there is at the moment no sign of an immediate check to recovery, but these countries in the recent past have found their balances of payments strained and their exchanges depreciated by increasing trade restrictions and outward movements of short-term capital. There seems no reason why the renewed deflation now under way in France and the Netherlands should again cause a downward pressure on world prices unless it is followed by fresh trade restrictions. If, on the contrary, the existing barriers to trade are lowered and the exchanges remain stable, an upward price movement and accelerating recovery may be expected. Currency depreciation and devaluation have increased the world's monetary resources so greatly that there must eventually be a considerable rise in prices and, unless effective measures can be devised in the meantime to check undue credit expansion, another unbalanced industrial boom may follow. The chief obstacle to further recovery in the immediate future is the fear of renewed economic warfare. Further exchange disturbances and the imposition of new, or even the maintenance of existing, trade restrictions might prove powerful enough, as they have done before, to cause another setback; but, given economic peace and international co-operation, the signs of economic improvement in the summer of 1935 are more encouraging than at any preceding period since the depression began.

CHRONOLOGICAL LIST OF ECONOMIC EVENTS

1934

AUGUST

1. *Greece-Yugoslavia:* Commercial Agreement supplementary to Treaty of November 2nd, 1927.

   New Zealand: Reserve Bank begins operations.

3. *United Kingdom:* Lancashire cotton industry temporarily suspends all export of yarns to Germany.

   Switzerland: Federal Council decides to provide assistance in order to facilitate liquidation of Banque d'Escompte Suisse.

4. *Bulgaria:* Issue of an internal loan of 230 million leva.

   Bulgaria: Creation of a new bank, the Bulgarian Credit Bank, with a capital of 125 million leva, 50 million of which are subscribed by State.

   Italy-Portugal: Treaty of Commerce and Navigation based on most-favoured-nation clause.

5. *Iran:* Rial pegged to French franc at rate of 107 rials to 100 French francs.

   Turkey: Minister of Finance empowered to float internal loan for construction of Sivas-Erzerum railway.

   U.S.A.: Import and Export Bank decides to withhold all credits from Germany provisionally until holders of Dawes and Young Loans receive satisfaction.

6. *France-Belgo-Luxemburg Union:* Commercial Agreement.

8. *U.S.A.:* President Roosevelt signs Housing Bill, providing State guarantee for credits granted for house repairs.

10. *Austria-Turkey:* Conclusion of Commercial Agreement and Clearing Agreement.

11. *U.S.A.:* Presidential Decree that silver reserves be paid into Treasury. Price 50.01 cents per ounce.

13. *Canada:* Group of American banks grants Canada a loan of 50 million dollars at 2%.

    Cuba: Decree making new Cuban gold and silver coins and U.S.A. coin legal tender.

    Yugoslavia: Limitation of interest rate to 4.5% above National Bank's discount rate for loans granted by credit institutions and banks.

    Yugoslavia: Prohibition to form cartels unless ordered by Minister of Commerce and Industry on grounds of public interest.

    International: Meeting of International Tin Committee. Reduction of existing quota by 10% from October 1st, 1934.

AUGUST 1934

13. *International:* International Sugar Council meets at Brussels without result.

Quota Agreement concluded between Cuba and U.S.A.

14. *United Kingdom:* Federation of British Industries sends commission to "Manchukuo".

15. *Germany-Netherlands:* Netherlands Clearing Act comes into force.

19. *Brazil:* Creation of a Federal Foreign Trade Board under presidency of Head of State.

20. *Germany-United Kingdom:* Agreement on payment for imports to Germany.

21. *International:* On the proposal of International Tea Commission, Governments of Kenya, Uganda, Tanganyika and Nyasaland decide to restrict area of new tea plantations.

22. *Brazil:* Government will buy gold at price fixed on international market.

U.S.A.: Hours of work in cotton industry reduced from 40 to 36 without loss of wages.

23. *China-U.S.S.R.:* Commercial *modus vivendi* extended to January 1st, 1935, with additions to list of products exchanged.

France-Roumania: Transfer Agreement concluded for three months.

24. *Cuba-U.S.A.:* Commercial Agreement under which the two countries grant each other preferential Customs facilities.

United Kingdom: Cotton-spinners' agreement signed, fixing minimum prices and conditions of sale for 18 months.

25. *Canada:* Silver exchange established at Montreal.

27. *U.S.A.:* Farm Administration announces for 1935 a reduction of 10% in area to be sown with wheat.

France-Switzerland: Entry into force of Commercial Agreement of March 29th, 1934.

Italy-Roumania: Conclusion of Clearing Agreement to come into force on September 1st, 1934.

28. *Belgium:* Discount rate lowered from 3% to 2½%.

31. *Colombia:* Law to establish a National Economic and Financial Council.

Germany-Sweden: Clearing Agreement.

SEPTEMBER

1. *France-Peru:* Entry into force of Commercial Agreement regulating trade in coffee and spirits.

Germany-Netherlands: Signature of Agreement on transfer of interest on German private debts.

3. *Germany-Chile:* Conclusion of Commercial Agreement based on most-favoured-nation treatment.

U.S.A.: Strike of textile workers.

SEPTEMBER 1934

5. *Bulgaria-Czechoslovakia:* Conclusion of Compensation Agreement.
   Germany-Belgo-Luxemburg Union: Signature of Commercial and Financial Agreement.
   Indo-China: Issue of 5% loan of 170 million francs at 92¾. Repayment of capital and payment of interest guaranteed by French Government.
6. *International:* Stockholm. Conference of Foreign Ministers of Sweden, Norway, Denmark and Finland.
7. *Austria:* Committee of eight guarantor States sanctions conversion of 1923 Austrian Loan. Amount of conversion, 618 million schillings.
10. *Colombia:* Decides to introduce Compulsory Clearing Agreement with Germany.
13. *Argentine:* Conversion of various loans into 4½% loan of 50 million pesos repayable by 1986.
    Peru: Government sanctions grant of permits to work tungsten deposits.
    Sweden: Foundation of Credit Institute by principal banks. Capital 8 million kronor, of which 75% guaranteed by State and 25% by banks.
14. *Greece-Turkey:* Signature of Commercial Treaty.
15. *Germany-Italy:* Germany denounces Protocol concerning commercial payments.
    Germany-Norway: Entry into force of new Clearing Agreement.
    Hungary-Yugoslavia: Signature of Total Compensation Agreement.
19. *Brazil-Chile:* Signature of Compensation Agreement.
20. *India:* Bengal Government draws up plan for restriction of jute cultivation in 1935.
21. *Danzig:* Discount rate raised from 3% to 4%.
    U.S.A.: End of textile workers' strike.
22. *Argentine:* Government redeems pre-war loan of 10 million pesos, converting British issue into 4½% loan; redeeming French and German issues in paper pounds.
    United Kingdom-Turkey: Turkey denounces Commercial Agreement.
24. *Germany:* Entry into force of "New Plan" for strict adjustment of imports to exports.
26. *France-Czechoslovakia:* Signature of Commercial Agreement.
    International: Conference of Gold Bloc at Geneva.
    International: U.S.S.R. accedes to German-Polish Agreement on rye exports.
27. *Estonia:* Discount rate lowered from 5½% to 5%.
28. *Germany-Argentine:* Conclusion of Commercial and Financial Agreement.

