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ECONOMIC INTELLIGENCE SERVICE

WORLD ECONOMIC SURVEY

THIRD YEAR

1933-34

LEAGUE OF NATIONS

GENEVA

1934

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WORLD ECONOMIC SURVEY

Third Year

1933-34

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 third of an annual series undertaken in consequence of resolutions passed by the Assembly of the League in 1930 and 1931.

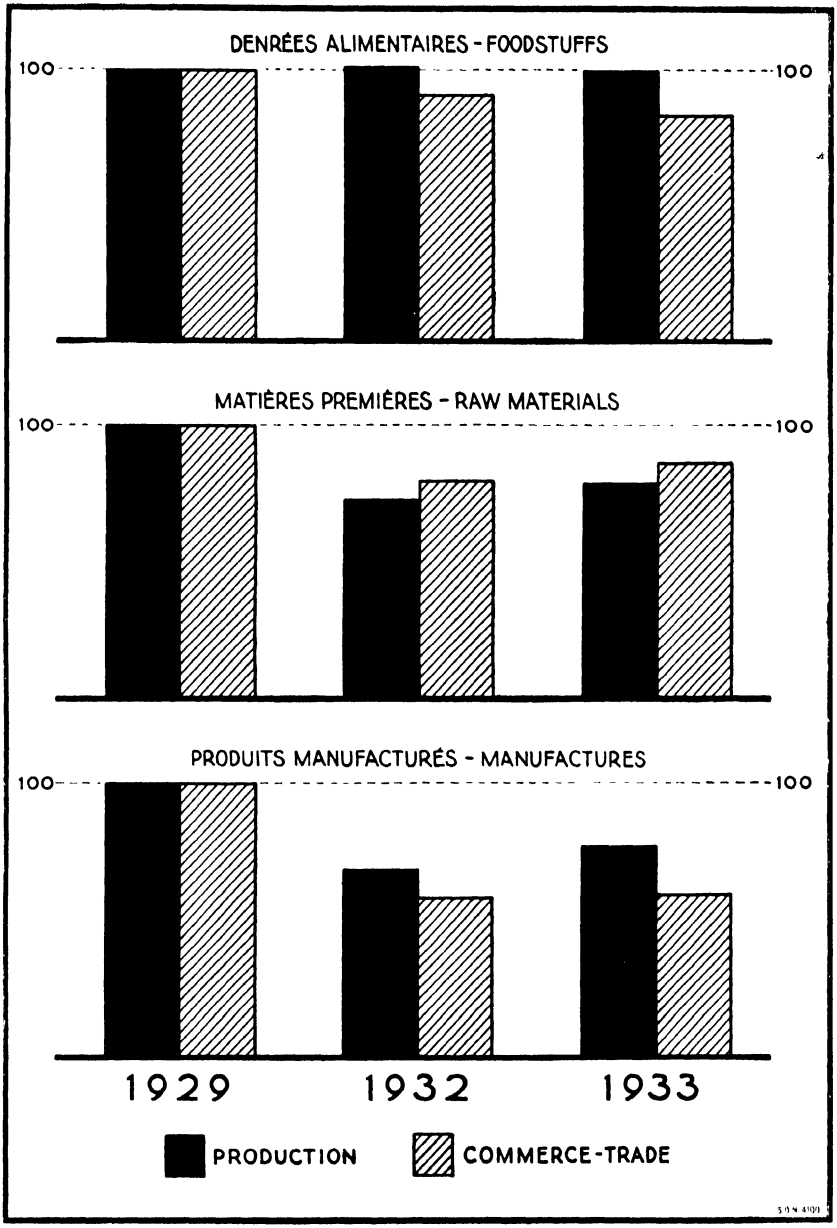
While this present work by Mr. Condliffe is based mainly on data collected by the Economic Intelligence Service, valuable assistance has been obtained from other sources and particularly from the International Labour Office.

The book is intended to afford an account of recent developments intelligible to the lay reader. For more detailed and technical information, the reader should refer to the publications of the Economic Intelligence 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, 1934.

QUANTUM OF WORLD TRADE AND WORLD PRODUCTION.



Chapter I.

RECOVERY AND ECONOMIC NATIONALISM

The Merchant and His Profit.

Looking back over a sufficient number of months and disregarding seasonal fluctuations, an economic observer at the beginning of 1934 was able to note many signs of improvement from the lowest depths of the long depression. The practical unanimity with which economic observers did so was, indeed, one of the causes contributory to the expanding confidence with which most countries entered the year. Warning voices were not wanting and the uncertain elements in the economic horoscope were too numerous to warrant facile optimism; but it was characteristic of the whole situation that the facts of recovery were visible and local, while the danger signals were more distant and international. In such circumstances, the contemporary historian can but record the facts, taking care not to overlook the less pleasant while having due regard to the more encouraging. Estimation of the balance between these sets of forces cannot be precise or sure because, even if all the facts and their inter-relations were now known, decisions yet to be taken will alter the ultimate combination and greatly influence the results. Whether national recovery in important countries can be carried through without further disturbing the balance of international relations; how far such recovery is based merely upon advantages, in the home or other markets, that may prove temporary; the degree to which international financial and commercial relations can be restricted without a severe check to economic progress — all these must remain speculative questions till the verdict of history is recorded upon them.

The detailed facts are given in later chapters dealing with production, prices, trade, banking and finance. In this chapter an attempt is made to recall the events of the year 1933-34 in

such a way as to bring out the fundamental forces at work. Some arrangement and interpretation are necessary, if the narrative is not to consist merely of a chaotic succession of events, bewildering in its variety and disorder. The governing idea of the arrangement which follows is a twofold distinction, first between the widely diffused efforts of individuals and of groups to adjust their particular activities to the new economic conditions, and the policies of Governments aiming rather at controlling or altering those conditions for whole communities, and, secondly, between national and international policy.

The policies of Governments, if only because they are on a larger scale, attract more attention than the efforts of private citizens; but the latter are very important in the aggregate. There was much evidence in 1933 that the processes of individual adjustment which had been incessantly pursued throughout the depression were leading in many countries to healthier economic organisation. In large measure, these individual adjustments were independent of Government action. As William Sanderson, "Gentleman, Cittizen and Merchant of London", wrote over three hundred years ago, "Tyme, the truest Schoole-Mistresse, hath taught all Ages that no penalties nor policie, could yet interpose between ye Merchant and his profitt".[1]

Without any very definite large-scale solutions, therefore, many of the maladjustments which had appeared during the depression were greatly eased. There was little advance towards any of the grand remedies which had been widely advocated as necessary. Prices were not raised, international trade remained subject to heavy restrictions, exchange instability persisted, international debts remained in large part suspended and international investment was not resumed on any great scale. Yet, because ways and means were found of carrying on business despite the continued existence of these and other difficulties, many of the characteristic symptoms of disorganisation were alleviated.

It is naturally difficult to quote convincing evidence of the detailed processes of adjustment[2]; but the aggregate results are clear in many directions. Apart from the increase in world production and the decrease in unemployment which are described later, there was during 1933 a narrowing of many of the so-called "scissors" movements in the price structure.

[1] Cited by H. M. ROBINSON: "The Rise of Economic Individualism", Cambridge University Press, 1933.

[2] *Cf.*, however, many references in trade journals: *e.g.* in *The Iron Age*, February 15th, 1934. See also the review of new industrial developments in "Les fabrications nouvelles en Belgique, avant et après la crise mondiale", *Bulletin d'information et de documentation*, 20 janvier 1934, published by the National Bank of Belgium.

As a result of such price developments, the income of agricultural groups increased in most countries, for the first time since 1929. Some restoration of purchasing power among the farmers was an important element in the revival of production which came in the middle of the year and, after a check in the autumn, continued again in the early months of 1934. Moreover, this revival of production was not, as in 1932, mainly a spurt in the consumption industries; but took the more encouraging form of expansion in the heavy industries.

Closely correlated with the improvement in the prices of foodstuffs and raw materials, there was a noticeable improvement in the barter terms of trade in most of the agricultural countries. Higher export prices, relatively to import prices, greatly eased the external balance of payments for such countries and enabled them to begin expanding their import purchases once more. Australia offers a good case in point.

There had, of course, been a great deal of re-organisation and readjustment in these agricultural exporting countries. The example of Australia, just cited, is one of far-reaching domestic adjustments finally helped to success by an improvement of external conditions reflected in better export prices. The revival of demand, which made these better prices possible, in turn traces back to re-organisation in the industrial countries, in this case mainly in the United Kingdom and Japan. Lower interest rates brought some tendency to reduce capital charges, but there were many obstacles to such reductions. A more immediate way to profitable operation even in face of low prices and high fixed charges lay in improved efficiency of organisation. There is much scattered evidence of improved efficiency in existing industries — the introduction of new technical processes, elimination of waste, concentration of production in the better-equipped enterprises, and a sharp improvement in labour, as well as managerial, efficiency. It is clear also that growth was strongest, not only in the best-equipped sections of the older industries, but also in new enterprises and in trades catering for the newer wants. As in all depressions, inefficient production tended to be weeded out. A recent statistical enquiry covering many business cycles in a number of industrial countries leads to the conclusion that there is a definite tendency towards an increased utilisation of technical improvements in the depression stage of the cycle.[1]

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[1] J. TINBERGEN: "L'influence de la conjoncture économique sur la productivité du travail", *De Nederlandsche Conjonctuur*, June 1934.
See also DE LANGE: "La productivité de la main d'œuvre dans l'industrie", *De Nederlandsche Conjunctuur*, December 1933.

It is clear from the statistics of the volume of production per man-hour that are available in some countries, that efficiency increased very rapidly in this respect during the depression years. Thus in Germany the index-numbers of the volume of output per man-hour rose from 100 in 1929 to 116 in 1932. In Sweden the index rose from 100 in 1929 to 111 in 1932, and in the United States from 100 in 1929 to 124 in 1933.[1]

It was not only in domestic and local enterprises, however, that such re-organisation occurred. In international trade and shipping, burdened as they were with special difficulties, there is the same evidence of industrial progress. New exporters and more modern methods made some headway even against more far-reaching and drastic restrictions than were ever known before. Even in the difficult field of international investment, ways and means were found to liquidate a large part of the frozen short-term indebtedness which had paralysed transactions with many European and South American countries. The willingness of debtors to find means of payment and the reasonableness of creditors combined to reduce such indebtedness to more manageable proportions and even, in important cases, to make some impression on the larger problem of long-term debt. There are even cases of re-investments or new investments, taking the form, not of public loans, but of private participations in commercial and industrial enterprises. To this very limited extent, therefore, the flow of capital revived, but in a different, and in many ways healthier, form.

Arrangements of this character were naturally easiest within and among countries which were able to pursue economic policies that facilitated re-organisation. Such policies differed greatly according to the form of government in particular countries and it is not intended to discuss them here. It is noteworthy, however, that the largest increases in international trade, and the clearest evidences of recovery, are in the areas where trade is least restricted.

The economic situation in 1933 was, on the other hand, confused by two important sets of forces derived from Governmental policy, neither of which can as yet be fully analysed or estimated. The first of these is the conduct of monetary policy. The foreign exchanges have become an important,

[1] Germany: *Wochenbericht des Instituts fur Konjunkturforschung*, July 5th, 1933, and February 28th, 1934 — Monatliche Zahlenübersicht D.
Sweden: *Kommerstella Meddelanden*, January 31st, 1934; *Industri*, 1920-1932.
United States: *Conference Board Bulletin*, February 20th, 1934.

perhaps the most important, arena of international economic adjustment. Whatever the causes for the abandonment of the gold standard in each particular case, the existence of fluctuating exchange rates over a long period renders uncertain the final validity of the adjustments made in other economic conditions. Under the gold standard with its fixed exchanges, the alteration of price-levels, wages, interest rates and other costs of production could be effectively compared from country to country and new equilibria could be reached with some certainty of their lasting. In recent months, however, a shift in the exchange rates might change, and often has changed, the whole aspect of affairs. It is not necessary to conclude that Governments deliberately manipulated their currencies in order to secure exchange advantages; but the control of currencies is a prerogative of Governments and in this period many have preferred to allow currencies to "find their own level" rather than risk the domestic adjustments that might have been necessary following stabilisation.

Some at least of the recovery that has taken place in certain areas is traceable in part to relative advantages derived from currency depreciation. A glance at the charts on pages 12 and 13 will indicate the disturbing effect upon the economy of other countries that followed the depreciation of the dollar in the second quarter of 1933, as a similar disturbance had followed the depreciation of sterling in the third quarter of 1931. The process of readjustment to new equilibria in these circumstances may be compared with the settlement, provoking new shocks, that follows an earthquake. Strain is inevitably imposed upon other parts of the economic system, relationships are altered, and it takes time to discover whether the net result is to promote or retard recovery.

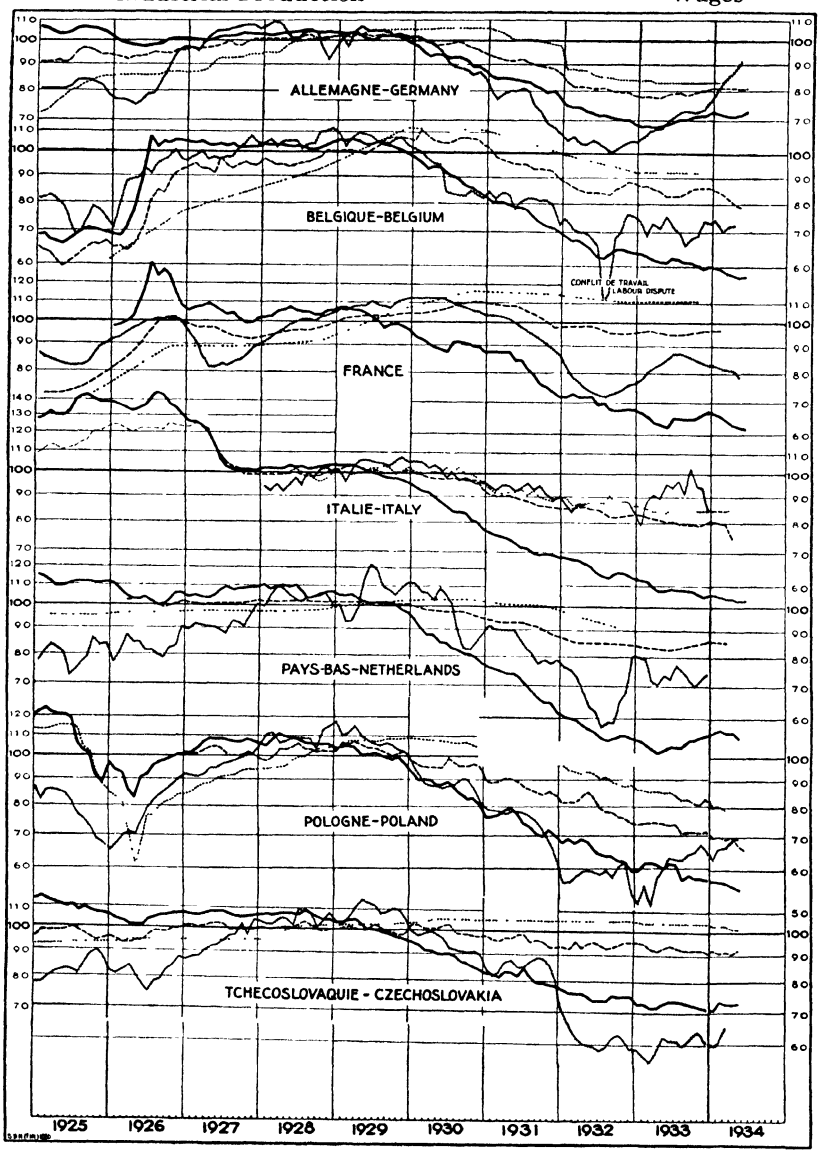
There is statistical evidence now available that industrial recovery in the United Kingdom was steadily proceeding from the third quarter of 1931 onwards.[1] How far that recovery was caused by the policy of cheap money, by exchange depreciation, by domestic deflation, the stoppage of foreign lending, the new protectionism or other causes, is a subject of much controversy. It is equally difficult at the moment to decide how far the recovery in the United Kingdom, and the associated recovery in the countries closely linked with the United Kingdom, was temporarily counterbalanced by intensified depression in other areas. There is one important respect, however, in which the depreciation of sterling, followed by that

[1] *The Economist*, February 24th, 1934, Trade Supplement.

Fluctuations in Wholesale Prices, Cost of Living, Industrial Production and Wages.

(Base : 1927-1930 = 100.)

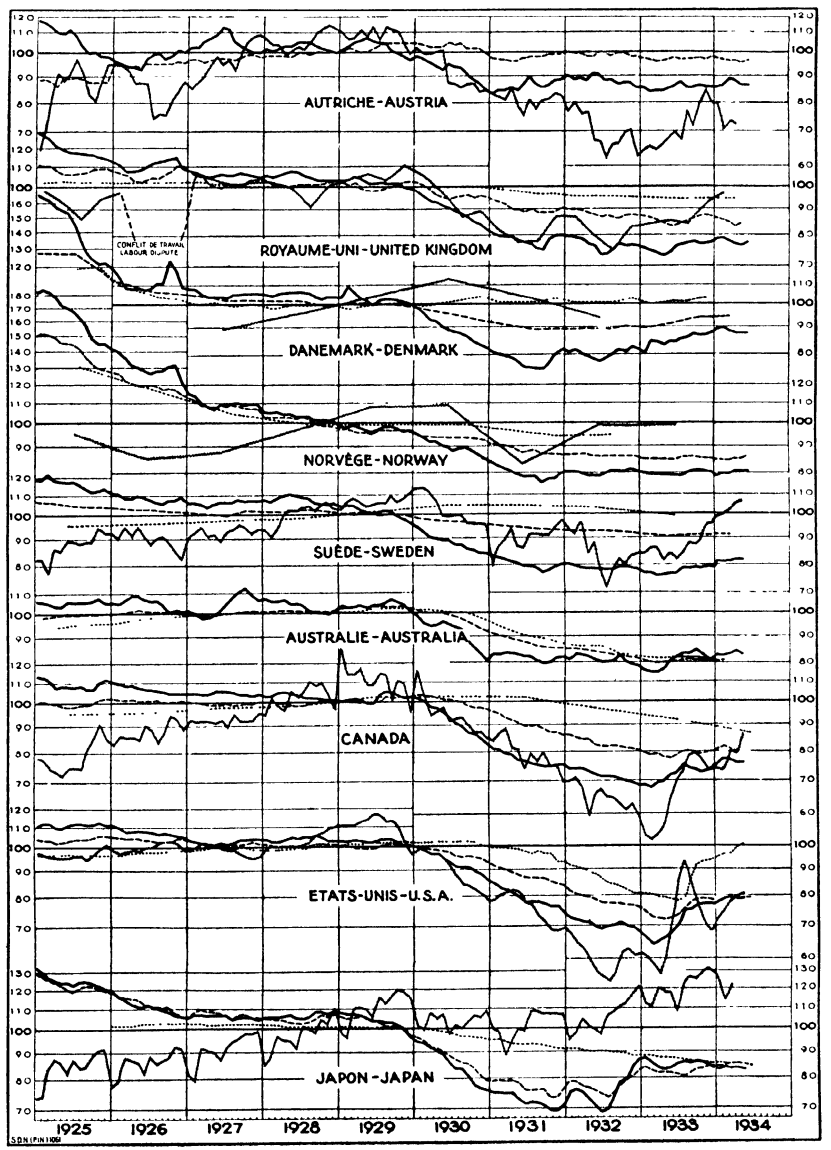
Logarithmic scale.



Fluctuations in Wholesale Prices, Cost of Living, Industrial Production and Wages.

(Base: 1927-1930 = 100.)

Logarithmic scale.



of the dollar, has quite clearly helped many other countries. The largest amount of international indebtness was held in these currencies and the relief to debtor countries from their depreciation has been considerable.

The whole subject of currency depreciation and its consequences will be discussed by economists for generations to come. It is too soon yet to arrive at final conclusions, if only because the game is not yet played out. In the early months of 1934, the dollar has been de-valued, but not finally stabilised, and (at the beginning of March), after a great displacement of gold stocks, exchange rates are approaching the new provisional parities. Experience in the recent past leads to the belief that it takes some months before the effects of such a change in exchange rates work themselves out in relative prices and trade movements. Meantime, exchange uncertainty remains an obstacle to the revival of international trade.

The second set of forces referred to above consists of the various movements towards a greater degree of Government planning and control both of industry and of trade. Some of these movements are discussed in Chapter II, but it is obvious that no one can as yet safely estimate either the extent to which such planning will develop or the effect it will have upon economic prosperity in the future.

In the spring of 1934, therefore, it was reasonably clear that the short-run forces of the business cycle were making for recovery; but that longer-run forces, typified by Governmental policies for the direction and control of industry and trade, were still in process of determination. In past depressions, after a fairly long and painful period of reconstruction and stabilisation, business enterprise could count upon renewed opportunities of profit under much the same conditions as existed before the depression began. At the present time, for good or ill, business enterprise emerges from its readjustments to find a very different situation confronting it. On the one hand, there is the uncertainty regarding the future course of exchanges, with all the resultant trade restrictions. On the other hand, positive Governmental policies of regulation and control, however justified they may eventually prove to be, render the outlook for recovery more doubtful. *Laissez-faire*, private enterprise, free trade, individual profit and other slogans of the 19th century are unpopular. In their place, such economic conceptions as a just price, fair wages, destructive competition, balanced trade — all curiously reminiscent of mediæval economic controversies — indicate a changed economic

environment.[1] The events recorded below must be considered in the light both of the more favourable cyclical turn and of a changing economic structure.

Economic Re-armament.

In the summer of 1933, it became abundantly clear that there was little immediate prospect of effective international action to remedy the depression. The Monetary and Economic Conference assembled in London on June 12th, but adjourned at the end of July without having been able to secure agreement upon either monetary or commercial policy. The recovery programme in the United States had taken a decidedly nationalist turn with the launching of the National Industrial Recovery Administration. The other great industrial and trading countries were unwilling either to imitate the American programme or to co-operate in efforts to raise the price-level by positive monetary action, while the United States was not willing to stabilise the external value of the dollar. In default of at least a provisional stabilisation of exchange rates, it was impossible to hope for any mitigation of trade restrictions.

After much discussion of plans for regulating production of basic commodities, an agreement was reached by which the principal wheat-exporting countries accepted a limitation upon their exports for the 1933-34 season. There was also an international agreement under which the principal holders of silver stocks agreed to restrict their sales during the next five years, while the United States agreed to neutralise by official purchases the limited sales that were envisaged.

With such meagre results in the way of international agreement and with the clear prospect of exchange instability ahead, it was inevitable that economic nationalism should be intensified. The tariff truce with which the Conference had opened was effectively abandoned soon after the Conference adjourned.[2] For most countries the abandonment was merely

[1] *Cf.*, *e.g.*, the analogies with mediæval practices in W. B. Sutch: "Price-Fixing in New Zealand", New York, Columbia University Press, 1932.

[2] The requisite month's notice of withdrawal was given by Denmark (August 24th), Irish Free State (August 24th), Netherlands (September 4th), Sweden (September 22nd), Switzerland (September 30th), France (October 12th), Iceland (October 27th), Italy (October 27th), Nicaragua (October 31st), Union of South Africa (November 4th), United Kingdom (November 7th), Belgium (November 8th), India (November 10th), New Zealand (November 10th), Lithuania (November 14th), China (November 15th), Finland (November 17th), Egypt (November 20th), Brazil (November 27th), Estonia (December 2nd), Latvia (December 6th), Iraq (December 9th), Albania (December 21st), Portugal (December 27th), Greece (December 30th), Honduras (January 18th, 1934). Japan followed on March 16th, 1934, and at the same time gave notice that it would withdraw from the obligations of the International Convention for the Abolition of Import and Export Prohibitions and Restrictions signed at Geneva in 1927 and of the Supplementary Agreement signed in 1928. The Netherlands withdrew from these obligations also and therefore no countries remained bound by the Convention after June 30th, 1934.

a measure of precaution; but trade restrictions tightened gradually and there were tariff conflicts of some importance between Germany and Finland,[1] and France and Brazil in October; and between France and the United Kingdom in January 1934, while the denunciation by France on January 18th of the commercial treaty entered into with Germany in 1927 opened an era of difficult negotiations. On the other hand, March 1934 saw the signature of a protocol which effectively put an end to the trade war that had continued between Poland and Germany since 1925.

The main international events in the latter part of 1933 were, in fact, bilateral, commercial and financial agreements. In the pages which follow, some of the more important of these agreements are mentioned briefly in order to illustrate the rapid succession of events. In a later chapter, the development of commercial policy is presented in a more complete form.

The series of treaties negotiated by the United Kingdom, reference to which was made in the SURVEY for 1932-33, was continued by the negotiation, concluded in September, of a supplementary trade agreement with the Argentine which also made provision for the unfreezing of blocked balances in that country's currency. Early in November, the Argentine Government concluded a further arrangement by which amounts owing to Swiss, Dutch and Belgian creditors were consolidated into a twenty-year loan. Other agreements negotiated by the United Kingdom were with Finland (September) and the U.S.S.R. (February). Negotiations continued also with various other countries, mainly those whose currencies were allied with sterling.

The British policy in this respect was important because it was a logical development from the renunciation of free trade in 1932. But the policy was not original and differed little from the bilateral bargaining that had been in process among European countries throughout the depression and continued to be followed in 1933-34.

Important commercial treaties were signed between Italy and Roumania (August 26th), Poland and Austria (October 6th), Italy and the U.S.S.R. (December 6th), France and the U.S.S.R. (January 11th), Sweden and Austria (January 27th), and there were many others. While all of these, and the British treaties also, continued to include the most-favoured-nation clause, quota arrangements, industrial understandings, and regional preferences in fact undermined the universal application of the most-favoured-nation system. Bilateral bargaining inevitably

[1] A trade agreement was finally initialled on March 25th, 1934.

introduced discrimination. When the United Kingdom joined in this bargaining, the other free-trade countries had little option in the matter. For example, Belgium on August 23rd, adopted measures to regulate trade with countries in which Belgian commercial balances had been blocked.

The United States recognition of the U.S.S.R., by a treaty signed at Washington on November 16th, 1933, paved the way for more active trade relations between these two countries, and early in March three trade banks were created to foster trade with the U.S.S.R., Cuba and other countries. At the moment of writing, in the first days of March, the President of the United States, implementing his election platform of "Yankee horse-trading " in tariff matters, has demanded powers from Congress which will enable him to negotiate bilateral trade agreements.

The rapid expansion of Japanese exports, particularly of textiles, after the depreciation of the yen, which was accompanied by price-cutting and keen competition among Japanese manufacturers, led in the early part of 1933 to widespread tariff reprisals. In India, Japan's most important market next to the United States and China, prolonged negotiations between the Governments of India and Japan, preceded by agreement in principle between Indian producers and the representatives of British cotton exporters, were concluded on January 4th by a commercial agreement for three years. Under this agreement Japanese textile exports are related to her imports of Indian cotton, while tariff rates and import quotas regulate the trade.

Discussions followed in London during February and March between representatives of British and Japanese textile trades; but the Conference was semi-official in the sense of meeting with the sympathy and support of both Governments. The difference upon which the Conference broke down is extremely significant. The British looked for an agreement covering competition in world markets, the Japanese were willing to discuss the British home and colonial markets, but demurred to any suggestion of discussing neutral markets as equivalent to a one-sided reduction of Japanese exports.

Financial Readjustment.

The stronger nationalist tone of commercial policy was accompanied by financial developments which have been summarised in the Annual Report of the Bank for International Settlements as a "series of retrograde developments — more moratoria, more transfer impediments, more artificial clearings,

more gold hoarding than during any year on record, more conversion of foreign balances and their repatriation into the home currency, or in gold, by private and central banks, an almost complete cessation of new long-term lending abroad and a further limitation or reduction of the volume of short-term credit".

While the Monetary and Economic Conference was sitting, the German Government had announced the prospect of a moratorium on the service of its external long-term debt. The moratorium began on July 1st, 1933, but negotiations between the Reichsbank and creditor representatives resulted in a scheme whereby the service of certain loans was paid in full, while for the rest of the long-term debt 50 per cent of the current interest was transferred, scrip being issued for the remaining 50 per cent. The scrip thus issued could be discounted by the creditors at 50 per cent of its face value; but in October the German authorities reached an arrangement with the Swiss creditors whereby the latter received full payment for their scrip. This preferential treatment was extended to the Dutch creditors also and evoked strong criticism, particularly in British and American financial circles.

This criticism grew stronger when, on December 18th, the Reichsbank announced its intention to transfer only 30 instead of 50 per cent of the interest due on loans other than those floated in connection with the Dawes and Young Plans. In the meantime, on October 14th, Germany had left the Conference for the Reduction and Limitation of Armaments and resigned from the League of Nations. For some months there had been signs of economic recovery within Germany — the production index increased in 1933, though less quickly after July, unemployment was falling and prices were rising, rather rapidly in the second half of the year. The external balance of payments was difficult and gold and foreign exchange was lost from the Reichsbank's reserve, which fell from 923 million R.M. in January 1933 to 245 million RM. at the end of March 1934. The whole situation — domestic recovery, difficult external economic relations, and strain upon previous international financial commitments — was symptomatic of the drift in world affairs. A conference of creditors at the Reichsbank in February finally agreed to the Reichsbank's transfer arrangements, subject to an increase (to 67 per cent) in the percentage at which scrip could be discounted and provided also that discrimination among the creditors ceased after the first half of 1934.

Roumania also declared a moratorium on the service of her external debt on August 15th, almost immediately after the Conference. Negotiations with representatives of the creditors began early in September and an agreement was reached

providing for the payment of 62 ½ per cent of the amounts due in the fiscal year 1933-34. The full amount having been paid for the first half-year, the Roumanian Government arranged in consequence to pay 25 per cent of the interest due for the six months ending March 31st, 1934. It was also agreed that an international commission should conduct an investigation and that negotiations for future payments should be based upon the report of that commission.

Bulgaria was another debtor country with which special arrangements proved necessary in the latter part of 1933. Two agreements were concluded, the first with the League Loans Committee on August 24th and November 21th, the second with British, French and Dutch holders of loans issued before 1914, on November 28th. The general principle is that, up to April 15th, 1934, 25 per cent of the interest due shall be transferred, the remainder being paid to the League Commissioner in the form of Treasury Bonds bearing interest at 2 per cent.[1] Before this agreement expired a new agreement was made by which, for the next two years, 32 ½ per cent of the interest service on the League loans is to be transferred. In addition, a 10 per cent payment will be made, in foreign exchange, upon the blocked leva which accumulated from 1932-1934. The budgets for the next two years will include sums in leva equal to the full interest and sinking fund service of the League loans and the Government will hand non-interest-bearing Treasury bills to the League Commissioner for the untransferred portion of the service. Upon transference of the 32 ½ per cent by monthly payments, the Commissioner will hand back these Treasury bills to the Government and the coupons will be regarded as satisfied. Acceptance of this agreement was urged by the League Loans Committee. Subsequent negotiations with other creditors, however, failed.

The Greek Government, after negotiating with a committee of foreign bondholders, agreed to transfer 27 ½ per cent of the interest due on account of foreign debt in the year ending March 1934 and 35 per cent of the amount due in the following year.

The various standstill agreements covering short-term debts, mainly to bankers, were renewed with little change in this period; but throughout 1933, as in 1932, there was repayment and composition of these debts until, at the beginning of 1934, they were in most cases down to amounts not far above those which would be needed in case of any very noticeable revival of trade.

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[1] *Twenty-ninth Report of the Commissioner of the League of Nations in Bulgaria* (document C.6.M.5.1934.II.A).

There was a good deal of re-financing also, including some conversion and other loans in the great financial centres on behalf of countries with dependent money markets. The most notable developments in this direction were the arrangements carried through in London for the conversion of a great part of the indebtedness of the Dominions, especially Australia. On August 1st, Canada issued a 4 % loan at par to the amount of £15 million. The Australian programme of conversions was continued by the issue on September 13th of a loan for £21 million at 3¾ per cent issued at 98 and completed in February by the issue at 97 of a loan for £21.6 million bearing interest at 3½ per cent. Early in October, New Zealand successfully converted a loan of £5 million at 5 per cent to one of 3½ per cent, while an Indian loan of £10 million at 3½ per cent was also floated successfully on the London market on November 9th.

The outstanding international financial transaction apart from this conversion of Dominion loans was the flotation in August 1933 of the international Austrian loan which had been agreed upon at the time of the Lausanne Conference, more than a year before. This loan was floated in six tranches: Belgian, British, French, Italian, Netherlands and Swiss.[1] At the end of August also, a one-year loan of 40 million French francs was floated on behalf of Bulgaria on the French market, with the object of financing Bulgarian cereal exports.

Negotiations for a settlement of war debts were re-opened by a British delegation to Washington in early October; but failure to reach an agreement was admitted on November 6th. When the next instalment of the war debt payments fell due on December 15th, the United Kingdom made a token payment of $7,500,000. Token payments were made also by Italy, Czechoslovakia, Latvia and Lithuania, while France, Belgium, Poland, Estonia and Hungary did not pay. Finland alone paid in full. A further development was the passing of the Johnson Bill prohibiting the Government or private citizens of the United States from giving further financial assistance to Governments wholly or partially in default on account of war debts. The bill was signed by the President in April, but it was not made clear whether token payments were to be regarded as indicating default.

The steps taken in 1933, evidently in pursuance of discussions at the Ottawa Conference in the summer of 1932, to create central banks in the British Dominions constituted an important development of financial policy. South Africa had had a

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[1] League of Nations: *Eighth Quarterly Report on the Financial Position of Austria in the Third Quarter of 1933* (Geneva, December 30th, 1933).

Reserve Bank since 1921 and the Commonwealth Bank of Australia had been transformed into a true central bank during the years 1924-1932. Legislation to create a Reserve Bank of New Zealand was finally passed in November 1933 and similar legislation was passed in India in the following month. Meantime, a Royal Commission had recommended the establishment of a central bank in Canada and legislation for that purpose was introduced into the Canadian Parliament in February 1934. In practice, both the Commonwealth Bank and, since South Africa abandoned the gold standard, the Reserve Bank of South Africa, administer a sterling exchange standard. The New Zealand legislation gives only the alternatives of a gold standard or a sterling exchange standard. This development of a chain of British central banks is perhaps the outstanding example of regional as distinct from international economic co-operation in the period under review.