SEPTEMBER 1934

29. *Canada-France:* Commercial Agreement signed at Paris.

30. *France-Switzerland:* Entry into force of Commercial Agreement of March 29th, 1934.

International: Conference of Economic Council of Little Entente at Belgrade.

OCTOBER

1. *Germany:* Creation of Compensation Office (Institut für Verrechnungsabkommen).

Netherlands Indies: Issue of 4% Conversion Loan of 485 million florins.

Poland-Yugoslavia: Conclusion of Clearing Agreement.

2. *Germany-Austria:* Clearing Agreement.

Switzerland: Order of Federal Council on compensation of foreign claims and debts.

3. *China:* Finance Ministry prohibits export of gold bullion and purchase of gold and silver.

5. *Austria:* Law concerning conversion of guaranteed State loans.

6. *Germany-Belgium:* Coal clauses of 1925 Commercial Treaty denounced by Belgian Government.

7-11. *U.S.A.:* American Federation of Labour adopts resolution in favour of 5-hour day and 30-hour week without reduction of wages.

10. *United Kingdom:* Plan for reorganisation of cotton industry adopted by General Committee of the Federation of Master Cotton-Spinners' Associations.

Czechoslovakia: Decree concerning compulsory cession and declaration of foreign means of payment, claims against foreigners, precious metals and securities.

11. *Germany-Poland:* Conclusion of Compensation and Clearing Agreement coming into force October 15th, 1934.

International: Extension of Aluminium Cartel.

Switzerland: Federal Council decides to issue loan of 100 million francs at 4% to consolidate floating debt of Confederation.

13. *Germany-U.S.A.:* Commercial Treaty of December 8th, 1923, denounced by Germany as from October 13th, 1935.

14. *China:* Imposition of duty on silver exports.

16. *Belgium:* Inauguration of first section of Albert Canal (Lanaye-Lanaeken), to connect Liége with Antwerp.

Germany: Fiscal laws on personal tax, income tax, capital, business turnover, companies, corporations and inheritances.

17. *Greece-Roumania:* Conclusion of Clearing and Compensation Agreement, operating retrospectively, as from August 15th, 1934.

Roumania: Interministerial Conference decides in principle to abolish import quota system.

OCTOBER 1934

19. *Austria-Switzerland:* Exchange of notes under which Switzerland renounces certain duties under Austrian tariff. Agreement to come into force December 5th, 1934.

20. *Italy:* Ministerial Decree limiting State guarantee for export credits in respect of 1934-35.

International: Gold Bloc Conference at Brussels.

23. *Belgium:* Inauguration of second section of Albert Canal (Lanaeken-Neerharen).

Chile: Government announces that Chile will resume payment of interest on foreign debt.

24. *Roumania:* Government approves introduction of new regime for foreign trade.

26. *France-Czechoslovakia:* Commercial Agreement concerning mutual increase of import quotas.

27. *Estonia-U.S.S.R.:* Commercial Agreement based on principle of complete compensation of mutual exchanges.

New Zealand: Inauguration of Waitaki hydro-electric works.

28. *Poland:* Promulgation of decrees assisting farmers to pay off their debts.

Sweden: Banks issue foreign loan of 15 million kronor to Finland.

International: European Cellulose Cartel abandons limitation of prices. Restriction of 20% on production remains in force until end of 1935.

29. *Spain:* Discount rate lowered from 6% to 5½%.

Sweden: Introduction of monopoly of wholesale trade in pharmaceutical products.

International: Conclusion of Agreement on sale of rough diamonds for the next three years in London.

NOVEMBER

1. *Australia:* Discount rate lowered from 4½% to 4¼%.

Canada: Minimum prices fixed for wheat.

Germany-United Kingdom: Debt Arrangement superseding that of August 10th, 1934.

Netherlands Indies: Discount rate lowered from 4% to 3½%.

Sweden: Advance repayment of 5½% 1924 loan of 30 million dollars.

2. *Manchuria:* Creation of Manchurian Petroleum Company with a capital of 5 million yen, 1 million being subscribed by the Manchu Government.

International: Meeting of Permanent Council of Balkan Entente from October 30th to November 2nd at Ankara.

3. *Germany:* Reichsbank unable to meet obligation to pay in cash 40% of interest coupons maturing between July 1st, 1934, and June 30th, 1935, and of foreign claims placed on same footing as these coupons.

NOVEMBER 1934

4. *Bulgaria:* Law introducing tobacco monopoly.

5. *Belgium:* Royal Decree limiting to 15 million francs loss which can be incurred by State in respect of oil-refining industry.

   Bolivia: Decree establishing three categories of exchange: official rate, import rate, free rate.

7. *Australia:* Issue on London market of 3¼% Conversion Loan of £14,601,806 at 99, repayable between thirtieth and fortieth years.

   Czechoslovakia: Formation of Cement Cartel to stabilise selling-prices.

8. *Netherlands Indies:* Issue on Amsterdam market of 4% loan of 150 million florins. Maximum premium on issue price ½%.

   Switzerland: New banking law passed by Conseil des Etats and National Council.

9. *Bulgaria:* Cabinet adopts law instituting salt and spirit monopoly.

   France-Belgo-Luxemburg Union: Additional Protocol to supplementary Commercial Agreement of April 15th, 1931.

11. *France:* General strike ordered in Roanne textile industry owing to reduction in wages.

    Lithuania-Poland: Interruption of frontier traffic.

12. *Czechoslovakia:* Creation of central organisation to control all the country's coal undertakings.

    Venezuela: Decree authorising purchase and coining of silver up to 20 million bolivars.

13. *Germany:* Special price-control commissioner forbids any association to fix prices without his consent, and forbids producers and wholesalers to fix retail prices.