National Plans for Recovery.

While the international events recorded in the preceding sections were taking place, readjustment and adaptation of domestic industries continued in full swing in many countries and were assisted by Governmental policies which differed greatly in conception and scope, but were directed mainly towards stimulation of economic recovery by national as distinct from international measures. It is obviously not possible in a brief space to deal exhaustively with all the national recovery programmes that were energetically pursued during 1933 and 1934, but in the present section attention is directed to some of the more important and characteristic of them.

The first development to which attention should be drawn is the continued cheapening of interest rates and the possibilities which it offered for the re-financing of outstanding debts. There was no doubt of the general improvement in financial conditions in the latter part of 1933. Until the gold drain caused by the American devaluation brought a rise in the rediscount rate of the Banque de France on February 8th, 1934, the trend of central bank rates was everywhere downward and, with this exception, it continued to be downward until the end of March.[1] The London rate remained at 2 per cent. The New York rate, which was raised to 3½ per cent in March 1933, was down to 2 per cent again by the end of the year. The Amsterdam rate, which went to 4½ per cent when a gold drain was in progress

[1] Market rates of discount showed a rising tendency in France from October 1933.

in June 1933, fell to 2 ½ per cent by September.[1] The cases cited were the only increases which occurred at any time during the period under discussion and in all of them the rates at the end of March 1934 stood as low or lower than at the beginning of 1933. The only exception was the French rate, which was raised to 3 per cent in February when the dollar was devalued.

Perhaps the outstanding example of reliance primarily upon a cheap money policy is the case of the United Kingdom. After the great conversion operation of 1932, there were minor Government and municipal conversions, as well as some private re-financing operations. Extremely low rates for short-term money had also reduced interest charges for the Government and for some businesses. The combination of tariff protection, greatly reduced foreign lending, budgetary economy and cheap money, provided a marked stimulus to domestic production and trade, which by the beginning of March 1934 had caused a substantial "boomlet" on the Stock Exchange. The index of building activity also rose steadily from 123 in 1931 to 132 in 1932 and 173 in 1933. The cost of building materials and labour in 1933 had fallen by 12 per cent, and interest rates by 25-30 per cent from the 1929 levels. Large sections of the country, however, particularly in the industrial north, were dependent so greatly upon the export trades, which showed

[1] *Central Bank Rates of Discount 1933-34.*

	January 1st, 1933	January 1st, 1934	April 1st, 1934
	%	%	%
Australia	4½	4½	4½
Austria	6	5	5
Belgium	3½	3½	3½
Bulgaria	8	7	7
Czechoslovakia	4½	3½	3½
Denmark	3½	2½	2½
Finland	6½	4½	4½
France	2½	2½	3
Germany	4	4	4
Greece	9	7	7
Hungary	4½	4½	4½
India	4	3½	3½
Italy	5	3	3
Japan	4.38	3.65	3.65
Latvia	5½	5½	5½
Netherlands	2½	2½	2½
Norway	4	3½	3½
Poland	6	5	5
Portugal	6½	5½	5½
Roumania	7	6	6
South Africa	5	3½	3½
Spain	6	6	6
Sweden	3½	2½	2½
Switzerland	2	2	2
Turkey	7	5½	5½
United Kingdom	2	2	2
United States of America (New York)	2½	2	1½
Yugoslavia	7½	7½	7

little sign of revival, that recovery was by no means general. On the other hand, many of the most important overseas markets, particularly those Dominions which, like Australia, had themselves carried through extensive policies of reconstruction, began to call for increased imports, and even in the export trades, and also in shipping and shipbuilding, the outlook seemed better at the beginning of 1934.

Thus, while the value of retail sales during 1933 as compared with the previous year increased by 1.9 per cent in London (West End) but decreased by 1.8 per cent in Wales and the north of England, even the depressed areas had begun to show a little improvement during the latter months of the year. [1] The extent of the improvement was limited, however, and by the end of March 1934 there appeared to be some slackening in the progress towards recovery. At that time, the probability of a substantial budget surplus was definitely clear, but it was not known what measures would be taken in regard to it. The uncertain international outlook and the failure of international trade to increase were factors making for hesitation and these were reinforced by exchange uncertainties.

The Agricultural Marketing Act 1933 and the rapid creation of the necessary administrative machinery to carry out its provisions, injected a new element into the recovery in the latter part of 1933. Marketing schemes subsidised by Government grants and containing provisions for guaranteed prices of important agricultural products launched an ambitious attempt to rehabilitate British agriculture. In addition to wheat and beet sugar, subsidies for which had previously been in operation, bacon, milk and poultry products were among the first commodities to which attention was paid. The re-organisation schemes were based primarily on the maintenance of guaranteed prices; but included plans for improved marketing, propaganda campaigns, and regulation of quality. The essential complement of such regulation was power to limit imports either by quota arrangements with foreign countries or by higher tariffs. There was some criticism of these devices both on the ground of their cost to the public purse and of their tendency to raise prices to the consumer, and also of their probable reaction upon the markets for manufactured exports. The Government did not have complete liberty of action in regard to the restriction of agricultural imports, as it was bound by the Ottawa agreements with the Dominions; but its policy found a limited expression in the trade treaties with such countries as Denmark.

[1] *The Economist:* "Commercial History and Review of 1933", February 17th, 1934, page 70.

Industrial re-organisation was also contemplated when an Advisory Committee was appointed to recommend tariff duties in 1932. The first important industry to be considered in this connection was iron and steel; but the negotiations for re-organisation proved difficult and, in February 1934, even a modified voluntary scheme was postponed for further consideration.[1] Progress in the re-organisation of the coal industry was also very slow.

In addition to the impulse given by cheap money, there were many other factors favourable to national economic recovery in the short run. The change from free trade to protection stimulated certain industries. The de-rating scheme, by which local rates have been relieved in many industrial areas, shifted the incidence of taxation in a manner favourable on balance to agricultural and industrial recovery. The almost complete cessation of capital exports, supplemented by the embargo on foreign loans, also contributed largely to the accumulation of domestic funds and the lowering of interest rates.

While it would be quite premature to attempt a final judgment of any one of these factors and still more of their ultimate combined effect, it seems reasonably clear that the temporary results have been to stimulate production for the home rather than for the export market. This is borne out by the statistics of imports and exports. There has been an increasing import of raw materials, both in quantum and in value, considerably greater than the increase in the quantum and value of exports. During 1933, the quantum of raw material imports rose by 10 per cent, while the quantum of manufactured exports rose only by 3 per cent. Some part of the increased imports were obviously due to a replenishment of stocks in anticipation of increased demands both at home and abroad; but much of them must have been caused by increased sales in the home market.

Another outstanding development in 1933 was the progressive lowering of the Italian bank rate until it stood at 3 per cent on January 1st, 1934. At the same time, progress was made in the liquidation of capital losses, and the gold reserves of the central bank were slowly augmented. Early in 1934, on February 5th, the Government was able to take advantage of this favourable situation by launching the largest conversion loan attempted since the British War Loan Conversion in 1932. The amount involved was 61,392 million lire, equal to about £1,070 million at current rates of exchange. This amount, bearing interest at 5 per cent, was successfully converted to a

[1] This scheme was approved in May and the import duties were made permanent in June.

new redeemable 3 ½ per cent loan. The saving on account of debt service will amount to approximately 915 million lire per annum. In compensation for the holders' right to receive 5 per cent interest till 1936, a bonus of 4 ½ per cent of the capital value was paid on April 23rd, 1934, the cost of this bonus being provided by an issue of 4 % Treasury bills with a currency of nine years. The amount for which repayment was demanded represented only 2 per cent of the total.

Many other countries also took advantage of cheaper interest rates to float domestic loans. The United States loans, in rather special circumstances, were heavily over-subscribed. Even some of the countries which had been hardest hit by the crisis, like Austria, were able to take advantage of reviving confidence to float domestic loans. Australia and Canada did the same and Poland carried through a large popular loan which assured the stability of the public finances for at least a year. In some of the gold-standard countries, notably in France and in Switzerland, interest rates remained high, preventing further conversions, and new loans were not absorbed easily by the market.

In many of the countries which successfully followed a policy of re-financing by means of cheap money, more positive measures of restoration were also attempted. The United Kingdom stands out as the principal example of a country where reliance was placed primarily upon a lowering of interest rates accompanied by budgetary economy. Italy, which in many respects followed the British example, used the public finances to a considerable degree in supporting economic activity by public works and carrying through industrial reconstruction. Japan also supplemented cheap credit by Government purchasing and by assistance to agriculture; but the situation in Japan depended largely upon a borrowing policy which in effect secured the mobilisation for Government expenditure of the profits accruing from a lowering of the exchange rate. Some measure of currency depreciation, indeed, leading to the probability of ultimate devaluation, was an integral part of the recovery programmes in almost all the countries which relied primarily upon lower interest rates and credit expansion. If only because a fluctuating exchange afforded a means of protection against an external drain of gold or other reserve assets endangering domestic currency stability, the countries which sought recovery by monetary expansion did so after leaving the gold standard. Thus Sweden, Australia, Finland and the United States are among the expansionist countries, while, on the other hand, the countries remaining faithful to the gold standard, with the exception of Germany, and possibly of

Italy, which, however, carried through a strong policy of cost reductions, have followed mainly contractionist policies. Those of the gold countries which carried through a strong deflationary policy were able to retain a relatively large proportion of their export trade. Poland and Belgium, for example, did so, and the more favourable movement of exports from France and Switzerland in the latter part of 1933 was also partly due to efforts made to reduce costs. Czechoslovakia, however, suffered heavily in her export trade and in February adopted a law by which, without abandoning the gold standard, the currency was devalued to five-sixths of its former gold parity.

The national recovery plans which are sketched below, therefore, refer mainly to countries which had abandoned the gold standard. It is natural to find such schemes more fully developed where less confidence was felt in the ability of private enterprise to effect recovery by the traditional methods of re-organisation. The countries which adhered to the gold standard thereby demonstrated their belief in the possibilities of recovery by adjustment of costs to the lower level of prices ruling since the depression. Such a belief is not necessarily incompatible with extensive public works programmes, as in France and Italy, or temporary relief extended to persons and industries harshly affected by the crisis, as in Switzerland, provided only that such measures are not pushed so far as to endanger either budgetary stability or the balance of external payments. Some temporary extension of Government expenditure may well accompany the re-organisation of private industry. It may be said, indeed, that practically all the plans for national recovery that have been pursued, in gold or paper currency countries, have been combinations of cost reductions in certain directions with expansion of expenditure in others. The combination has, however, differed greatly, and increased expenditure has been more difficult in those countries which have maintained their exchanges at the former gold parities.

One of the earliest and clearest examples of the application of positive measures to supplement a cheap money policy is furnished by Australia. The Premier's Plan, which was applied in that country during 1931 and 1932, was worked out by a committee of economists and heads of treasuries.[1] The basis of the plan was a clear recognition of the fact that the national income had been severely reduced and that this reduction ought to be equitably shared by the various classes of the community. The first effort was to establish budgetary stability by a reduction of current expenditure, including that upon civil service

[1] *Cf.* D. B. COPLAND: "Australia in the World Crisis 1929-1933", Cambridge University Press, 1934.

salaries. By decisions of the Arbitration Courts, wages were cut down, not only in accordance with the fall in the cost of living, but also by a reduction of the basic rate. At the same time, a very large conversion operation cut the rates of interest on domestic debt by approximately the same percentage (about 20 per cent) as the reduction in wages, while supplementary measures were taken to reduce other interest charges. These were obviously deflationary measures, but the Commonwealth Bank eased the situation by discounting Treasury Bills for the first time, so that there was a fairly considerable expansion of bank credit. Some Australian economists go so far as to regard this credit expansion as the most important element in the recovery which followed and, while this view is challenged, all observers agree in ascribing considerable importance to the Commonwealth Bank's operations.[1] These domestic developments, which were brought about gradually during 1932, were accompanied by a depreciation of the external value of the Australian currency, and, after the successful completion of the British conversion operations, by a series of conversions governing a great part of the external debt.

The last of these conversions was carried through in February 1934 and, by the beginning of the current year, therefore, Australia had completed a very thorough re-organisation of her economic system. The Australian pound stood at approximately half its pre-depression gold parity, interest and wages had been cut by about 20 per cent, the Commonwealth Bank had assisted the Governments and the commercial banks over the period of stringency and in so doing had created the rudiments of an Australian money market. Meantime, other powerful elements had been making for recovery. Production had substantially increased and it was not by chance that the representative of Australia issued a most emphatic protest at the Monetary and Economic Conference against policies of restricting production instead of encouraging freer distribution of the goods produced. In the latter part of 1933, finally, an increased demand for raw wool found world production relatively short and the market bare of accumulated stocks. A remarkable rise of prices for Australia's chief export product went far to establish recovery on a firm basis, at least for the time being.

Much the same sequence of events, though at later dates, marked a considerable improvement in the economic situation of New Zealand. The major elements of the plan — budgetary economies, wage reduction, conversion of the domestic debt,

[1] *Cf.* D. B. COPLAND, *op. cit.*, with E. Ronald WALKER: *Australia in the World Depression*, P. S. KING, 1933, and the review article by L. F. GIBLIN in the *Economic Record*, November 1933.

legislation to effect other interest reductions, and depreciation of the exchange rate — were introduced during 1933, some months after the Australian measures. The rise in wool prices helped New Zealand also; but dairy produce did not rise much in 1933 and the increase in production, which was marked, caused apprehension of the possible effects that might follow if the import quota proposed in the United Kingdom should materialise. Nor was New Zealand able to follow Australia's lead in converting a large proportion of her external debt.[1]

Sweden provides another example of the use of positive monetary measures to encourage recovery. Almost immediately after the United Kingdom left the gold standard, Sweden followed suit and the currency has since been managed in such a way as to control the domestic price-level. Between September 1931 and the middle of 1932, the avowed aim was to keep the internal purchasing power of the krona stable; but from the summer of 1932 onwards, and more particularly from the spring of 1933, an effort was made to induce a rise in the price-level. During the whole of this period, the exchange value of the krona moved in the neighbourhood of, though not identically with, sterling; but it is claimed that the governing factors in monetary regulation were domestic rather than external.

Two principal methods were employed in the endeavour to stimulate production and sustain, if not increase, the price-level. Of these, open-market operations by the Riksbank were the most important. During 1933 especially, purchases of Government securities, foreign exchange and gold increased heavily, with the result that, by the end of 1933, the commercial banks had not only liquidated their rediscounts with the central bank (which had been 240 million kronor in June 1932) but had in that institution sight assets to the value of 300 million kronor. Not only are the commercial banks in a position of great liquidity despite the impact of the Kreuger crisis, but the international liquidity of the banking system as a whole is very strong. Prices have been kept fairly stable with a rising tendency in the latter part of 1933, and production also has increased.[2]

The second line of action was discussed in the SURVEY for 1932-33, where the first "Public Works Budget" was described.[3] It was shown that capital expenditure, as distinct

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[1] *Cf.* H. BELSHAW: "Crisis and Readjustment in New Zealand", *Journal of Political Economy*, December 1933.
For the correspondence between New Zealand and the United Kingdom relative to the proposed quota on imports of dairy produce, see Cmd. 4557.

[2] Bertil OHLIN: "The Inadequacy of Price Stabilisation", *Index*, December 1933; also Erik T. H. KJELLSTROM: "Managed Money", New York, 1934, and "Schweden in der Weltwirtschaftskrise", *Vierteljahrshefte zur Statistik des Deutschen Reichs*, 1934, Erstes Heft.

[3] Pages 179-180.

from the ordinary budget, amounting in the financial year 1933-34 to over 240 million kronor was to be covered by fresh borrowing. The estimates for 1934-35 provide for practically the same amount of borrowing for public works.

These were by no means the only or the most important national plans for recovery which were in active operation during 1933 and 1934. Indeed, almost every country which could summon financial reserves attempted some extraordinary expenditure to relieve, if not to make headway against, the crisis. The countries mentioned above, and Germany, Japan and the United States, the developments in which are discussed below, have been singled out as illustrating most clearly the various types of national action. There were, of course, many countries where little could be done but wait for recovery in the outside world. There were many others — such as China, Spain, Portugal and, among the South American countries, Chile and Peru — where ambitious schemes of national development based to a large extent upon borrowing were pushed ahead as rapidly as restricted finances would allow.[1] The fact that there was such widespread anticipation that a general recovery was imminent, together with the increased popularity of "planning", combined in 1933 to encourage Government action in the field of public expenditure for economic development. To describe such action in all the various countries is a task beyond the purpose of this SURVEY.

Some mention must, however, be made of the important developments in Germany, the United States and Japan, and the pages which follow are concerned with an outline of events in those countries during 1933 and the early months of 1934. The situation in Germany is taken first, as illustrating an unusual combination of domestic credit expansion together with a firm control of external financial relations pivoted upon nominal adherence to the gold parity with exceptional use of depreciation in certain transactions. The German Government, as early as 1932, adopted measures to give tax relief to industry in anticipation of world recovery. This relief was later extended beyond the original date, September 1933, at which it was to end. In addition, there have been special tax concessions to the agricultural and automobile industries.

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[1] *Cf.* Argentine: "El Plan de Acción Económica Nacional", Ministerios de Hacienda y Agricultura, Buenos Aires 1934.
Chile: "A Chilian Survey". *The Times*, London, April 7th, 1934.
China: "China's Four-Year Industrial Plan". *Chinese Economic Journal*, September 1933.
Mexico: "A Six-Year Plan", *Statist*, January 1934.
Peru: *South American Journal*, Annual Review, 1934.
Turkey: "A Five-Year Plan", *The Economist*, February 4th, 1934.

More positive measures were, however, undertaken after the advent to power of the National Socialist party early in 1933 and these were concentrated upon what was regarded as the central problem, the reduction of unemployment. There are many aspects of the recovery plan, but essentially it is based upon monetary measures and these have been facilitated by the high degree to which power has become concentrated and centralised in the Reichsbank, which is thus enabled to control both domestic and foreign credit relations. So large a part of German industry is controlled by the banks and the banks are so largely under the control of the Reichsbank that centralised direction of policy is probably more complete than in any other country except the U.S.S.R. and perhaps Italy. The thoroughness with which both State and voluntary organisation has been centralised adds greatly also to the effectiveness of this control. The federal state system has been abolished, together with the former trade union movement and all similar sectional groupings.

Such a centralisation of general policy is quite compatible with a considerable degree of encouragement to small-scale industry and small-scale agriculture. Indeed, the re-organisation of peasant agriculture is one of the major aims of policy. The already high tariff protection of foodstuffs and agricultural products generally has been increased. Special tax relief has been given and the production, sale, prices and price margins of agricultural products have been regulated in a way calculated to consolidate the economic position of the peasantry. New legislation regulates the succession of peasant holdings. Interest rates are reduced and regulated, and agricultural credit re-organised. As a result, it has been calculated that the gross income of the farming community increased by 12, and the net income by 15, per cent in 1933 as compared with 1932.[1]

At the same time, a vigorous attack has been made upon unemployment by a variety of measures. Private enterprise has been encouraged by Government expenditure in the heavy industries, by orders placed for an extensive public works programme, by wage adjustments and greater flexibility of labour conditions and by tax relief. An extensive policy of marriage subsidies has had, as one of its objects, the replacement of unmarried women by men in industry. The various sorts of blocked marks have been used to facilitate additional exports, and, as occasion offered, industrial undertakings were enabled to reduce their indebtedness by buying in their depreciated securities on the foreign markets.

[1] *Vierteljahrsheft zur Konjunkturforschung*, 8-III-A. Wirtschaft und Statistik, 1. November-Heft 1933.

A considerable effort has thus been made to increase, or at least sustain, exports. Both capital and labour costs have been reduced and the depreciation of a considerable segment of the currency has given the exporters an opportunity to cut their prices in foreign markets. As the transfer of foreign debt service has been reduced and the supply of foreign exchange for the purchase of imports has been more rigidly controlled, the blocked marks available for subsidising exports have increased while their value in foreign currencies has depreciated.

But the greatest effort has been made in the home market, which has been supported to an increasing extent by Government expenditure and the liberal credit policy pursued by the Reichsbank. Bank deposits and note issues, as in other countries, have decreased somewhat; but in Germany the reserves of gold and foreign assets have greatly shrunk. At their post-stabilisation peak at the end of 1928, the total reserve assets of the Reichsbank amounted to RM. 2,884 million; but they shrank heavily during the depression until, at the end of 1933, they were only RM. 395 million — less than half the total at the end of 1932. The shrinkage continued in the early months of 1934 and the corresponding figure at March 31st was RM. 245 million, or less than 7 per cent cover for the notes and sight liabilities. The maintenance of currency stability in such circumstances in a country with the recent monetary experience of Germany was possible only because of very complete and firm control at the centre combined with continued public confidence.

Nevertheless, the Reichsbank during 1933 secured the assent of the Bank for International Settlements to an amendment of its constitution enabling it to conduct open-market operations, by which Government financing has been facilitated and the market has been relieved of Government and municipal securities, including tax-relief certificates. This has served the double purpose of freeing private capital for industrial purposes and enabling the Government to make advances to private industry. During 1933, it was estimated that such advances totalled more than RM. 1,000 million.[1] It is clear, therefore, that both the Government and the central bank have made a great effort to provide credit for the revival of industry. Production and employment have increased, and, though the cost of living did not rise much in 1933, prices have risen, while the price-level in most other gold countries has fallen. Tariff changes, as well as monetary policy, have played a part in raising the price-level.

[1] *Vierteljahrsheft zur Konjunkturforschung*, 8-III-A.

Wholesale Prices and the Cost of Living in Gold-standard Countries during 1933.

(Base: 1932 = 100.)

Country	Wholesale Prices			Cost of Living		
	January	December	Increase or decrease. Per cent.	January	December	Increase or decrease. Per cent.
Belgium	98	90	— 8	101	100	— 1
Czechoslovakia	97	96	— 1	101	97	— 4
France	96	95	— 1	99	100	+ 1
Germany	94	100	+ 6	97	100	+ 3
Italy	95	89	— 6	99	98	— 1
Netherlands	95	97	+ 2	98	101	+ 3
Poland	91	88	— 3	92	89	— 3
Switzerland	95	95	+ 0	96	95	— 1

The external counterpart of the domestic credit expansion in Germany was protection of the dwindling reserves of the Reichsbank by firm control of external payments. The high degree of centralisation in the industrial and financial system enabled the Reichsbank to administer a more effective foreign exchange control than in any other country outside of the U.S.S.R. Under this control, the exchange given to importers was closely rationed and the quota allotted was progressively reduced.

At the beginning of 1932, the quota was 75 per cent of the previous year's purchases, in March 1932 65 per cent and in March 1934 35 per cent only. The debt service on foreign loans was also reduced by successive stages in the manner described in the preceding section.

In Japan, as in Germany, the basis of recovery during 1933 was Government borrowing; but Japan's external position differed greatly from that of Germany, as the yen had been allowed to depreciate in terms of gold currencies and the balance of external payments was, in any case, more favourable. The amount of nominal foreign debt at the end of 1932 was not more than 2,500 million yen, and has not greatly changed since that date; but, allowing for foreign debt that has been repurchased and for balances held abroad, the net debit on international account is probably below 1,000 million yen. [1] It is true that interest on foreign loans has been increased in terms of yen; but a considerable proportion of these loans is now held in Japan and there is therefore not an equivalent strain upon the balance of payments. Japan has continued to meet all her financial obligations punctually and in full.

[1] Department of Overseas Trade, *Report on Economic Conditions in Japan*, No. 541, 1933.

Unlike Germany again, Japan has been able to expand her exports considerably. During 1933, the exports, measured in yen, increased substantially, the total amounting to 1,828 million yen as compared with 1,362 million yen in 1932. Meantime, imports increased in value slightly more, from 1,384 million yen in 1932 to 1,883 million yen in 1933. While the passive balance was slightly increased, Japan managed to restore her exports in 1933 (in terms of yen) to over 87 per cent of their 1929 value, as compared with only 65 per cent in 1932. During 1933, the average depreciation of the yen from its former gold parity was 59.65 per cent as compared with 43.60 per cent in 1932. Measured in gold values, therefore, exports in 1933 were almost the same as in 1932, 37.9 per cent of the 1929 value as against 37.6 per cent.

The competition of Japanese exports was severely felt in most world markets and in many products. Not only the textile products commonly regarded as characteristic of Japanese trade — silks and cottons — but also new textiles, such as artificial silk and woollen goods, and a wide range of manufactured goods — pottery, cement, bicycles, electrical fittings, etc. — found their way, not only into India and other Eastern countries, but even into European markets. The reasons for this enhanced competition are to be found, not only in the depreciation of the yen, but also in a considerable extension of mass production along the most modern lines, in subsidised freights, and in falling labour costs. From the middle of 1932 to the end of 1933, production rose about 30 per cent in Japan, while wages fell substantially (5 per cent) despite a rise of almost 10 per cent in the cost of living. The wholesale price index of goods for domestic consumption remained almost unchanged.

At the beginning of 1934, however, there were some signs that further export expansion might prove difficult. The greatest profits from the depreciation of the yen were reaped in the latter part of 1932 and in 1933. Between the abandonment of the gold standard in December 1931 and the pegging of the yen to sterling approximately a year later, its external value fell almost 60 per cent in terms of the gold parity. The fact that sterling drifted lower during 1933 and the early part of 1934 meant that the yen by the end of March 1934 had lost 64 per cent if its gold parity; but this further depreciation could not yield as great advantages as the larger and earlier fall. Moreover, there was a distinct tendency, commented upon in the previous section, for limitations to be imposed upon the entry of Japanese goods into many markets. The Indian agreement setting an upper limit to imports of Japanese cotton goods was followed early in 1934 by the breakdown of negotiations with

the United Kingdom and these were by no means the only trade difficulties with which Japanese exporters were faced.

The export of manufactures, however, still remains of less importance than the exports of raw silk, primarily to the United States. Japan was greatly helped by the rise in silk prices in terms of the dollar during the sharp rise of the American price-level from March 1933 onwards. The setback in American prices in the latter part of 1933 was a heavy blow and the fluctuations in this market reveal how greatly the prospects of continued recovery in Japan depend upon a successful issue of the American recovery experiments.

The domestic situation in Japan continued throughout 1933 to be dominated by the unbalanced budgetary position. During the year, the national debt increased by 1,272 million yen, the greater part of the new loans being taken up in the first place by the Bank of Japan and the Treasury Deposit Bureau, but distributed to the market gradually as occasion offered. As in Germany, the high centralisation of the banking system has facilitated the mobilisation of the community's credit for national purposes. The profits arising from currency depreciation and expanding exports have been for the most part intercepted by the Government's borrowing programme. The need for further borrowing to cover the heavy deficit in the budget for 1934-35 is clear.

The reserve of gold and foreign assets of the Bank of Japan, which fell from 1,072 million yen at the end of 1929 to 425 million yen at the end of 1932, has remained unchanged since that date. Note issues and commercial bank deposits show little tendency to rise, and the Bank of Japan has checked any undue upward tendency of the wholesale price level by open market operations, notably at the end of 1932. While the index of wholesale prices was 11.4 per cent higher on the average in 1933 than in 1932, it was lower at the end than at the beginning of the year by some 5 per cent. The cost of living, however, showed a tendency to increase again towards the end of 1933, while wages continued to fall and the economic situation of the peasant farmers was difficult also.

Not only in Japan, but in most other countries, the experimental programme of national recovery in the United States was watched with anxious interest. Connected as it was with a depreciating dollar, this programme remained throughout 1933 one of the principal uncertainties in a difficult international situation. The great importance of the international repercussions of the dollar depreciation are discussed in the following section. Attention is directed here to the domestic aspects of the recovery programme which also, as the analysis of the

Japanese situation has shown, had a direct bearing upon recovery in other countries.

The SURVEY for 1932-33 included a brief summary of the developments in the United States up to the actual launching of the agricultural and industrial recovery programmes in the middle of the year. For the most part, it was pointed out, the Presidential action taken to deal with the immediate banking crisis was conservative and deflationary in its influence. All the banks were closed and the weaker ones not allowed to re-open after the banking holiday, while public expenditures were drastically reduced. Confidence was quickly restored and it became possible to devise emergency measures for dealing with unemployment and relief. At the same time, legislation was drawn up and presented to Congress, one important bill following another in quick succession, until, by the time Congress adjourned on June 16th, the administration had legislative authority for practically all the important elements of its domestic recovery programme. Certain regulatory and constructive reform proposals remained for future consideration and the international aspects of the monetary and price-raising policy were still to be dealt with; but the machinery was in existence for a frontal attack upon unemployment, the restoration of agricultural income and other immediate problems of the domestic crisis. The messages sent by the President to the Monetary and Economic Conference showed clearly that his domestic programme had priority over international questions.

From the end of July 1933 until the gold-buying policy was launched on October 22nd, public interest was concentrated mainly upon the working of the National Recovery Act, and, with somewhat less emphasis, upon the agricultural programme. It should be stressed, however, that, from the time the new administration took office on March 4th, plans for recovery, reconstruction and reform were pushed ahead vigorously in many different fields. The duality of purpose involved in attempting to re-fashion the economic organisation and at the same time promote recovery from the depression, and the inevitable contradiction of these purposes at particular stages, has been pointed out by many writers. Somewhat less attention has been paid to the irregularity of progress which was inevitable when relief, recovery and reform were attempted by operations on such a wide front. Co-ordination, not only as between emergency relief and permanent reconstruction, but also as between the monetary, industrial, agricultural and other programmes has been a constant problem. The only available method of energetic action, indeed, was the devolution of responsibility upon the various administrations, so that plans

were prepared and put into action as they were ready, co-ordination consisting mainly in the President's applying his authority to launch important new schemes, arbitrate disputes and settle issues as they arose, while maintaining popular enthusiasm for the whole campaign. Military metaphors naturally suggest themselves and the eager activity at Washington, recalling the organisation of the war effort in 1917 with all its improvisations and its rapid succession of revolutionary decisions, lent colour to the conception of an attack on the economic problem by operations along a wide front. It is the strategy rather than the tactics of such a programme which demand attention.

Provision was made by the National Recovery Act for the establishment of industrial codes of fair competition. Pending the elaboration of these codes a general or blanket code was announced. This "blanket code", promulgated on July 20th and put into force from August 1st, was intended to "raise wages, create employment and thus increase purchasing power and restore business". This quotation from the official proclamation fairly sets out the aim as far as recovery is concerned, not only of the blanket code, but of the specific codes agreed upon in particular industries.[1] Undoubtedly there were other aims and, in a sense, the various codes take the place which factory legislation, supplemented by agreements between employers and trade unions, take in other countries. Since the codes are standard regulations approved by employers and workers in the specific industries, there is a presumption that they fit the circumstances of those industries more suitably than a general code of factory legislation might do. The suspension of the anti-trust laws in respect of operations which comply with the provisions of the codes was a factor in securing the agreement of employers, just as the recognition of the right to organise in trade unions helped to secure the agreement of the workers; but, in addition, there was much general support for the establishment of legal minimum conditions of labour. Conflicts

[1] The cotton textile code had been approved as early as July 9th, and a week later had been extended to the silk, rayon, cotton thread and throwing industries. After the proclamation of the blanket code, other industries reached agreement in rapid succession. The shipbuilding, ship-repairing, and wool textile codes were approved on July 26th, electrical manufacturing and coat suit codes on August 4th, corset and brassiere and lace manufacturing codes on August 10th; theatrical (legitimate) code on August 16th; iron and steel, lumber and timber products, petroleum and fishing tackle codes on August 19th; photographic manufacturing code on August 21st; rayon and synthetic yarn, hosiery, men's ready-to-wear clothing, and automobile manufacturing codes on August 26th; wallpaper, leather, cast-iron and steel pipe and motion picture codes on September 8th; salt industry code on September 11th; bituminous coal code on September 18th; transit industry, underwear, textile bag, artificial flowers and feathers, linoleum and felt base, gasolene pumps and oil burners codes on September 20th. On October 3rd, codes were approved for banks and sixteen other occupations; on October 20th the retail trades, and on October 31st, eight other industries; on November 4th the Stock Exchange came into line. By November 8th, codes had been approved in 100 separate industries.

occurred concerning the observance of the provisions of various codes and, in March 1934, the employers in the automobile and iron and steel industries put up a determined fight against the American Federation of Labour organising trade unions in their industries. Labour conflicts on a large scale were averted on that occasion only by the personal intervention of the President, who arranged a compromise by which the workers became free to choose between the company unions and unions organised independently.

There was much more criticism of the theory and practice of the codes in relation to recovery. The raising of wages and shortening of hours which was immediately put into force as a means of increasing consumers' purchasing power and so leading to revived demand and increasing production, even at the expense of a temporary check to profits, was criticised in some quarters as unsound and likely to impede recovery. Such criticism, it is clear, was not of the codes as a method of regulating industry so much as of the particular way in which they were first applied. The statistical evidence shows, in fact, a marked recession of business activity from the end of July till about the end of November, accompanied by a sharp rise in wage rates, but a slowing-down of the rising tendency in the price-level. While other factors were obviously at work and it would be hasty to assume that the working of the codes was the sole, or even the major, cause of the setback, the coincidence of dates is sufficiently striking to warrant the suspicion that some part of the earlier increase in manufacturing activity had been caused by production in anticipation of regulation (or of inflation) and that the extra costs imposed by the codes and by the agricultural programme were sufficient to accentuate the slackening of output in the autumn.[1] Production did not begin to pick up again until December, when anticipation of higher price-levels was renewed by the increasing discussion of currency devaluation and stabilisation. The increase after December was slower than that between March and July 1933, and at the end of March 1934 production was still substantially lower than at the peak of the preceding July. The cost handicap of the codes is, of course, relative to the price-level and, by setting standards of remuneration and working conditions at a high level, the administration committed itself to raising dollar prices.