    New Zealand: Dairy Industry Control Act.

    U.S.A.: Removal of exchange restrictions, except embargo on gold. Export of currency and capital abroad authorised.

14. *Austria-France:* Commercial Agreement, entering into force December 1st, 1934.

    Manchuria: Law introducing oil monopoly.

15. *Argentine:* Issue of 4½% Internal Loan of 50 million paper pesos to repay external debt.

    Netherlands: Government adopts Central Rubber Committee's proposal to limit production in Netherlands Indies as from January 1st, 1935.

16. *Bulgaria:* Suspends transfer of annuities on foreign loans.

    Netherlands denounces Payment Agreement concluded with Germany on September 21st, 1934.

18. *Italy:* Issue of 2 milliards 4% 9-year Treasury premium bonds at par.

NOVEMBER 1934

18. *Spain:* Reduction of private banks' rate of interest from 2% to 1½% and of savings bank rate from 3½% to 3%.
International: Danube Navigation Cartel prolonged until February 1936.

19. *Australia-Belgo-Luxemburg Union:* Commercial Agreement.
France-Norway: Supplement to Commercial Convention of April 12th, 1927, regulating import of French wines and spirits into Norway. Entry into force November 27th, 1934.
Spain-Bulgaria: Convention on Payments. Entry into force November 20th, 1934.

22. *International:* International Tin Committee decides to fix percentage of exports for period January 1st to March 31st, 1935, at 40% of the basic figure.
International: Dissolution of Zinc Cartel.

24. *Italy:* Decree authorising issue of Italian *tranche* of Austrian conversion loan.

26. *Italy:* Bank of Italy's discount rate raised from 3% to 4%.
Italy-Hungary: Signature of Agreement regarding port of Fiume.
U.S.S.R.: Abolition of bread-card system.

27. *India:* Strike of Calcutta dockers to protest against low wages and bad working conditions.
Spain: Issue of 300 million pesetas in 4½% Treasury bonds.

28. *Roumania:* Government Economic Commission decides to denounce all commercial treaties in order to conclude new ones in harmony with new commercial policy.

29. *Argentine:* Basic prices established in November 1933 maintained for wheat, maize and linseed.

30. *Austria:* Announcement of repayment of 11 *tranches* of Austrian League Loan on June 1st, 1935.

31. *Denmark:* Meat Act passed by Parliament.

DECEMBER

1. *Hungary-Czechoslovakia:* Extension of Compensation Agreement of July 1934 and conclusion of new Agreement.
Spain-Poland: Signature of Treaty of Commerce and Navigation.

2. *Germany:* Textile undertakings reduce hours of work to below 36 a week owing to shortage of raw materials.

3. *Finland:* Discount rate lowered from 4½% to 4%.
U.S.A.: Issue of 900 million dollars in bonds for subscription in cash, and of 992,496,500 dollars in new certificates in exchange for 2¼% certificates of indebtedness falling due on December 15th.

4. *France:* Opening of Economic Conference of Home Country and Oversea Possessions at Vincennes.
Germany: Law on distribution of profits in joint-stock companies.

DECEMBER 1934

5. *Czechoslovakia:* Skoda and Českomoravská works form Production Cartel for machine and locomotive construction. This applies only to home market.

   Germany-Netherlands: Conclusion of Payment Agreement. Entry into force December 10th, 1934.

   International: Foundation of Bank of the Balkans; head office at Ankara.

6. *Poland-United Kingdom:* Conclusion of Agreement between representatives of coal industries.

7. *China:* North China authorities prohibit export of silver to Manchuria.

   France-Germany: Commercial Agreement and Clearing Agreement extended until March 31st, 1935.

8. *Australia-United Kingdom:* Inauguration of first direct air service.

   United Kingdom: Tramp shipping subsidies voted.

   Italy: Law on cession of foreign exchange and declaration of securities issued abroad.

9. *France-U.S.S.R.:* Agreement of January 1st, 1934, to continue in force in 1935 until superseded by a new agreement.

10. *Austria:* Abrogation of Standstill Agreement between Austrian National Bank, Austrian banks and British and American creditors.

    Brazil: Quotation of foreign currencies to be based on quantities of Brazilian coffee imported by countries.

11. *Germany:* Decrees on price control and against raising of prices of articles of primary necessity.

    Poland: Total silver coinage in circulation increased from 396 million to 426 million zloty.

12. *International:* British Government asks Dominions to limit export of agricultural produce.

13. *Portugal:* Discount rate lowered from 5½% to 5%.

14. *France-Latvia:* Supplement to Commercial Convention of October 10th, 1924.

    Poland-Roumania: Commercial Agreement fixing export quotas between the two countries.

15. *Roumania:* National Bank reduces discount rate from 6% to 4½%.

    International: Belgium, France, Latvia, Poland and United Kingdom notify U.S.A. that they will not make payments falling due on December 15th in respect of war debts.

18. *France:* Government abolishes nearly all export duties on national products.

19. *Chile:* Maximum rate of interest on deposit at Caja de Credito popular fixed at 5½%.

    International: Wheat Conference meets at Budapest. France provisionally recognised as an exporting country.

DECEMBER 1934

19. *International:* Tripartite Commercial Agreement between Austria, Germany and Yugoslavia.

20. *Australia:* Commonwealth Bank of Australia fixes rate of interest on 3-month deposits at 1% and on 6-month deposits at 1½%.

Denmark: New exchange regulations.

21. *Germany-Spain:* Conclusion of Clearing Agreement, to come into force January 1st, 1935.

Italy: Prohibition of export of securities and banknotes.

Salvador: Extension of Agreement of May 1933 regarding service of external debt.

22. *Finland-Germany:* Extension of Commercial Agreement until December 31st, 1935.

Germany-Netherlands: Commercial Agreement. Stipulates free exchange of coal.

Germany-Sweden: Conclusion of Clearing Agreement.

Hungary: Decree regarding transfer moratorium extended for one year.

Japan-Turkey: Compensation Agreement to enter into force January 1st, 1935.

23. *U.S.S.R.:* Bank of Agriculture remits part of debts owed to it by Kolkhozes.

24. *France:* Laws for regulating wheat and wine markets.

Panama: Abolition of import duties on 600 articles, but increase of consular duties on exempted articles.

26. *Chile-Germany:* Treaty of Commerce based on most-favoured-nation treatment.

International: International *entente* of waggon-constructors renewed under title of Association internationale des constructeurs de matériel roulant.

27. *Bulgaria:* Agreement reached between representatives of League Loans Committee and Bulgarian Finance Minister regarding service of loans issued under League auspices and earlier loans.