In the latter part of 1933, there was discontent in the farming community as the prices of industrial goods produced under the codes rose sharply, while the prices of agricultural products showed a weakening tendency. This discontent, which was

[1] *Cf.* J. M. CLARK: "Economics and the National Recovery Administration", *American Economic Review*, March 1934.

expressed in renewed demands for inflationary measures, was met partly by an attempt to raise the price-level by raising the price of gold; but more by the rapid development of the agricultural programme and by the increasing public expenditure in connection therewith.

The principal legislative authority for the agricultural programme is contained in the Agricultural Adjustment Act and Emergency Farm Mortgage Act. In addition to the provisions by which processing taxes are imposed upon the manufacture of certain important farm products and the proceeds used in various ways to raise their prices, there is an important part of this Act devoted to provisions for the refinancing of farm mortgages.[1] The lightening of the farmers' interest burdens and the relief to house-owners from the comparable provisions of the Home Owners' Loan Act, has brought and will continue to bring about, not only a considerable increase of agricultural net income, but also a liquidation of many frozen assets in banks and financial institutions. In addition, the Farm Credit Act of June 16th was designed to finance cooperative marketing institutions. On September 21st, the Agricultural Adjustment Administration was directed to purchase surplus food and textile products to the value of $75 million for distribution to the unemployed. This procedure was later systematised by the creation on October 28th, of the Federal Surplus Relief Corporation to "purchase... agricultural and other commodities... and to dispose of the same so as to relieve hardship and suffering caused by unemployment, and to adjust the severe disparity between the prices of agricultural products and other commodities." The Commodity Credit Corporation was established on October 6th, "to buy, hold, sell, lend upon, or otherwise deal in such commodities as may seem for the best interest of the recovery programme".[2] Six days later, the Agricultural Adjustment Administration announced its first marketing agreement "designed to secure for growers an increase of from $10 to 12 million in income above what they would have received with prices at the level prevailing prior to September 25th for that part of the flue-cured tobacco crop purchased for domestic use".

These transactions are cited, not as an exhaustive list, but as illustrations of the many ways in which the administration endeavoured to raise agricultural income. The allocation of the proceeds of the processing taxes in pursuance of the plans for restricting production of basic farm products also increased

[1] On November 24th, it was announced that, since May 27th, over $100 million had been lent on farm mortgages.

[2] On November 9th, the Agricultural Adjustment Administration and the Commodity Credit Corporation allotted $150 million for loans on corn stored on farms.

agricultural income.[1] For example, the Secretary of Agriculture announced on July 27th that $127 million would be available as from September 2nd in respect of wheat payments. Such large disbursements, partly from public borrowing, partly from taxation, naturally resulted in a substantial increase of farm income. In 1933, the total gross farm income in the United States was estimated at $6,383 million, as compared with $5,143 million.

The agricultural programme was less successful in raising farm prices and restricting production.[2] Despite large disbursements and such drastic measures as the ploughing under of crops already planted, restriction of acreage was not as great as was hoped, and the least productive land went out of use while the remainder was better cultivated.

Nor were price movements of the staple products, even in dollars, in an upward direction in the latter part of 1933, as is shown by the diagrams on the following page.

Relief to the urban population, apart from the raising of wages and some measure of increased employment under the codes, was given partly by direct relief and partly by public works. In addition to the large programme of public works estimated to cost $3,300 million, provided for in the National Industrial Recovery Act, a naval construction programme costing $238 million was approved on June 15th, and there were other expenditures of a similar character, such, for example, as the $20 million authorised on June 20th for the purchase of forests, the $50 million provided on June 26th by the Reconstruction Finance Corporation for drainage, levee and irrigation works. The launching of the main public works programme necessarily took time; but by October 17th, over $2,000 million had been allotted for various projects and, as this money began to be spent, it contributed markedly to the revival in business activity towards the end of the year.

The comprehensive plan for developing hydro-electric energy and industrialising the whole Tennessee Valley, while at the same time improving navigation, flood control, reafforestation and agriculture, was placed under the Tennessee Valley Authority. Work on this project was pushed ahead vigorously; but

[1] Some of the principal commodities affected are tabulated below:

Commodity	Processing tax	Limitation of acreage sought for 1934 as percentage of 1933 level	Acreage under crop, hectares (000,000's)	
			1932	1933
Wheat	30 c. per bushel	15	23.2	19.2
Tobacco	6 c. per lb.	50	0.57	0.71
Cotton	4.2 c. per lb.	20	14.5	12.2

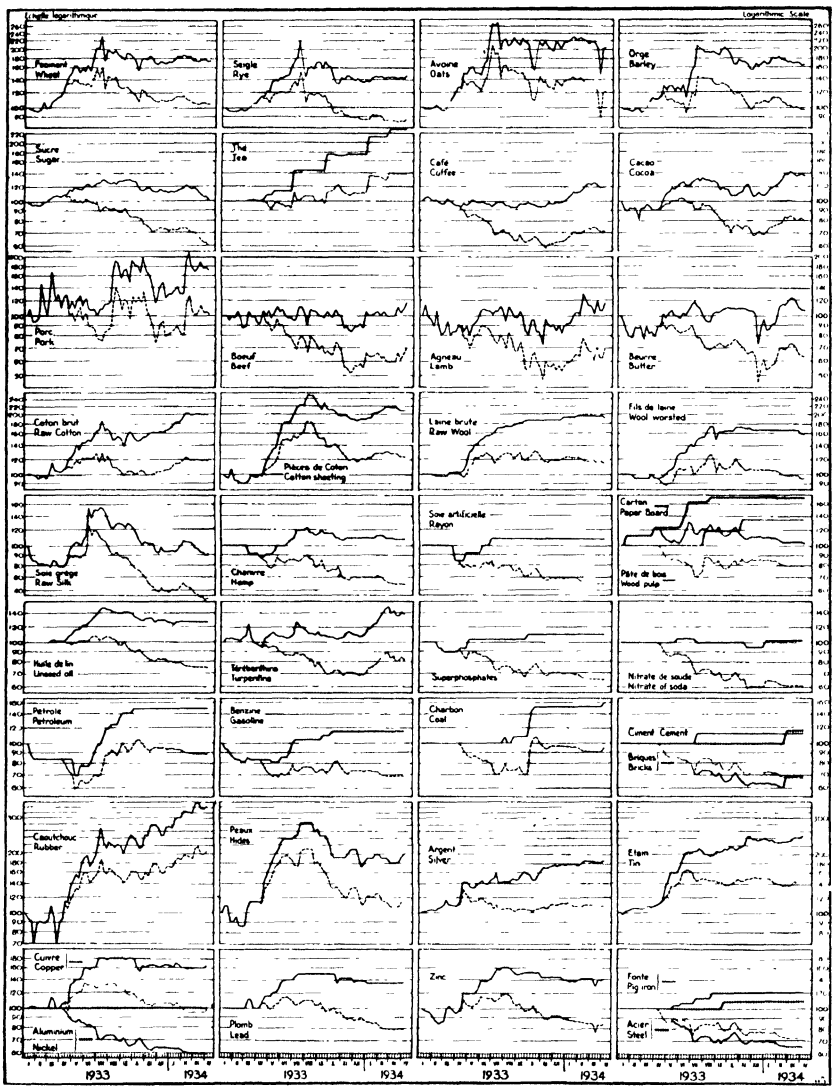
[2] At the end of March 1934, the Bankhead Bill providing for compulsory limitation of cotton production, accompanied by penal taxation on surpluses, was passed by Congress.

Fluctuations in Prices of Certain Commodities in the U. S. A.

(Base: January 7th, 1933 = 100.)

Logarithmic scale.

——— Dollar Prices ..... Gold Prices



the somewhat similar project for the construction, with Canadian co-operation, of the St. Lawrence Waterway and for hydro-electric development in connection therewith was vetoed by the Senate.

In addition to this main programme, more direct relief was given throughout the winter months through the Federal Emergency Relief Administration created on May 12th, 1933, and through a separate body known as the Civil Works Administration. The Civil Works Administration was terminated on March 31st, 1934, and the Federal Emergency Relief Administration took over the responsibility for providing employment for a million and a half workers. Exclusive of this number, the American Federation of Labour estimated the total number of unemployed at the end of March 1934 as nearly ten millions.

The theory behind this type of expenditure was that, in addition to relieving hardship, it would give a stimulus to private business and particularly to the investment industries — that it would "prime the pump" and give an impetus to the recovery that had been lagging between July and November. It was hoped that business activity, once started in this way and supplied with plentiful and cheap credit, would gradually gather momentum and absorb the unemployed so that the relief and public works programmes could gradually be tapered off.

It is obvious that the disbursements made by the Government in connection with the agricultural relief and public works programmes involved a considerable disturbance of budget equilibrium. Such disbursements were regarded as temporary measures necessary to tide over the emergency. While they were in progress, there were many less spectacular but important measures of re-organisation under way, of which perhaps the most important were the re-financing of rural and urban real estate mortgages briefly mentioned above, the work of the Railroad Transportation Administration, and the re-organisation of the banking system which is described later. The immediate effort in the latter part of 1933 and the early months of 1934, however, was to break through the lassitude of the markets and stimulate economic activity by spending freely large sums raised upon the public credit. On January 4th, the President sent to Congress his annual budget message, in which he estimated the cost of the domestic programme. The figures were very large and indicated, *inter alia*, the necessity for borrowing $10,000 million during the next financial year. It was estimated that, by July 31st, 1935, the total of the public debt would amount to $32,000 million, as compared with less than $17,000 million in 1929. However, the abundant credit and easy financial conditions prevatogiling, ether with the increased

control of the Government over the banking system, and the lack of commercial borrowers, facilitated the floating of loans upon the market and no great difficulties were experienced.

Meantime, despite the liberalising of the banking system and the extraordinary measures taken to offer credit facilities to industry, the index of production, which had risen from 54.1 in March to 90.1 in July, declined to 64.9 in November. Until the public works expenditure began to take effect towards the end of 1933, business activity tended to decline and the average level of prices drifted downward from its peak in the autumn. The banks were more liquid, abundant credit was available and rates of interest were low; but industrial investment was stagnant. This stagnation was probably due in part to the strict provisions of the Securities Act passed on May 27th and, at a later stage, to the threat of impending legislation restricting stock exchange dealings.

The measures taken to stimulate a rise in prices by depreciating the dollar took effect, after an uncertain lag, in lower exchange rates; but the chief result at first seems to have been to force a lowering of commodity prices in terms of gold, rather than to raise prices in terms of the dollar. There were certain exceptions, as in the case of wool and rubber, where the world level of prices rose sharply, and petrol, wood-pulp, tea and tin, where restriction of production became effective. The average level of prices rose slowly after July, but important commodities, like wheat, sugar and, to a less extent, cotton, lagged behind. From the low point in February 1933 to July, average prices had risen more than 15 per cent; but after July the rise slackened and a falling tendency set in during October and lasted until January 1934, after which the upward movement was resumed.

By the end of March, however, the rising tendency was accelerated and there was much evidence that index-numbers, in which foodstuffs and raw materials were heavily weighted, under-stated the full extent of the rise which had taken place over a great range of finished manufactures, such as clothing and automobiles.

The re-organisation of the banking system is more conveniently described in a later chapter and it is necessary here merely to mention some of the principal developments. The re-opening of the banks after March 10th proceeded steadily, and by the end of June 1933 the number of banks open was 14,530. The liquidity of these banks, after a brief period in which the effects of the breakdown were on the whole deflationary, was greatly improved and credit conditions were rendered still easier by renewed open-market operations on the part of the Federal Reserve Banks. There was no lack of credit facilities.

The Movement of Prices in the United States
January 1933 - March 1934.

(Base: Average 1932 = 100.)

Year	Average of wholesale prices	Wheat	Cotton	Sugar	Wool	Rubber	Petrol	Tin
1933								
January	94	92	97	92	95	88	72	103
February	92	96	94	94	94	85	64	107
March	93	104	99	102	92	88	64	111
April	93	128	109	106	97	101	64	124
May	97	149	134	112	124	133	58	164
June	100	147	147	117	149	158	62	201
July	106	187	167	119	168	200	80	211
August	108	168	148	118	177	187	96	203
September	109	164	150	123	185	188	110	211
October	110	158	149	114	195	197	116	218
November	110	166	156	109	195	223	121	242
December	109	157	158	110	200	237	121	241
1934								
January	111	166	173	109	200	250	121	237
February	114	174	191	114	200	278	116	236
March	114	168	191	105	199	296	116	242

The second half of 1933, indeed, provided a remarkable demonstration of the difficulty, despite the invention of new credit machinery, of forcing an expansion of credit at a time when industrial profits are handicapped. The slowness with which the cheaper credit took effect, and the consequent multiplication of agencies for Governmental lending and expenditure, carried with them the danger that, when prices ultimately began to move rapidly upward, it might prove difficult to control inflationary tendencies.

In the course of the efforts by Governmental action to expand credit and so raise prices and stimulate business, the Government steadily increased its control over the credit mechanism. The Reconstruction Finance Corporation was enlarged and recapitalised, many new credit institutions were created, the field of commercial banking was entered by the purchase of preferred stock in many of the existing banks, including some of the large New York institutions. The Federal Reserve Board was closely associated with the Reconstruction Finance Corporation and co-operated closely with the monetary policies pursued by that body and the Treasury. Finally, the Gold

Reserve Act of January 31st, 1934, gave considerable power to the Treasury to manage the currency, at the same time vesting the title to all the country's gold reserves in the Government. A Presidential proclamation followed, re-valuing the reserves at the new parity.

At the time of writing (the end of March 1934), it is too early to estimate the effects of the recovery programme. There has been some rise of prices, agricultural income has substantially increased, industrial production also has increased again, but at the end of March was still well below the peak reached in July 1933. Unemployment had somewhat diminished, but was still very great. Private enterprise, apart from the stimulus imparted to certain industries by the expenditure on public works, was nervous and hesitant, while the security markets were fearful of impending legislation and new capital investments were slow. Recovery, while substantial if measured from the low levels of March 1933, had been uneven and was by no means complete. Public expenditure remained high and the first attempts at curtailing relief had evoked strong protests, while the budget had been further unbalanced by the action of Congress in restoring part of the cuts made in pensions and civil service salaries over the President's veto.

The Renewal of International Strain.

The summary statistics that are available indicate that, judged by such indicators as the volume of production, the amount of unemployment, the average level of prices and the value of exports, there was a widespread recovery in 1933 as compared with 1932. The statistics of international trade, however, lagged behind and it was significant that the quantum of exports did not revive nearly as much as production. Moreover, the wide variations disclosed in the degree of recovery in particular countries suggest the probability of strained international economic relations. Statistics of national income for 1933 did not show a recovery nearly as great as that registered in production.

The restrictions which still hamper world trade are widely recognised as presenting a considerable obstacle to recovery. Such recovery of production as was witnessed during 1933 was distinctly of a national character. If the quantum of world trade and of world production are compared, the movement is very clear.

World Trade and World Production 1929-1933.
Quantum Indices.

(Base: 1928 = 100.)

Year	World trade[1]	Industrial production[2]	Production of raw materials[3]	Production of foodstuffs[3]
1929.	105	107	107	100
1930.	97	94	98	101
1931.	90	83	88	99
1932.	78	73	78	101
1933.	79	82	85	100

[1] League of Nations: *Monthly Bulletin of Statistics*, March 1934, page 97.
[2] Institut für Konjunkturforschung: *Vierteljahrsheft zur Konjunkturforschung*, 8-B-IV.
[3] League of Nations: *World Production and Prices* 1925-1933.

Though the volume of industrial production in 1933 rose by about 12½ per cent compared with 1932, the quantum of trade rose only by 1 per cent. The significance of this development is enhanced by the fact that the basic trade in raw materials and foodstuffs has been on the whole less restricted than the exchange of manufactured articles. The specialised interchange of manufactures is much more hampered, and recovery in this field has been primarily caused by a revival of national markets without a corresponding increase of international trade. The extent of that recovery in some of the principal countries for which indices of production are available is shown in the table below:

Indices of Recovery in Various Countries.

(Base: March 1932 = 100.)

Country	Production March		Unemployment March		Prices March		Export values March	
	1933	1934	1933	1934	1933	1934	1933	1934
Austria	84.7	96.2	109.2	96.6	94.7	100.0	93.5	121.6
Belgium . . .	103.5	103.0	(*a*) 123.9 (*b*) 97.5	111.8 94.9	92.0	87.2	95.8	100.9
Canada	81.3	119.6	103.6	116.7	93.2	104.2	92.0	145.1
France	107.1	107.1	(*c*) 103.6 (*d*) 102.6	114.0 109.2	87.8	88.7	88.3	86.6
Germany . . .	105.7	120.8	92.8	46.4	91.3	96.1	82.5	77.7
Japan	107.6	119.6	89.6	81.2	111.1	111.9	145.6	178.9
Poland	87.9	116.4	77.7	107.9	88.1	84.4	78.3	90.9
Sweden	89.0	107.0	123.0	99.0	96.3	102.8	111.6	153.0
United Kingdom	99.8	116.7	(*a*) 103.4 (*b*) 119.7	85.4 74.2	93.2	99.1	104.3	106.0
U.S.A.	89.6	125.4	114.5	95.6	91.2	111.7	70.2	123.8

(*a*) Wholly unemployed. — (*b*) Partially unemployed. — (*c*) In receipt of benefit. — (*d*) Applications for work.

It is clear from this table that the pace of recovery has varied greatly. The outstanding increases of production are in Japan, Germany, the United States and Sweden. Unemployment has diminished most rapidly in Germany, Japan, the United Kingdom and the United States. Prices have risen most (in terms of the national currencies) in Austria, the United States, Japan and Germany. All of these countries, except Germany, are off the gold standard and, while there has been a substantial recovery of production in some of the gold-standard countries also, notably in France and Poland, it seems clear that expansion of credit, together with exchange depreciation have, temporarily at least, placed the countries which have abandoned the gold standard in a relatively more favourable position. The export statistics bear out this conclusion. Of the countries cited, Japan had the largest expansion of exports (measured in

The Value of Exports in National Currencies compared with Domestic Price Movements 1930-1933.

(Base: Average 1929 = 100.)

Country	Currency depreciation from former gold parity in 1933	Value of exports				Wholesale prices			
		1930	1931	1932	1933	1930	1931	1932	1933
Australia	46	94	94	99	116	89	79	78	78
South Africa [1]	32	86	74	72	99	89	86	79	79
Japan	60	68	53	65	87	82	70	73	82
New Zealand	45	82	63	65	75	97	90	87	88
Denmark	44	94	78	67	71	87	76	78	83
Sweden	36	86	62	52	60	87	79	78	76
U.S.S.R.	[2]	112	88	61	54	.	.	.	.
Argentine	41	64	67	59	52	96	92	93	89
United Kingdom	32	78	53	50	50	88	76	74	74
Canada	27	75	51	42	45	91	75	70	70
India	32	78	51	42	45	82	68	65	62
Belgium	.	82	73	47	44	87	73	62	58
Italy	.	80	67	45	39	86	74	68	63
China	50 [3]	88	90	49	39	110	121	108*	99
Germany	[4]	90	73	45	39	91	81	70	68
France	.	85	61	39	37	88	80	68	64
Netherlands	.	86	66	43	37	82	68	56	52
Switzerland	.	84	64	38	36	90	78	68	64
Netherlands Indies	.	80	52	38	34	91	71	58	50
U.S.A.	19	73	46	31	33	91	77	68	69
Spain	57	109	46	35	32	100	101	99	.

* Ten months.
[1] Exports include gold.
[2] Nominal parity retained for external trade.
[3] Silver standard. Average exchange rate 1929 = 100.
[4] Nominal parity retained, except for the use of blocked marks.

national currency) in 1933. Statistics of international trade are available for many more countries and the following table, which ranks the countries in order of the proportion which their exports in 1933 bore to their exports in 1929 (measured in national currencies) shows that the receipts of the paper currency countries from international trade were clearly greater on the whole than those of the gold-standard countries. Since paper prices have nowhere moved upward far enough to counteract the differences shown in the export values, there has obviously been a considerable shift of the export trade in favour of the countries with depreciated currencies.

While a great many other factors, both national and international, need to be taken into consideration before any important conclusions are drawn from the facts cited above, it is clear that the recent dislocation of the foreign exchanges has considerably altered the financial and economic relations of the principal trading countries. Setting on one side such important national considerations as the effect of currency depreciation upon the distribution of wealth, and monetary stability within a particular country, export values and wholesale prices are not in themselves sufficient criteria upon which to judge movements in international economic relations. International economic equilibrium is an elusive conception and many factors influence the shifting relations of two or more countries. In the discussion which follows, the movements in recent years of some of the more important of these factors — exchange rates, interest rates, wholesale and retail prices and wage rates — are measured. Interest rates are represented by bond yields, and prices both by the wholesale prices of an identical group of twenty-five important commodities which are commonly used in all the countries considered,[1] and by cost-of-living index numbers; but it is difficult to get accurate indications of changes in the labour cost of production and nominal wage rates are not conclusive in this connection.

The important fact must be emphasised, moreover, that the conception of normal or natural, and therefore stable, equilibrium is purely theoretical. The statistical movements of these factors in international economic equilibrium are given quarterly for the years 1929 to 1933; but it should not be inferred that the position in 1929, or at any other date, is regarded as one of stable equilibrium. The calculations cannot therefore be construed as proving that the exchange rates at any particular

[1] *Monthly Bulletin:* London and Cambridge Economic Service, December 1933. Similar calculations are not available in the case of Japan, for which a special index has been constructed which is weighted by a greater proportion of domestic products and therefore under-estimates the rise in raw-material prices in that country.

moment were in a position at which stabilisation might easily have brought about a workable equilibrium. All that they show is the extent to which the relative movements of the factors considered diverged from time to time.

All of these factors are measures of prices and costs and their divergent movements alone are sufficient to make clear the futility of attempting at such a time as the present to find an equilibrium position by calculating the purchasing power parities on a basis of exchange rates and average wholesale prices. The conception is too simple. This, however, is not a conclusive argument against stabilisation at any particular parity; but merely a statement of the fact that the experience of the past year or two shows that there is no parity, or set of parities, which can be regarded as satisfying equilibrium requirements without involving readjustments of certain categories of national prices. Even if all countries but one were to maintain stable exchanges until that one country found a set of exchange ratios which appeared to suit its national needs, it would still be necessary to bring the different sorts of prices within that country into harmony with the new exchange ratios and with each other.

The diagrams in which the movements of these various indices are set out are based upon 1929. For each pair of countries, the index numbers of each factor considered were equated to 100 in 1929. The curves therefore show the relative divergence in each case from the 1929 levels. Exchange rates are reversed in order to make the graphs easier to read. Theoretically, all the curves should move in the same direction and in approximately the same degree if the 1929 relationships were to be maintained. Thus, in the second graph, as the exchange rate fell after 1931, prices, wages and interest rates should have fallen in France (or risen in the United Kingdom) sufficiently to bring the ratios down to the new exchange levels. Actually, the only sort of prices which showed any tendency to follow the exchange rate were the prices of raw materials and the fall in these prices was less than half the fall in exchange. Food prices, and with them the cost of living and wages, actually went up in France compared with the United Kingdom, obviously because of tariff protection and quotas. Even more striking is the movement of the long-term rate of interest, the ratio of which fell from the 1929 levels in France's favour until the United Kingdom abandoned the gold standard, and thereafter rose sharply.

The advantage gained by the United Kingdom from the cheapening of long-term interest rates in that country is illustrated even more clearly by the second diagram, which

compares the movements in the United States and the United Kingdom. Between September 1931 and the middle of 1933, the prices of raw materials, wages and the cost of living were relatively higher in the United States than the exchange rate or the prices of foodstuffs; but in the last half of 1933, after the depreciation of the dollar, the curves converged, indicating that, with the exception of interest rates, the 1929 relationships had been restored. The continued depreciation of the dollar (*vis-à-vis* sterling) in the last quarter of 1933 and the first quarter of 1934, caused a fresh divergence from the 1929 ratios, this time in favour of the United States.

In the diagram showing comparisons between France and the United States, the effect of French agricultural protection in raising the prices of foodstuffs is even clearer. After the dollar depreciation, raw material prices as well as prices of foodstuffs showed some tendency to fall; but the gap between their movement and the exchange rate widened and, in addition, France lost the advantage of relatively cheap long-term interest rates.

The comparisons between France and Japan again demonstrate both the gap between the exchange rates and price movements and also the cheap money advantage that accompanies the first stages of currency depreciation.

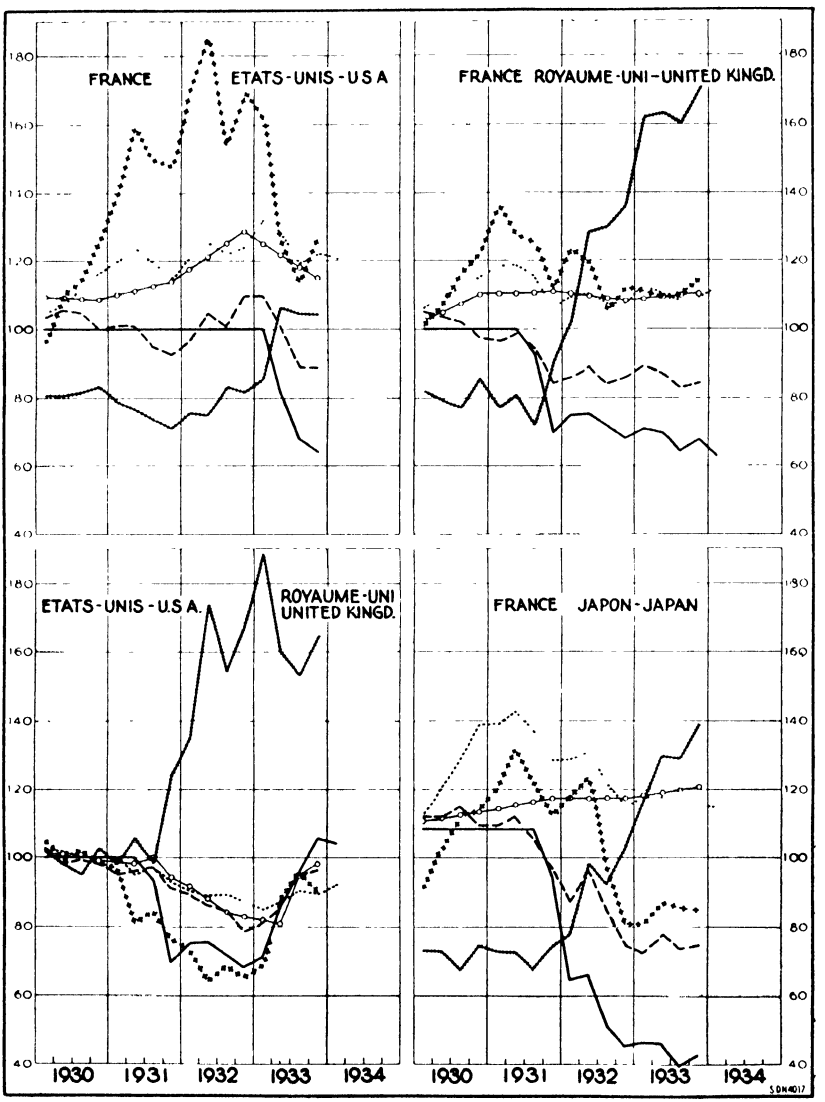
If no other elements entered into the situation, as in fact they do, the following diagrams, showing for several countries the divergent movements of exchange rates, wholesale prices of different kinds of commodities, costs of living, wage rates and bond yields, would clearly prove that, at any exchange rates that might be chosen, adjustments would have to be made in the relationships of these prices to one another within the different countries. International equilibrium, in other words, is not static but dynamic. It can be maintained only by flexible adjustments of the price structure as occasion demands, or, as at present, by quantitative controls and fluctuating exchanges involving the reduction of international transactions to a regulated minimum. The price of freedom in international economic transactions is willingness to accept the adjustment of national prices and economic activity to the changing necessities of economic progress.

The diagrams, therefore, are given merely to show the divergent movements of certain price indices during the depression. To obtain a complete statement of the factors entering into international equilibrium, they ought to be supplemented by quantitative as distinct from price measurements. In particular, such important developments as changes in the efficiency of labour (which have been considerable) and of

The Comparative Movement of Prices, Wages, the Cost of Living, Bond Yields, and Exchange Rates, March 1930 - March 1934.

(Base: 1929 = 100.)

——— Exchange Rates
---------- Wholesale Prices of Raw Materials
++++++++ Wholesale Prices of Foodstuffs
Cost of Living
o—o—o—o Wage Rates
Bond Yields



management, as well as quantitative trade restrictions, should be considered. Under a régime of freer trade and fixed exchanges, international transactions used to be kept in approximate equilibrium by shifts in relative prices which induced alterations in the flow of goods and services from one country to another. When that flow is restricted and regulated by quantitative controls, prices may, and do, diverge considerably in different countries.

At this point it is perhaps necessary to illustrate the importance of the factor of labour cost in the intricate set of factors which affect international equilibrium. In order to make this point clearer, the statistical material available in Germany and the United States had been used to compile the following diagram, which refers to industrial production.

Reading from the bottom upwards, the curves show first the quantitative indices of industrial production (unadjusted for seasonal fluctuation) quarterly from 1929 to the end of 1933. The middle curves offer a rough indication of the average movement of labour efficiency in the two countries. They represent an index obtained by dividing the quantum of production by the number of man-hours worked, thus giving an indication of the quantity produced per man-hour. If seasonal movements are disregarded, it is clear that labour efficiency in both countries increased throughout the depression until during 1933 special labour regulation seems to have caused a downward trend. The upper curves represent a rough measurement of the movement of labour costs per unit of production, obtained by dividing the indexes of aggregate earnings of workers engaged in industrial production by the indexes of industrial production. This gives an indication of the monetary labour-cost per unit of production.

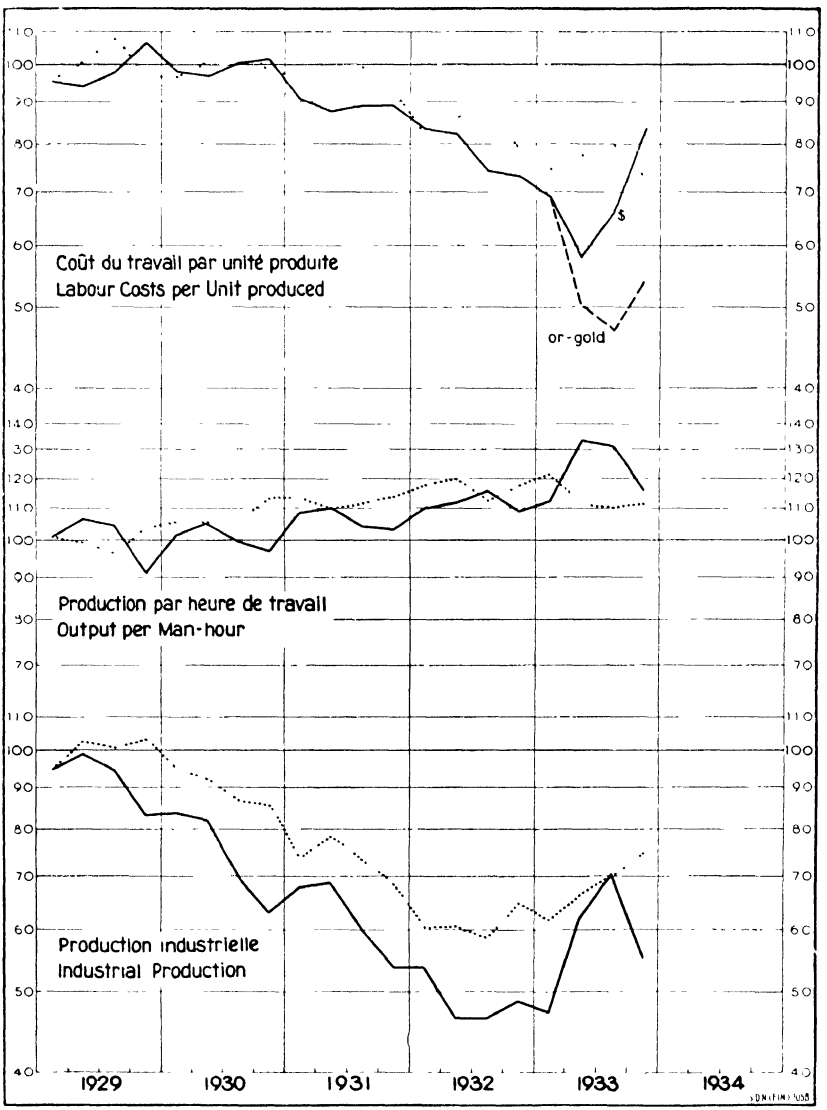
All the curves are drawn upon the basis of the average index for 1929 in each country being taken as 100. They do not compare absolute costs between the countries, but merely the relative movements in each since 1929. Even before the departure of the United States from the gold standard, the index of labour costs per unit of production showed a distinct tendency to fall more rapidly in that country, a movement evidently due to wage reductions, since the index of output per man-hour did not increase faster than in Germany. After the first quarter of 1933, comparisons become difficult. In terms of the new dollars, labour costs in the United States at first fell sharply, but after the middle of the year they moved up rapidly. The fall, in terms of the former gold dollars (which was of course identical with the fall measured in the official value of the Reichsmark) was greater in the first three quarters

Fluctuations in Relative Labour Costs in Germany and the U.S.A. 1929-1934.

(Base: 1929 = 100.)

Logarithmic scale.

Germany ——— United States



of 1933, and the rise in the last quarter was less, than in terms of the new dollar currency; but, even measured in this way, it is clear that labour costs tended to become relatively higher in the United States after the industrial codes became effective. This increase of American labour costs has been a powerful factor in counteracting the strain upon the European gold countries that followed from the depreciation of the dollar.