29. *Argentine-Spain:* Commercial Agreement based on most-favoured-nation treatment.

Belgium: Creation of national coal office for regulating production, sale, export and transport of coal.

Belgium-Germany: Signature of Agreements supplementary to clearing agreement of September 5th, 1934.

30. *Germany-Turkey:* Turkey grants Germany increase in import quotas.

31. *Chile:* Official rate of peso fixed at 19.22 pesos to 1 dollar or 94.96 pesos to £1.

Germany-Union of South Africa: Commercial Agreement regulating import of South African wool into Germany. Entry into force December 31st, 1934.

JANUARY 1935

1. *Bulgaria:* Entry into force of Five-year Plan for substitution of industrial plants, grapes and early vegetables for cereal crops; working of silver and lead mines; road construction.

   Chile: The official exchange value of the peso on a gold basis is fixed at 1½d. (gold).

   Germany: Entry into force of Banking Reform Law.

   Germany: Number of Stock Exchanges reduced from 21 to 9.

   Germany-Spain: Entry into force of an Agreement supplementing Agreement of May 7th, 1926, and of an Agreement for payment of commercial debts.

   Germany-Switzerland: Entry into force of Agreement supplementing Clearing Agreement.

   Greece: New import system established.

   Philippines: Manila banks announce a reduction in rate of interest on savings deposits to 3½%.

   Poland-U.S.S.R.: Entry into force of a Quota Agreement for 1935.

   International: Entry into force of Convention on Rye Exports between Germany, Poland and U.S.S.R.

3. *Irish Free State-United Kingdom:* Gentlemen's Agreement for an increase in import quotas of English coal and Irish cattle respectively.

   Poland: Adoption of measures to induce a general reduction of prices.

   Switzerland-Turkey: Commercial Agreement.

4. *China:* Opening of an American Bank at Shanghai with the name of Pacific Banking Corporation and a capital of 2½ million yuan.

   U.S.A.: Message by President Roosevelt to Congress announcing extensive programme of public works and relief.

6. *Bolivia:* Prohibition of imports of luxury articles, including motor-cars.

   Cuba-Italy: Cuba denounces the 1903 Treaty of Commerce and Navigation.

8. *Norway-Poland:* Additional Protocol to the 1926 Commercial Treaty.

9. *India-United Kingdom:* Agreement supplementing Ottawa Agreement.

10. *Belgium-Roumania:* Entry into force of Payment Convention.

    Czechoslovakia: Extension to 1935 of moratorium accorded to farmers and unemployed.

    Germany-Roumania: Entry into force of Payment Convention.

    International: Final Protocol of discussions of Economic Council of Balkan Entente.

11. *Australia-United Kingdom:* Australia undertakes to limit meat exports to U.K. until March 31st, 1935.

JANUARY 1935

11. *Germany-Netherlands:* Agreement concerning transfer of interest on Dawes and Young Loans extended to June 30th, 1935.

Japan: Buying price of gold raised from 2 yen 95 sen to 3 yen 9 sen per gramme.

12. *Roumania-Switzerland:* Conclusion of Clearing Agreement to come into force January 25th, 1935.

13. *Belgium:* Order for economic regulation of production and distribution.

Manchuria: Reply of Japanese Government to protests by United States, United Kingdom and Netherlands with regard to establishment of petroleum monopoly in Manchuria.

International: Official dissolution of international Zinc Cartel.

14. *Germany-Estonia:* Entry into force of Commercial Agreement.

Iraq: Inauguration of pipe-line from Kirkuk oil-wells to Haifa and Tripolis.

16. *Italy:* Establishment of import permit system for goods the movements of which notably affect the balance of trade.

Yugoslavia: State Banks placed under direct control of Finance Ministry.

17. *Greece-Sweden:* Signature of Clearing Agreement.

18. *Brazil:* President of Republic authorises issue of an internal loan of 300,000 contos to cover budget deficit.

Roumania: Finance Minister and National Bank decide to establish a Mint.

International: Conference in London between shipbuilders of different countries to discuss rationalisation of maritime transport.

19. *Yugoslavia:* National Bank decides to repay all short-term loans contracted abroad.

International: Italy joins international Tinplate Cartel.

21. *Italy:* Decree requiring Italian citizens to declare foreign claims in their possession every three months; banks and commercial undertakings to make declaration every month.

22. *International:* Norway joins Tinplate Cartel.

23. *Germany-Poland:* Conference on Railway Problems reaches an agreement, in particular with regard to German transit across Polish corridor.

24. *Germany:* Issue of a loan of RM. 500 million to consolidate *Arbeitsschaffungswechsel.* Issue price 98.25, interest 4½%, period of loan 28 years, amortisation by annual payments 2%.

Germany: Reduction of rate of interest of credit institutions to 4½%.

Germany-Denmark: Commercial Agreement of March 1st, 1934, extended to December 31st, 1935.

JANUARY 1935

25. *France:* Reorganisation of Ministry of Commerce.

U.S.A.: Existence of R.F.C., Import and Export banks and Commodity Credit Corporation extended to February 1937.

26. *Czechoslovakia:* Dissolution of Cotton-spinners' Cartel.

28. *Germany-Irish Free State:* Commercial agreement. Entry into force February 1st, 1935.

29. *China-Japan:* Discussion of Sino-Japanese economic relations between Japanese Minister in China and President of Executive Yuan.

30. *France:* Senate approves the law authorising issue of Treasury Bonds for 15 million French francs.

31. *Turkey:* Compagnie française des Chemins de Fer de l'Orient dissolved; line to be worked henceforward by Turkish State Railways.

U.S.A.: Senate approves Bill authorising issue of Treasury Bonds for 9 milliard dollars and fixing limit for issue of Treasury Bonds at 25 milliard dollars.

FEBRUARY

1. *Chile:* Senate approved law for partial resumption of service of foreign debt.

U.S.A.-U.S.S.R.: Breakdown of negotiations in regard to debts contracted by Russia before Bolshevik revolution.

Yugoslavia: Discount rate lowered from 6½% to 5%.

2. *Brazil-U.S.A.:* Commercial Treaty based on most-favoured-nation treatment.

Chile-Peru: Commercial Agreement for preferential treatment of imports of Chilian wheat into Peru and Peruvian sugar into Chile.

4. *Roumania:* 60% of foreign exchange obtained by export of oil to be earmarked in future to meet the National Bank's foreign exchange requirements.