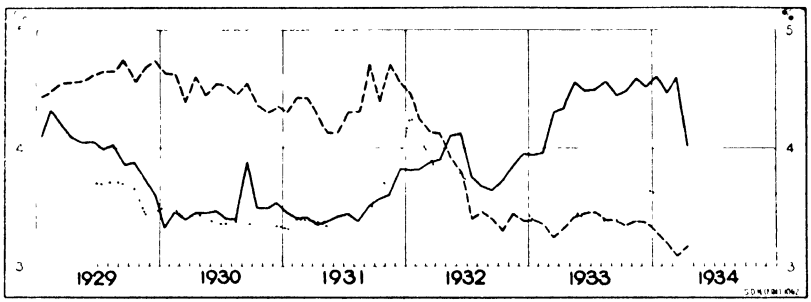
In the case of Germany, there is of course the complicating factor of the depreciated blocked marks; but it is difficult to establish an index showing the true average of their depreciation and still more difficult to estimate its total importance in the export trade of Germany. If account could be taken of this factor, and labour costs in the United States could be converted into terms of a monetary unit representing both the nominal parity of the Reichsmark and the depreciated blocked marks, combined in the proper proportion, the curve would fall between those representing the present dollar and the old gold dollar; but probably nearer the former than the latter.

The main point revealed by these calculations, however, is the tendency towards a sharp increase of labour costs per unit of production in the United States in the latter part of 1933.

Apart from the divergent movements which these tables and diagrams record, there was much evidence in the march of events during the latter part of 1933 and the early part of 1934 of a renewal of international strain. The most spectacular evidence was the drain of gold to the United States in February and March 1934 and the subsequent weakness both of the sterling group of currencies and of the gold currencies. The Czechoslovak devaluation on February 17th, the renewed weakness of the German blocked marks in February and March, and the strenuous efforts at budgetary and general economic deflation in France, which caused a renewal of the downward tendency of prices in that country, offered further evidence of strain. At the beginning of April there were forward discounts on most of the gold currencies. Italy's reserves of gold and foreign assets fell again in the first three months of 1934. The lira was weak for a time, but, on April 14th, a decree was issued stipulating reductions of wages, rents, prices and taxes in an effort to restore equilibrium. The exchange available for imports into Germany had been reduced and discussions had been opened between the Reichsbank and German long-term creditors with reference to a possible transfer moratorium. The yield on Government bonds, which had shown a distinct tendency to converge in the latter part of 1932, when exchange rates were relatively stable and there was some evidence of the depression recovering from its lowest point, were again diverging.

The Movement of Bond Yields, 1929-1934.

——— France
---------- United Kingdom
United States



Early in March 1934, the Monetary Committee of the International Chamber of Commerce issued a strong plea for currency stabilisation in the near future.[1] This plea was based upon the double assumption that a certain "*de facto* equilibrium" had been established; but that "a new wave of currency instability" was a contingency to be avoided. In support of the first assumption, it was stated that "it may be said with some confidence that a certain natural equilibrium has established itself, in virtue of which costs and prices, in those countries in which they were previously most out of line with one another, have become more adjusted than at any time since the onset of the world depression". Such a statement obviously depends upon the definition of "natural equilibrium" and the basis taken for comparison.

It must, moreover, be read in conjunction with the Committee's own qualification that "the improvement in the foreign trade position of individual countries off the gold standard has, in effect, been attained by the tacit acquiescence of the countries still remaining upon gold".

The statistics cited above are not necessarily in conflict with the collective opinion thus expressed by the Monetary Committee of the International Chamber of Commerce. All that they show are divergent movements of exchange rates, prices, wage rates and interest rates during the depression period, and it may be argued that these divergent movements have merely corrected previous disequilibria. They cannot be used either to measure the extent of disequilibrium at the

[1] *World Trade*, April 1934.

present moment nor to support, except indirectly, arguments for or against immediate currency stabilisation.

The renewal of economic strain in the early part of 1934 was, however, evident in recent happenings, and was clearly recognised in the emphasis laid by the Monetary Committee of the International Chamber of Commerce upon the undesirability of any further important defections from the gold standard. It was not possible in the early part of April to foresee the developments of prices and costs in the various countries, or to judge the immediacy of the danger, pointed out by the International Chamber, that further abandonment of the gold standard might cause a new wave of currency instability.

Chapter II.

THE CHANGING ECONOMIC ORDER.

The Historical Background.

In every great economic depression, the successive phases, greatly as they may differ in detail and in amplitude, follow the same pattern of boom, crisis, panic, adjustment and recovery. In many respects, this sequence resembles that of a great seismic disturbance. Preliminary tremors give warning of hidden structural instability which may be local and transient, or part of a great fundamental process of change. Suddenly, there is a crack which dislocates established relations, followed by a series of consequential and compensatory convulsions; but gradually the economic, like the physical, world settles down, at least temporarily, to a new equilibrium, and men begin to build again. It is of some importance to attempt as soon as possible to distinguish the transient phenomena of the depression from those which are likely to have more lasting consequences. The history of previous depressions leads to the conclusion that the economic world which emerges from a major disturbance of this character is considerably modified. The analogy with seismic upheavals fails, however, at this point. After an earthquake, there is little that man can do to affect the underlying physical structure. Something may be done to adapt building methods to the new situation; but the essential problem is one of conforming to natural developments.

It may, indeed, be argued that the universality and persistence of some recent phenomena constitute natural modifications of economic structure to which future human activity must conform in the long run. The widespread and marked fall of the birth rate in highly industrialised countries and the increased pace of industrial development in hitherto backward countries seem likely to remain, not only as facts of recent experience, but also as continuing tendencies. The extent to which such forces can be controlled or counteracted by conscious intelligence is a subject of much controversy; but, in the last analysis, the organisation of human and material resources gives a good deal of scope for conscious control.

Largely because of this important element of conscious control in economic organisation, great caution is necessary in the use of historical analogies. There are many tempting

comparisons possible with past depressions, particularly in periods when the average index of prices has fallen to lower levels by a series of crises.

Some economists would go so far as to describe the alternation of periods of rising and falling prices since the beginning of the 19th century as "long-period cycles of fluctuation".[1] In this view, the recent depression is characteristic of a new period which, it may be expected, will be marked by a long-term downward trend of the price-level, punctuated by severe depressions, until the re-organisation of industry, in accordance with the new productive methods and with lower price-levels, ultimately results in the inauguration of another period of rising prices.

While it is advisable, in any consideration of the broader aspects of the present situation, to recall the undoubted fact that there has in the past been this definite alternation of long-period trends in the price-level, it is hazardous to project such a trend in the future. It is known that the average level of prices trended downward from 1815 to 1850, upward from 1850 to 1873, downward from 1874 to 1896 and upward again from 1896 to 1919 or possibly 1929. Even though the turning-points are not clearly indicated and differ from country to country and from one industry to another, there is no doubt as to the sharp contrasts between these periods as a whole — particularly as regards the greater intensity and longer duration of short-period depressions while prices had a downward tendency.

A slightly different emphasis is laid on the historical facts by those economists who point out the sequence of primary and secondary depressions which has in the past followed all great wars. There is much agreement between this explanation and that advanced by the proponents of the long-term cycle theory. In each case the cause of the depressions is regarded as "consisting of a great series of major maladjustments between production, demand, and the flow of credit, complicated by difficulties caused by the burden of existing debts". But there are many economists who emphasise the fact that "sudden and great advances in the general levels of commodity prices have seldom come in most modern nations, except in time of war". Therefore they regard the depressions which began in 1920 and 1929 as the inevitable consequences of the war of 1914-1918. For them, "the true lesson of this depression is that we cannot afford any more great wars".[2] All economists would probably agree with this conclusion; but some might add that the world

[1] François SIMIAND: "Les fluctuations économiques à longues périodes et la crise mondiale", Paris, F. Alcan, 1932.

[2] Leonard P. AYRES: "The Economics of Recovery", Macmillan, London and New York, 1933.

cannot afford any such considerable disturbance of the price structure, whether caused by war or by any other set of causes. Whatever the emphasis given, there are evidently impressive historical analogies that may be drawn, especially from previous post-war periods.

The deductions to be drawn from these historical facts, however, must of necessity be cautious. It is conceivable that another period of falling prices, marked by a succession of severe crises, was ushered in by the recent post-war depressions, and this possibility may well appear almost irresistible to those students who regard economic forces in the mass as subject to a species of natural law which pays scant regard in the long run to human control. It appears certain, however, that, in the present temper of society, more strenuous efforts at such control are probable than at any time in the past. It is clear also that, in view of the great changes not only in technical processes, but also in commercial and financial organisation in recent years, whatever tendencies are manifested will not take the same detailed form as in previous periods which were apparently similar.

In the discussion which follows, however, no attempt is made to do more than analyse some developments of the recent past. Inferences concerning the possible or probable effects of those developments in the near future are studiously avoided. All that can be said with certainty at the present time is that, during the depression, the developments occurred which are recorded below.

The Uneven Growth of Population.

The main drift of population change in the recent past is now well known and does not require more than brief recapitulation. After a prolonged period of rapid increase, rendered possible by the greater command over natural resources in the period of the Industrial Revolution, the populations of the industrialised countries of Western Europe appear to be stabilising. Peoples which doubled and even trebled in numbers during the last hundred years find their rate of increase falling and are even faced with prospective decreases in the near future. The primary cause of this change lies in the persistent falling tendency of the birth rates. The time at which the birth rate began to fall differed from country to country, and the fall has varied greatly as between groups within each country; but within the last fifty years the falling tendency has become practically universal in Western and North-Western Europe.

Of more significance than the fall in the crude birth rates is the fact that the principal underlying cause of the decline is a marked decrease of fertility among the women of child-bearing ages. Since the effect of past declines in the number of births is temporarily to swell the proportion of the population which is within the child-bearing ages, the full significance of the decline in fertility has not yet been reflected in the crude birth rates calculated as the proportion of births to total population. When, in due course, a more normal age-grouping is again achieved, the reduced fertility among women of child-bearing ages will be more clearly evident.

In order to draw attention to this important fact, statisticians have recently begun to calculate what are called "rates of reproduction", in an effort to show how present tendencies are likely to affect the future size of populations. Upon the assumption that the fertility rate does not increase from its present level, while at the same time the death rate continues as at present, it can be shown that the population of Western and Northern Europe is not now producing enough babies to provide for the maintenance of the present number in the next generation. In other words, upon the assumptions stated, the population of Western and Northern Europe will begin to decrease within the near future.

While there may reasonably be some hesitation in accepting this development as inevitable, and any actual decrease of population may be deferred much later than some forecasts portend, the undoubted fact that the population increase in this area is slowing down is of immense economic importance. It is at least clear that the rapid expansion of numbers upon which the "accelerating capitalism" of the 19th and early 20th century was based belongs to an era that has passed. The populations of Northern and Western Europe have arrived at a condition of at least temporary stability and maturity.[1]

[1] The following table illustrates the slowing-up of the Northern and Western European populations in recent years:

Country	Birth rate 1871-1880	Death rate 1871-1880	Rate of natural increase 1871-1880	Birth rate 1926-1930	Death rate 1926-1930	Rate of natural increase 1926-1930
Belgium	32.7	22.9	9.8	18.6	13.7	4.9
Denmark	31.5	19.5	12.0	19.4	11.1	8.3
Finland	37.0	22.2	14.8	22.5	14.8	7.7
France	25.4	23.7	1.7	18.2	16.8	1.4
Germany	39.1	27.1	12.0	18.4	11.8	6.6
Irish Free State	29.1	20.5	8.6	20.1	14.4	5.7
Netherlands	36.4	24.3	12.1	23.2	9.9	13.3
Norway	31.1	17.0	14.1	18.0	11.0	7.0
Sweden	30.5	18.3	12.2	15.9	12.1	3.8
Switzerland	30.7	23.4	7.3	17.6	12.1	5.5
United Kingdom	35.6	21.4	14.2	17.2	12.3	4.9

What is true of the big industrial countries of Western Europe in this respect is equally true of all countries, in Europe and elsewhere, in which the urban, industrial civilisation of modern times has been highly developed.

While there is still a high birth rate in many of the countries of Eastern and Southern Europe and the fertility of the population remains high, the same tendencies are at work as in the neighbouring States and the differences are largely the result merely of a time-lag. Thus, while the crude birth rate (the number of births per 1,000 of the population) in the years 1921-1925 was below 20 only in Sweden, France, Switzerland and Estonia, in the succeeding quinquennium, 1926-1930, Germany, Austria, Belgium, Denmark, Norway and the United Kingdom were added to this list, while Finland, Latvia, the Netherlands and Czechoslovakia were all below 25, with their rates steadily falling.

There is a marked falling tendency even in the countries where rates remain relatively high. Comparing 1921-1925 with 1926-1930, the average rate fell from 39.0 to 33.1 in Bulgaria, from 29.8 to 28.5 in Spain, from 29.4 to 26.0 in Hungary, from 29.7 to 26.8 in Italy, from 35.1 to 32.2 in Poland, from 37.9 to 35.2 in Roumania, and from 35.0 to 34.2 in Yugoslavia. The experience of the Western European countries indicates that when once this decline starts it becomes cumulative.

In the countries outside Europe which are European in their civilisation, the same forces are very clearly at work. Because of the heavy immigration to these countries until recent years, the age-grouping of their population was rather heavily weighted in the reproductive age-groups in the last generation, but even so the birth rates were low and falling.[1] In some respects, indeed, the developments in these countries may prove to have anticipated those of Europe. In New Zealand, for example, the birth rate in 1926-1930 was 19.7 per thousand, which was lower than that of most European countries; but the death rate was exceptionally low (8.6 per thousand), largely because of a very low rate of infant mortality.[2] The rate of natural

[1] *Cf. e.g.* the movement of the rates in the following countries:

Country	Birth rate per 1,000. 1921-1925	1929	1933
South Africa *	27.1	26.1	23.7
Canada	27.4	24.1	22.4**
United States	22.5	19.7	17.4**
Chile	39.4	41.6	33.5
Uruguay	25.8	24.7	22.5**
Australia	23.9	21.0	16.8
New Zealand	22.2	19.7	16 6

* South Africa: white population.
** 1932.

[2] The average rate in 1926-1930 was 37 per 1,000 living births compared with Norway 49; Australia 52; Iceland 53; Switzerland 54; Holland 56; Sweden 58; South Africa 67; U.S.A. 68; United Kingdom 70; France 89; Germany 94; Italy 119. The New Zealand rate fell steadily further till it reached 31 in 1932.

increase of the population (11.1 per thousand) was therefore comparatively high, and the age-grouping of the population showed a proportion of children more comparable with that of the expanding populations of Southern and Eastern Europe than with that of the more stable populations of the industrialised countries. While it is conceivable that a heavier weighting of the older age-groups in New Zealand may bring somewhat higher death rates in future, the reduction that has already taken place in the rate of infant mortality is sufficient to assure an expanding population in the next generation even with the present relatively low birth rate. Such a development is sufficient to cause hesitation before accepting too readily the predictions that the European populations will shortly begin to decrease.

When attention is directed to the countries which are further removed from the European civilisation, there is difficulty in securing exact statistical measurements, except in Japan.

The slow but almost relentless development of population movements when once a cycle of change is initiated is particularly well illustrated by the case of Japan. The birth rate in that country increased with exceptional rapidity from about the year 1890; but the effect of the increase did not become noticeable in so far as the labour supply was concerned for more than another decade. Since the early years of the 20th century, however, the pressure has been cumulative. Increasing numbers have been available in the labour market and, as the increasing population moved up into the reproductive ages, the number of babies born has increased from year to year. Expert observers state that, since about 1908, there has been a slight tendency for the fertility rate to decrease. In 1933, for the first time in many years there was a substantial fall in the number of births registered. It is probable that the check to fertility and a more normal age-grouping will before long begin to slow up the rate of increase; but in the meantime the babies are already born who will increase the working population of Japan by at least ten millions between 1930 and 1950. [1]

There are parts of China and India where the same processes of population growth are evident in a less marked degree. Coastal towns or manufacturing areas in which, by greater productivity, a temporary surplus over subsistence arises, experience an increasing tendency in the population which, once started, runs its course through several decades. Wherever the

[1] TEIJIRO UYEDA: "Future of the Japanese Population", Japanese Council, Institute of Pacific Relations, 1933.

economic limits to survival are lifted in Asia, whether by the exploitation of mineral resources in Malaya, or by agricultural development in Manchuria or the Netherlands East Indies, the immediate result is an increase in the population. There are large areas, however, in which population is increasing slowly, if at all. In their case the limiting factor is not human control of the birth rate as in Western Europe, but economic necessity. Between these extremes are the peoples which, like those of most Eastern European countries and Japan, are moving from economic to conscious control, but in the meantime are rapidly expanding in numbers. [1]

Since population movements of this character develop slowly over a long period of time, it is difficult to trace with any exactitude the impact made upon them by such events as an economic depression, even when that depression is prolonged over several years. It is common knowledge that, in past depressions, the marriage rate has tended to fall and the statistics of the last few years indicate that this phenomenon has been repeated once more. [2] Such a decline in the marriage rate, which is naturally most marked in the more advanced countries, tends in itself to accentuate the fall in the birth rate which has been taking place. In 1933, however, the marriage rate was rising again in many countries.

Attempts to discover to what extent the fall in the birth rate has been accelerated in the past three or four years encounter statistical difficulties which would require more detailed and technical treatment than is possible here. There can, however, be no reasonable doubt that the net effect of the depression has

[1] The statistics of population movements in some Asiatic countries must be accepted with reservations. No exact measurement is possible as yet for China; but expert opinion inclines to the belief that there is a slow tendency to increase in that country. The statistics for most African countries are uncertain also, but there is as yet not the same pressure of population in that continent as in Asia.