6. *Yugoslavia:* Decree imposing reduction of interest rate on mortgages.

Yugoslavia: Decree for road and railway construction to be financed by issue of 1,000 million dinars in 5- or 10-year Treasury Bonds.

7. *Roumania-Turkey:* Extension of Commercial Agreement signed on May 1st, 1934, to April 30th, 1935.

8. *Bolivia:* New foreign exchange law. Zinc producers to hand over 52% and zinc merchants 58% of foreign exchange obtained from exports.

United Kingdom-Roumania: Agreement regarding payments for settlement of Roumanian commercial debts in arrears.

Finland: Issue of 5% Internal Loan of 300 million markka at 99½ to convert the Dollar Loans of 1928 and 1925.

FEBRUARY 1935

8. *Switzerland:* Federal Council authorises issue of 100 million francs in six-year Treasury Bonds at 3½%. Private issue at 98 and a public issue of 100 million francs in 3½% twenty-year bonds for conversion of 5% loans of 1925 and 1924.

10. *Netherlands-Roumania:* Commercial and Clearing Agreement under which Netherlands Government suspends import prohibition on Danubian cereals of Roumanian provenance.

11. *Brazil:* New banking regulations.

Union of South Africa-France: Agreement for mutual Customs facilities.

12. *United Kingdom:* Unemployment Assistance Bill passes House of Commons.

13. *Roumania:* Minister of Agriculture decides to establish monopoly for sale of next wheat harvest.

14. *Germany-France:* Supplement to Commercial Agreement of July 28th, 1934.

Roumania-U.S.S.R.: Agreement on railway traffic.

15. *Germany-Switzerland:* Agreement on German mortgage debts.

17. *Brazil:* 35% of foreign exchange derived from exports to be handed over to Bank of Brazil as guarantee for service of foreign debt.

Germany-U.S.A.: Breakdown of negotiations on the subject of exchange of American cotton for German industrial products.

18. *Belgium:* Government empowered to guarantee export of Belgian or colonial products up to 700 million francs.

Belgo-Luxemburg Union-Irish Free State: Commercial Agreement.

Germany-France: Signature of Naples Agreements regarding transfer of Saar Territory.

Saar: Saar ceases to form part of French Customs territory and is reunited to German Customs territory as from midnight on February 18th.

U.S.A.: Gold Clause decision.

20. *France:* Bank of France announces that it will in future accept Treasury Bonds *en pension* at 2⅝%.

21. *Germany:* Law to enable Finance Minister to contract loans to an amount to be fixed by Chancellor of the Reich.

Spain: Parliament approves conversion of Spanish *tranche* of Austrian 1923 Loan.

23. *Austria:* Official discount rate reduced from 4½% to 4%.

Germany-Denmark: New regulations regarding movements of capital.

U.S.A.: President Roosevelt signs Oil Control Bill.

25. *Germany:* Government issues forty Decrees to regulate return of Saar to Germany.

International: Dissolution of Tube Cartel.

FEBRUARY 1935

26. *Germany:* Issue of "scrip" of Konversionskasse for payment of interest on German debts to American creditors.

Germany: Law reducing rate of interest on public loans to 4½%.

27. *Belgo-Luxemburg Union-U.S.A.:* Signature of Commercial Treaty based on most-favoured-nation treatment.

France: Prohibition of export of raw materials for armaments.

Italy: The Fascist Supreme Council decides to make 40-hour week a permanent institution in Italy.

Poland-United Kingdom: Conclusion of Commercial Agreement.

28. *Roumania-United Kingdom:* Roumania pays £400,000 to Bank of England in respect of commercial debts.

MARCH

1. *Germany:* New rates of interest fixed as follows: Savings deposits, 3%; day-to-day money (plus commission), 1½%.

Italy: Ministerial Decree supplementing new quota arrangements of February 16th, 1935. Extension of clearing and compensation arrangements with a number of countries.

Peru: Congress authorises issue of a loan of 23 million soles, of which 10 million are for national defence.

Switzerland: Entry into force of Law on Banks and Savings Banks of November 8th, 1934.

U.S.A.: Issue of 10-year "Baby Bonds" with interest at 2.9%.

2. *Roumania:* Roumania denounces existing Commercial Treaties with U.S.A., Japan, Latvia and Norway.

U.S.A.: Establishment of a list of countries which will not enjoy most-favoured-nation treatment in Commercial Agreements unless they abandon certain restrictions.

3. *Germany:* Additions to Prolongation Agreements of February 18th, 1935.

U.S.A.: Conversion of 1,850 million Fourth Liberty Bonds at 4¼% into 20- to 25-year bonds at 2⅞%.

5. *U.S.A.:* President's message to Congress proposing subsidies for mercantile marine.

U.S.S.R.: Announcement of internal issue of 100 million roubles.

International: Signature at Geneva of three Veterinary Agreements between Bulgaria, France, Italy, Latvia, Netherlands, Poland, Roumania, Switzerland and Czechoslovakia.

7. *Belgo-Luxemburg Union-Netherlands:* Agreement under which system of reciprocal exchanges of garden and farm produce is amended by increase of certain quotas.

Germany-Brazil: New foreign exchange regulations.

Germany-Switzerland: Supplement to Agreement of November 5th, 1932, for mutual import facilities. Entry into force, March 21st, 1935.

7. *Italy:* Banca Commerciale, Credito Italiano and Banca di Roma decide to pass dividends for 1934.

Spain: Law passed for control of maize imports.

8. *Italy-Switzerland:* Agreement regarding quotas for Swiss goods imported into Italy.

9. *China* ratifies London Silver Agreement.

France: Decree and Order relating to issue of 4% Treasury Bonds for 3, 6 or 12 years.

Hungary-Switzerland: Clearing Agreement.

11. *Canada:* Bank of Canada begins operations. Discount rate fixed at 2½%.

Roumania: New foreign trade system comes into operation.

12. *Brazil-United Kingdom:* Agreement regarding frozen Brazilian credits.

Japan: Osaka Cotton Exchange closed.

13. *Czechoslovakia-U.S.S.R.:* A group of Czech banks gives U.S.S.R. a credit of 250 million crowns for five years.

Roumania: Roumania prohibits import of foreign products from countries not importing Roumanian products.

14. *Sweden:* Programme of export guarantee credits adopted in 1933 to remain in force until end of June 1936.

15. *Austria:* Reduction of rate of interest on time deposits from 3% to 2½%. Interest on savings deposits to remain fixed at 3%.

Germany-Czechoslovakia: Agreement by which Germany give Czechoslovakia an increase on certain import quotas.

International: Meeting of International Tin Committee in London. Export quotas for second quarter of year increased from 40% to 45% of basic tonnage.

16. *Germany:* Government announces abandonment of military clauses of Versailles Treaty and re-establishes compulsory military service by law.

Italy-United Kingdom: Provisional agreement fixing Italian imports from United Kingdom at 80% of 1934 figure.

17. *Belgo-Luxemburg Union-Denmark:* Agreement regarding regulation of trade between the two countries to remain in force until January 1st, 1936.

18. *Belgium:* Institution of National Exchange Office to control foreign exchange transactions.

Luxemburg: All foreign exchange transactions brought under control of Central Exchange Office.

19. *Germany-Norway:* Clearing Agreement amending the Agreements of September and December 1934.

20. *Belgium:* Legal rate of interest fixed at 5½% in commercial transactions, and 4½% in other transactions.

MARCH 1935

20. *France-Sweden:* Agreement regarding import quotas accorded by France to Sweden for the year 1935.

Hungary: Price of gold fixed at 6,000 pengö per kg. National Bank given monopoly of gold transactions.

21. *Argentine:* Senate approves proposal for establishment of a central bank.

U.S.S.R.: Final settlement of Lena Goldfields case.

22. *Bulgaria-Finland:* Commercial Agreement on most-favoured-nation basis.

China: Government approves issue of a loan of 100 million dollars.

U.S.A: A.A.A. suspends certain restrictions on spring-wheat sowings.

23. *Germany-Roumania:* Treaty of Commerce, Navigation and Establishment based on most-favoured-nation treatment. Entry into force April 1st, 1935.

Mexico: Bank of Mexico given control of all gold reserves in country by concession of prior rights for sale and purchase of gold over other banks.

U.S.A.: Secretary of Agriculture announces that loans will be made on cotton harvest for 1935.

International: U.S.S.R. cedes North Manchurian Railway to South Manchurian Railway Company. Japan guarantees Manchurian payments to U.S.S.R.

25. *Czechoslovakia-U.S.S.R.:* Treaty of Commerce, Navigation and Establishment based on most-favoured-nation treatment.

Italy: Official rate of discount and rate of interest on advances reduced from 4% to 3½%.

26. *Austria:* Law on payments to foreign countries.

France: Government provisionally prohibits export of raw materials required for national defence.

United Kingdom: Increase of Customs duties from 33% to 50% on iron and steel products.

28-30. *Belgium:* Stock Exchanges closed.

28. *China:* Government secures control of Bank of China, Central Baak and Communications Bank in order to unify the national finnncial system.

France: Senate approves law for organisation of meat market.

Netherlands Indies: Issue of Conversion Loan of 50 million florins at 99¼.

U.S.A.: N.R.A. authorises cotton-spinners to reduce output by 25%.

U.S.A.-Haiti: Commercial Treaty on most-favoured-nation basis.

29. *Belgium:* Interest and amortisation of Belgian *tranche* of Austrian Conversion Loan, 1934-1959, to be guaranteed to the extent of 2%.

MARCH 1935

29. *International:* International Copper Conference, meeting in New York, decides to limit production of copper.

30. *Belgium:* Monetary Law. Suspension of obligation of the Bank of Belgium to redeem its notes. Gold and foreign exchange holdings to be revalued.

Brazil-Japan: Opening of direct wireless service between Tokio and Rio de Janeiro.

Germany-France: Agreement extending Clearing Agreement of July 1934 to June 30th, 1935.

Sweden: Issue of 12-year loan of 50 million kronor, bearing 2½% interest at 96½.

31. *Belgium:* Royal Order determining basis of operations of Exchange Equalisation Fund in purchase and sale of foreign exchange. The Fund's operations to be based on a weight of 0.150635 gr. of fine gold to the belga.

APRIL

1. *Luxemburg:* Creation of Luxemburg franc (formerly pegged to Belgian franc). 100 Lux. fr. to equal 125 Belgian fr. or 25 belgas.

Poland: Internal loan of 200 million zloty, issued at 4%, repayable in 50 years.

2. *France:* Coinage of 1,000-franc gold pieces announced.

3. *Belgium:* Creation of Exchange Equalisation Fund.

Costa Rica: Decree forbids export of silver coins and bars.

New Zealand: Rural Mortgagors Final Adjustment Act passed.

4. *Belgium:* Convention signed between State and National Bank concerning temporary revaluation of gold and foreign currencies held by National Bank.

Netherlands: Discount rate raised from 2½% to 3½%.

Siam: International Rubber Agreement ratified by National Assembly.

6. *Belgium-France:* Signature of provisional Commercial Agreement in order to avoid disturbances caused by monetary changes in Belgium and Luxemburg.

8. *U.S.A.:* Code of fair competition for zinc industry comes into force.

9. *Germany-U.S.SR.:* Germany grants 200 millions credit to U.S.S.R. for five years at 2% interest above official discount rate.

Netherlands: Discount rate raised from 3½% to 4½%.

10. *Estonia-Latvia:* Clearing Agreement signed.

Latvia-Lithuania: Commercial and Clearing Agreement signed.

Manchuria: Petrol monopoly comes into force.

Netherlands: Discount rate raised from 3½% to 4½%.

Spain: Conversion of Spanish *tranche* of Austrian League Loan.

11. *U.S.A.:* President Roosevelt signed code of fair competition for tobacco industry.

APRIL 1935

13. *China:* All provincial and municipal banks instructed to cease issuing banknotes of one yuan or over.

14. *International:* Agreement existing between International Steel Cartel and Czechoslovak, Austrian and Hungarian producers prolonged.

15. *Luxemburg:* Blocked currency accounts freed.

Sweden: Loan of 50 million kronor at 2½% issued at 96½.

U.S.A.: 1,250 million dollars of Fourth Liberty Loan 4¼% bonds called for redemption.

16. *United Kingdom:* Mr. Chamberlain's budget speech in House of Commons.

Germany-United Kingdom: Agreement reached on debts payments.

17. *United Kingdom:* According to new collective contract wages to be raised in building industry.

Germany-Switzerland: Agreement concerning commercial payments.

18. *Italy-United Kingdom:* Exchange of notes establishing commercial agreements.

Spain: Railway companies authorised to issue bonds for 50 million pesetas under State guarantee.

19. *Belgium:* Royal Decree providing for creation of a National Recovery Board.

Bulgaria : As a result of London negotiations, Bulgaria will transfer only 15% of interest of her foreign debt instead of 32½% as decided in May 1934.

India: Salt Additional Import Duty Act, 1935, extended for 1936.

22. *Norway:* 37 million kroner 4% Loan, redeemable in 40 years, issued at 97½.

Yugoslavia: Monopolies Administration decides to lower price of all monopolised articles.

24. *Netherlands:* Floating of a 45 million gulden Treasury Bonds Loan of 3- and 6-month Treasury bills and 3% one-year Treasury certificates.

Palestine: Palestine Discount Bank, Ltd., commences operations.

25. *Spain:* Flotation of a 4% Treasury Bonds Loan of 300 million pesetas Conversion Loan and 300 millions new subscriptions.

U.S.A.: Governor of State of New York signs Obligatory Unemployment Insurance Bill.

U.S.A.: President Roosevelt announces that Treasury will purchase newly issued American silver at 77.57 cents per ounce.

26. *Belgium:* Abolition of exchange control.

Mexico: Government Decree providing for withdrawal from circulation of all silver currency and its replacement by currency notes.

27. *Mexico:* Banks closed following rise in price of silver.

APRIL 1935

30. *Argentine:* Creation of National Cotton Board.

International: Agreement between Iron and Steel Federation and Continental Steel Cartel. Cartel to be allowed to export steel products to United Kingdom at rate of 643,000 tons per annum for three months.

MAY

1. *Austria:* Tax on motor-cars abolished for one year.

Danzig: Devaluation of gulden by 42.37%.

Germany-Switzerland: Commercial Payments Agreement comes into force.

Yugoslavia: Interest rate on Treasury bonds reduced from 2½% to 1½% for three-months' and 1% to ¾% for two-months' bills.

2. *Danzig:* Bank rate raised from 4% to 6% and Lombard rate from 5% to 7%. Decree issued abolishing gold clause for contracts drawn up in Danzig gulden.

Egypt: Cancellation of gold clause in all international contracts.

Peru: Prohibition of free export of silver.

Switzerland: Discount rate raised from 2% to 2½%.

4. *Austria:* National Bank announces that arrears of private debts outstanding from 1932 in consequence of exchange restrictions will be transferred.

Cuba: Issue of 10 million pesos of silver certificates authorised.

5. *Mexico:* Government adhere to 1933 London Silver Agreement.

Switzerland: Referendum rejects project for regulating road and rail traffic.

U.S.S.R.: Central Executive Committee authorises issue of a 35,000 million roubles ten-year internal loan which will finance third year of second Five-year Plan. Interest rate 8%.

6. *Belgium:* Royal Decree prescribing measures to prevent excessive rise of commodity prices.

Germany: Private discount rate reduced from 3⅜% to 3%.

United States: The Supreme Court declares the Railway Pension Act unconstitutional.

8. *Guatemala:* Government decrees embargo on export of silver.

10. *Austria-Hungary:* Commercial Payments Agreement signed.

11. *Belgium:* Royal Decree converting domestic public debt to an interest rate of 4%.

12. *Salvador:* Embargo lifted on export of gold and silver in monetary and ingot form.

13. *France-Italy:* Signature of Air Convention.

Italy: Decree authorising issue of 1 milliard lire of Treasury bonds.

U.S.A.: Broadcast speech by Secretary of Treasury concerning monetary policy.

MAY 1935

14. *Austria:* Floating of internal 5½% 175 million schillings loan at 86 to finance public works and redeem short-term Treasury bonds.

Italy: Prohibition of silver exports.

15. *Belgium:* Bank rate lowered from 2½% to 2%.

Chile-France: Agreement reached concerning import of Chilian copper into France.

16. *Belgium:* Discount rate lowered from 2½% to 2%.

Czechoslovakia-U.S.S.R.: Signature of agreement for establishment of regular air communications between Moscow and Prague.

Netherlands: Discount rate lowered from 4½% to 4% and Lombard rate from 5% to 4½%.

Roumania: Organisation of National Export Institute.

19. *Bulgaria:* Issue of Treasury bills to the amount of 300 million leva to cover expenditure for civil servants' salaries.

20. *China:* Increased penalties provided against smuggling of silver out of China.

Germany: Gold Discount Bank authorised to issue three-months' single-name bills.

Italy: Creation of a centralised Exchange Control Board.

Italy: Italian banks, companies and juridical persons to deposit at Banca d'Italia their foreign securities or Italian securities issued abroad. Decree retiring all silver coins from circulation.

U.S.A.: Prohibition, except under licence, of entry of foreign silver coins.

22. *International:* Prolongation of the International Wheat Agreement until end of July 1936.

23. *Belgium-Luxemburg:* Signature of Monetary and Trade Agreement.

France: Bank rate increased from 2½% to 3%, and rate for advances against gold from 3½% to 4%.

U.S.A.: Senate upholds President's veto of Patman Bonus Bill.

24. *International:* Third International Congress of Savings Banks at Paris.

New Zealand-Sweden: Signature of Commercial Agreement.

25. *Sweden-U.S.A.:* Signature of Commercial Agreement.

26. *France:* Bank rate raised from 3% to 4%.

International: Opening of Pan-American Commercial Conference at Buenos Aires.

27. *U.S.A.:* Supreme Court declares unconstitutional Section 3 of Industrial Recovery Act, under which Congress delegates to President authority to draw up codes for industry. Supreme Court declares unconstitutional Frazier-Lemke Farm Moratorium Act.

28. *Canada:* Parliament authorises expenditure of 18 million dollars for public works and guarantees 15 million dollars to Canadian National and Canadian Pacific Railways for purchase of new material.

MAY 1935

28. *France:* Bank rate raised from 4 % to 6 %.

30. *Argentine-Brazil:* Signature of Commercial Treaty.

31. *Netherlands:* Bank rate raised from 4% to 5% and Lombard rate from 4½% to 5½%.

U.S.S.R.: Opening of aluminium factory at Kitchékas.

JUNE

1. *Germany:* Work Book Act enters into force.

Netherlands Indies: Export duty on native rubber fixed at 9 cents per half kg. dry-weight.

Roumania: New trade regulations whereby importers are no longer allowed to purchase foreign currency from exporters but must do so through National Bank.

2. *Switzerland:* Referendum rejects *Initiative de crise.*

3. *Danzig:* Government orders closing of all banks.

Germany-U.S.A.: Commercial Agreement of December 1923 prolonged for an unlimited period with the exception of most-favoured-nation clause.

Czechoslovakia-U.S.S.R.: Conclusion of Agreement providing for the issue of a 6% 250 million crowns loan, guaranteed by the Czechoslovak Government and running for five years, proceeds to be used for payment of Russian orders.

Netherlands Indies: Bank rate raised from 3½% to 4½%.

4. *Bulgaria:* Government sanctions the ordinance on foreign trade.

Italy-U.S.S.R.: Commercial Agreement concluded.

Turkey-United Kingdom: Commercial Payment Agreements concluded.

8. *Bulgaria:* Alcohol Monopoly abolished.

11. *Danzig:* Exchange control introduced.

France: Bank of France decides to make no more advances on gold ingots.

International: British Iron and Steel Federation and Continental Steel Cartel reach new Agreement for period of five years to come into force on August 8th, 1935.

12. *Germany-Netherlands:* Conclusion of Transfer Agreement for period July 1st, 1935, to June 30th, 1936.

13. *U.S.A.:* Agreement between copper producers and consumers to maintain copper code.

14. *Belgium:* Creation of Institut de réescompte et de garantie.

Spain: Decree providing for free import and export of foreign capital invested in Spain.

15. *China:* Export prohibition of silver and silver coins decreed by Hong-Kong Government comes into force.

JUNE 1935

15. *U.S.A.:* Issue of notes for refunding of maturities of about 770 million dollars.

International: Finland pays war debt instalment to U.S.A.

16. *Italy-U.S.S.R.:* Signature of a Credit Agreement to regulate the financing of Italian exports to U.S.S.R.

U.S.A.: New N.R.A. Bill signed.

19. *Canada:* Parliament provides for establishment of Exchange Equalisation Fund of 62 million dollars.

Germany: Issue of three series of Exchequer Bills of an unlimited amount.

20. *France:* Bank rate lowered from 6% to 5%, rate for advances on securities from 6½% to 6%, rate for 30-day advances from 6% to 5%.

21. *Danzig:* Savings banks placed under supervision of Banking Central Board.

France: Creditors of the Société André Citroën approve the reorganisation plan reducing the capital from 400 million French francs to 75 millions, to be increased later to 135 millions.

24. *Austria:* National Bank abolishes exchange control for transfer of service of private loans.

Danzig: Reopening of banks.

France-Germany: Existing Clearing Agreement prolonged until July 15th.

Germany: Transfer moratorium for medium- and long-term debts extended to June 30th, 1936.

Italy-Sweden: Conclusion of Clearing Agreement.

Roumania: National Bank increases buying price for gold.

24-29. *International:* International Chamber of Commerce Congress at Paris.

25. *Greece-Italy:* Conclusion of Commercial and Clearing Agreement.

Switzerland: Federal Council increases tariff duties on sugar, petrol and motor oils.

U.S.A.: Cotton industry decides to maintain cotton code with a 40-hour week and minimum wage rates.

26. *United Kingdom:* British Cabinet rejects Mr. Lloyd George's New Deal proposals.

Germany: Obligatory labour service law for all German citizens.

27. *Netherlands:* Bank rate lowered from 5% to 4% and Lombard rate from 4½% to 3½%.

28. *Austria-Hungary:* Clearing Agreement concluded.

Germany: Decree establishing new export assessment tax which will be imposed on trade and industry for promotion of exports.

29. *International:* Closing session of International Chamber of Commerce.

30. *Danzig:* Exchange control modified.

JULY 1935

1. *Federated Malay States:* Tin quota fixed at 35.7 % for third quarter of 1935.

   Germany: Entry into force of law on export bounties.

   Italy: New decrees concerning import of goods.

   New Zealand: Issue at 98 of a 3% £8,000,000 Government Conversion Loan, 1952-55.

   Netherlands Indies: Lowering of discount rate and rate for advances on securities from 4½% to 4%.

   Union of South Africa: Insurance against industrial accidents made compulsory.

4. *France:* Discount rate reduced from 5% to 4%.

   Roumania: Exchange restrictions imposed.

5. *Argentine:* Law providing for conversion of national and provincial loans into a 4½% loan.

   U.S.A.: President Roosevelt signs Wagner Labour Bill.

6. *Netherlands:* Discount rate reduced from 4% to 3½% and rate for advances on securities from 4½% to 4%.

8. *International:* Conclusion of Nitrate Agreement.

9. *Belgium:* Royal decree establishing control over banks.

   Hungary: Government undertakes to transfer next year 50% of interest due on League Loan.

10. *Austria:* Discount rate reduced from 4% to 3½%.

    Belgium: Introduction of limited liability company into commercial code.

    France: Inauguration of Air Bleu aerial navigation company.

    Italy: Decree authorising issue of 10-lire banknotes in place of 10- and 20-lire silver coins.

11. *Roumania:* National Bank to purchase foreign currency at parities above legal rate; bonus thus granted to exporters ranges from 10% to 40%.

12. *Germany:* Establishment of an office for control over precious metals.

    India: Issue at 98 of a 3% £10,000,000 loan 1949-1952.

13. *U.S.A.-U.S.S.R.:* Conclusion of Commercial Agreement.

15. *Spain:* Discount rate reduced from 5½% to 5%.

    U.S.A.: Issue of first instalment of loan for providing work for the unemployed, amounting to 500 million dollars at $1^{3}/_{8}$%, repayable in 1939.

17. *Danzig:* Partial abolition of exchange control.

    France: Publication of 28 legislative decrees for relieving the budget by a general reduction of 10% on public expenditure and economic measures.

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17. *Netherlands:* Discount rate reduced from 3½% to 3%.

Yugoslavia: Finance Commission adopts a law giving Government full powers to enact financial decrees.

18. *Egypt:* Government denounces Commercial Treaty with Japan.

France: Discount rate reduced from 4% to 3½%.

19. *Germany-Sweden:* Clearing Agreement.

21. *Austria:* Entry into force of Sales Cartel of paper industries.

22. *Italy:* Provisional suspension of law fixing gold cover for notes at 40%.

International: Agreement between lead exporters to European markets.

24. *Australia:* Conversion of a loan of £13,500,000 in London.

Netherlands: Discount rate raised from 3% to 5%, rate on advances from 3½% to 5½%.

26. *Netherlands:* Discount rate raised from 5% to 6%.

29. *France:* State guarantee for export credits raised from 60% to 80%.

31. *France:* Legislative decree on vine cultivation and the alcohol regulations.

International: Ratification of the agreement between the Continental Steel Cartel and the British Iron and Steel Federation. The agreement enters into force on August 8th, 1935. It is to last five years and fixes the continental cartel's annual exports to the United Kingdom at 525,000 tons.

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