[2] The marriage rates for a number of countries are set out below :

Country	Average 1926-1930	1929	1930	1931	1932	1933
Canada	7.3	7.7	7.0	6.4	6.0	...
United States	9.9	10.1	9.1	8.6	7.9	...
Argentine	7.5	7.7	7.4	6.8	6.3	6.2
Japan	8.0	7.8	7.9	7.6	7.8	...
Germany	8.7	9.2	8.8	8.0	7.9	9.7
Belgium	9.1	9.0	8.9	8.1	7.6	...
Denmark	7.8	7.9	8.2	8.1	7.8	8.8
Spain	7.3	7.3	7.4	7.4	6.6	...
France	8.2	8.0	8.2	7.8	7.5	7.5
Italy	7.3	7.1	7.4	6.7	6.4	6.8
Netherlands	7.7	7.9	8.0	7.4	6.9	7.2
United Kingdom	7.5	7.7	7.8	7.6	7.5	7.7
Sweden	6.7	6.8	7.1	7.0	6.7	7.0
Australia	7.5	7.5	6.7	6.0	6.7	7.0
New Zealand	7.7	7.8	7.8	6.8	6.8	7.2

been to depress the birth rates still further in the more advanced industrial countries. [1]

Even in countries where the Governments have taken special steps to encourage marriage, there has, as yet, been little tendency for the birth rate to rise.

It is too soon yet to measure the steeper fall in the birth rate. The depression did not really begin till late in 1929 and in many countries its first effects were comparatively slight. The marriage rate was not affected until 1930 and the fall in the birth rate was accentuated only in 1931. From such evidence as is available for the years 1931-1933, however, there seems no reasonable doubt that the effect of the depression was to accentuate the already considerable fall in the birth rate in all countries where conscious limitation of numbers is widespread.

There is, as yet, no statistical evidence that this accelerated fall in the birth rate was accompanied by increased mortality rates during the depression. While many authorities familiar with conditions in the depressed areas where unemployment is worst have stated that malnutrition and enfeeblement are to be found, the mortality and disease rates do not disclose any increase such as one might have expected in such circumstances. On the contrary, not only the general death rates, but the infant mortality and the mortality also from diseases such as tuberculosis, which are intimately connected with under-nourishment, bad housing and similar social conditions, have continued their tendency to improvement in recent years. [2] The statistics available refer to countries where public health and social welfare activities are highly developed and where standards of living are fairly high. It is possible that there has not yet been time for statistical results to become evident and a slight tendency in 1933 for mortality in the older age-groups to

[1] The following tabular statement, necessarily incomplete, shows a fairly sharp fall after 1930 in the areas for which statistics are available:

Area	Birth rate per 1,000					
	1928	1929	1930	1931	1932	1933 *
Canada	24.1	23.5	23.9	23.2	22.4	...
United States	19.8	18.9	18.9	17.8	17.4	...
Argentine	30.6	30.1	29.7	28.8	27.8	25.7
Japan	34.1	32.7	32.4	32.2	32.9	31.6
Germany	18.6	17.9	17.5	16.0	15.1	14.7
Belgium	18.4	18.3	18.8	18.3	17.7	16.5
Denmark	19.6	18.6	18.7	18.0	18.0	17.3
Spain	29.0	28.1	28.2	27.4	28.1	27.6
France	18.3	17.7	18.0	17.4	17.3	16.3
Italy	26.6	25.6	26.7	24.9	23.8	23.5
Netherlands	23.3	22.8	23.1	22.0	22.0	20.8
United Kingdom	17.2	16.7	16.8	16.3	15.8	14.9
Sweden	16.1	15.2	15.4	14.8	14.5	13.7
Australia	21.3	20.2	19.9	18.2	16.9	16.8
New Zealand	19.6	19.0	18.8	18.4	17.1	16.6

[1] League of Nations: *Quarterly Bulletin of the Health Organisation*, September 1932, and *Epidemiological Report*, May-June 1933.

* Provisional.

increase seems to bear out this possibility. [1] In the meantime, however, there has been no increase in the death rates of Western European countries, corresponding to the accelerated fall in the birth rates. This fact strengthens the tendency for the population to move into a higher age-grouping. Thus the effect of the depression seems again to have reinforced and consolidated the tendency towards a stabilisation of the population in these countries.

Shifts in Consumption.

The economic effects of a slowing up of population increase are not only clear theoretically, but are evident in recent experience. They may be summarised briefly by emphasising the greater maturity of a population which has ceased to grow rapidly. The middle and upper age groups tend to grow, fewer new recruits come on to the labour market, there is a strong tendency for wages to rise, and for the accumulated capital per worker to increase. The increasing wealth of the community leads to an accumulation of capital and therefore to lower interest rates in so far as the latter are not checked by fresh lending to other communities with a greater lack of capital.

Obviously, such tendencies form only part of the forces at work in shaping economic activity at any moment. Population movements are not the sole and may not even be the determining factors of economic change; but such influence as they exert is along the lines sketched above.

Clearly also, a population which is approaching a stabilised maturity will develop economic demands very different from those of a rapidly expanding community. In particular, the consumption of elementary necessities will not greatly increase, though there will be a strong tendency towards extending their variety and improving their quality. New foods come into use, the range and quality of clothing are much improved and the standard of housing also is raised; but for the staple foods and the commoner articles of general consumption, demand lags behind the increase in wealth. On the other hand, there tends to be a rapidly widening demand for more costly goods of durable consumption and also for the personal services, and for the perishable consumption goods which often are connected with the new durable goods, such as motor-cars. [2]

[1] The increased consumption of cheapened foodstuffs and the distinct tendency for better qualities of foodstuffs to come within the purchasing power of greater numbers of the people, described later, may be a partial explanation of the failure of the mortality rates to increase.

[2] The changes in production in the United States from 1922-1929 illustrate the shifts in demand in an advanced industrial community. During these years the total production of finished goods (including building construction) increased at an annual rate of 4.1 per

These general tendencies have been fairly clear in advanced industrial countries for several decades, and were exaggerated in the boom which preceded the depression. The outstanding characteristic of the post-war period was the shift in consumption in the more advanced industrial countries, notably in the United States, to articles of durable consumption and to personal services. The tendency for population increase to slacken was undoubtedly a powerful factor in this shift, which was an accentuation of the long-period trend. Circumstances differ so greatly from country to country and so many factors enter into the formation of consumers' demand that generalisations from the experience of one country in a brief period are dangerous. Undoubtedly, the great change in debtor-creditor relations among the principal industrial countries, the strong tendency to sustain credit inflation after recovery from the crisis of 1920-1921, and the introduction in some countries of new credit devices such as instalment-selling in the United States and unparalleled foreign borrowing by some European countries, created somewhat abnormal conditions in the post-war period. On the whole, however, the result was to accentuate the consumption changes that might normally have been expected. Higher standards of living called forth a production of manufactured articles which was vastly greater in variety and quantity than ever before. Since so large a proportion of these manufactures were in the nature of durable goods which might themselves almost be called "consumption-capital", heavy investment was encouraged in the basic "investment" industries.

As in previous periods of over-expansion, therefore, there was a real basis for the industrial developments that were exaggerated and overdone. It was to the production of manufactured articles of durable consumption that consumers' demands were turning. In a world where competition was free and adjustment perfect, this transition would have been accomplished by changes in relative prices which discouraged production of the older and simpler commodities such as foodstuffs and certain textiles, while stimulating the newer industries and services. Politically, such

cent; but durable goods increased by 5.8 per cent and non-durable goods by only 2.8 per cent. The development is even clearer if the groups are subdivided. Among the non-durable consumption goods, foods increased only by 1.6 per cent, and the average for the whole group was brought up to 2.8 per cent by the rapid increase in such commodities as gasoline (15.9% annual increase), newsprint (6.8%) and druggists' preparations (7.6%). Analysis of a group of semi-durable consumption goods yields similar results. The annual rate of increase in textile products was 2.2 per cent, in boots and shoes 1.2 per cent; but in rubber tyres 8.6 per cent, so that the average of the whole group was 2.9 per cent.

These group averages, swollen as they are obviously by production directly dependent upon the use of durable goods, fall well below the average increase in the production of durable commodities, such as automobiles, furniture, electrical equipment, etc., which was 6.3 per cent, and in residential construction, which was 4.3 per cent. *Cf.* F. C. MILLS: "Economic Tendencies in the United States", National Bureau of Economic Research, 1932, Ch. VI. *Cf.* "Recent Social Trends in the United States", McGraw Hill Book Coy., 1933, Vol. II, Ch. XVII, by Robert S. LYND: "The People as Consumers".

developments did not seem practical and the expansion of credit which, for a time, obviated the necessity of their consideration and appeared to provide conditions under which all-round development was possible in every country, was readily welcomed.

The net result, however, as in other aspects of economic equilibrium, including international relations, was to aggravate the maladjustments when the credit expansion came to an end. The penalty for postponement has been heavy, particularly in the forced retreat which has been necessary from advancing standards of living as expressed in an increasing consumption of durable manufactured goods. There has in most countries been little diminution of the more elementary forms of consumption, but on the contrary some tendency towards increase in many directions. Experience in this respect differs greatly from country to country and consumption has naturally been sustained best where the cost of living has fallen. The consumers have enjoyed more and better food and clothing because of lower prices, and while there has undoubtedly been greatly reduced purchasing power among those hit by unemployment this has been mitigated both by public assistance and by lower prices. It is only among the classes hardest hit by the depression and in the countries where the depression has been specially severe or where trade restrictions have raised prices that expenditure on elementary necessities has been reduced.

Many statistical measurements might be cited in support of these statements. Thus, in the United Kingdom, there has been a notable increase in the use of butter and a corresponding decrease in the use of margarine, greater in the depression years than the preceding trend.[1]

After a detailed study of expenditure in 1932, as compared with 1924-1927, it was concluded that, in the United Kingdom, "the improvement in the average diet in the year of deepest depression as compared with the position seven years earlier is beyond doubt. The drawbacks of our dependence upon imported food are often pointed out; but in the past two years the much lower level of food prices compared with the prices of manufactured goods has been one of the principal reasons for the comparatively happy condition of this country. One wonders what might have happened in some of the depressed areas of the United Kingdom had this cheap food not been available ".[2]

[1] Between 1925 and 1929, the weight of butter per head retained for home consumption rose from 13.69 to 15.38 lb., the corresponding figures in 1930 and 1931 being 16.22 and 18.74. Margarine retained diminished from 3.44 lb. in 1925 to 2.32 lb. in 1929 and fell further to 2.06 lb. and 1.68 lb. in 1930 and 1931. "Statistical Abstract for the United Kingdom", No. 76, 1933. Cmd 4233. The same development is clear in the Netherlands also. *Cf.* "*Maandschrift van het Centraal Bureau voor de Statistiek*", 31 Januari 1933, page 9.

[2] *Cf.* also A. E. FFAVERYEAR: "The National Expenditure, 1932", *Economic Journal*, March 1934.

A detailed study of this kind of consumption is available for Belgium, covering not only the last few years but previous periods of depression.[1] Belgium is a country which has imposed fewer restrictions than most upon either domestic or international production and trade, and the results of the depression illustrate quite clearly the compensatory and corrective working of economic forces. Prices have fallen heavily, consumption has increased, and after a time the production of foodstuffs seems to have fallen.

The recovery of wool prices in 1933-34 is a further illustration of the useful consequences of increased consumption and diminished production brought about by low prices in a free market. Where free choice is not restricted, the consumer has a considerable rôle to play in stimulating recovery from the depression by increasing his purchases of low-priced commodities. Obstacles to such freedom of choice, whether by trade restrictions or by price-sustaining policies, whatever their justification may be in particular cases, prevent the consumer from exerting this wholesome influence. This is a real difficulty, presenting not only some check to recovery at the moment, but also the probability of distorting production away from the directions of consumer's choice. Unless some other interest, such as that of the State, is regarded as more important than the satisfaction of the ultimate consumer, the regulation of production and trade is likely to diminish the aggregate efficiency of the economic system. In any case, the demands of consumers, expressed as they can be through the substitution of one commodity or one want for another, are powerful factors to be reckoned with in plans for regulation. In so far as they are based upon long-term trends derived from such causes as the population shifts to which attention has been drawn, their influence is likely to persist.

The course of consumption during the depression has been very confused and does not follow any tidy pattern. In a completely competitive world, free marketing would have brought a greater fall in the prices of producers' goods than in those of consumers' goods. After a period of adjustment, demand would have been stimulated all round, but less in the case of foodstuffs and other articles of inelastic demand than in the case of durable goods and the capital equipment necessary to produce them. Eventually, the revival of demand would have brought a new equilibrium with greater expansion once more in the articles of durable consumption.

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[1] Léon H. Dupriez and Maurice Borboux: " Indices de la consommation en Belgique de 1897 à 1933. " *Bulletin de l'Institut des Sciences Economiques*, November 1933.

Actually, the markets have not been freely competitive. Producers' goods have fallen less in price than consumers' goods and the fall in production has therefore been exceptionally heavy in the case of durable goods. Partly, of course, the reduced demand responsible for this heavy fall in production is the result of the accumulated purchases of the boom years. Cars and radios are being used over longer periods. But it is partly also a result of the maintenance of prices of producers' goods, which, it has often been pointed out, is one of the chief differences between this and previous depressions. Consumers' goods on the contrary have fallen very heavily and there has been some increase of consumption. Agricultural commodities, however, are largely subject to inelastic demand and increased consumption must therefore be supplemented by diminished production if equilibrium is to be restored. This is prevented from happening, not only by the difficulty at any time of reducing farm production, but by positive measures taken by many Governments to sustain and even increase agricultural production. Thus manufactures have fallen more in quantity but less in price, and agricultural production more in price but less in quantity, than is necessary for the restoration of equilibrium.

The Control of Production.

It is inevitable that there should be a great deal of re-organisation and re-grouping of productive activity in the course of every great depression, and the years from 1929 to 1933 were no exception to the general rule. Especially in 1932 and 1933, there was on every hand, in almost every country, an extensive overhauling of private enterprises, involving much liquidation and reconstruction, adaptation of processes, and improvement of management. Such efforts of private enterprise to re-organise more efficiently have been among the most powerful forces making for economic recovery in recent months. This dispersed, almost involuntary, individual effort may be compared with the reaction of the bodily organs in an attempt to combat and throw off a fever; but, in addition, there has been a notable tendency towards a change in the regime under which such a reaction takes place. It is this changed regime, the altered social and political environment in which economic life now functions, which is the subject of the present section.

As with the other problems discussed earlier in this chapter, the forces of change were working long before the depression began. There are many respects, indeed, in which the regimentation of production in the highly industrialised countries, compared with the vigour of its growth in newer areas, suggests

a connection with the population movements already described. It is clear, on the other hand, that the marked interruption of the trend of consumption noted in the previous section is indicative of a struggle between conflicting tendencies. The system of free enterprise, based ultimately upon the freedom of the consumer's choice, had led to an increasing range of durable consumption goods being offered; but the depression has brought a marked reaction from this development. It is, of course, a familiar phenomenon in every crisis that the demand for such goods shrinks more than the demand for staple foods and raw materials and simple manufactures; but in this depression the shrinkage has been so great and so prolonged that special factors are clearly at work. There can be no doubt that the excessive reaction has been caused in part by Government control interfering with competitive forces. In particular, the territorial division of labour has been checked by trade restrictions. Governments have preferred to aim at regulated stability rather than plenty. Under this regulation of production the consumer tends to become the forgotten man of the new economic deal.

It is not only in the newer forms of Government regulation, however, that the effect of the depression has been a greater measure of control over production. The system of free enterprise had long passed the era when keen competition among small unrelated units of production was general. As the need for greater capital aggregations arose in industry and commerce, the tendency towards monopolistic controls naturally became greater. It is difficult to measure with any accuracy the extent to which such controls have operated or the degree of control exercised in each case; but it is generally agreed that the tendency was increasing in recent years. Controls and associations tending towards monopoly were easiest to organise in the most highly capitalised processes such as the extractive industries, certain forms of manufacture, shipping and large-scale commerce. In the extractive industries, their formation was rendered easier by the curiously uneven distribution of mineral resources.[1]

[1] H. Foster Bain: "World Mineral Production and Control", *Foreign Affairs*, July 1933, pages 706-710.

"Thus 85 per cent of the world's sulphur, one of the minerals most essential to modern industrial processes, is supplied by the United States and 11 per cent by Italy; no other country produces more than 2 per cent. Nickel comes 89 per cent from Canada. Of the molybdenum supply, 94 per cent comes from one mine in Colorado, and 5 per cent from Norway. Other similar instances might be cited. Even those minerals which are used in very large quantities, such as coal and iron, are derived mainly from but a few countries. . . . Only here and there do more than four countries participate to an important degree in production, or more than three in control. In a number of cases, two countries or even one mine or one country control 95 per cent or more of the whole output. Commercial control is distinctly more closely concentrated than production; in most cases not more than three nations control 95 per cent."

Such controls were more difficult to organise in the simpler and staple occupations such as agriculture and handicraft production; but their range was extending even into these fields.[1] Moreover, the large-scale financial operations necessary to provide capital for great modern undertakings tended to shift control further back into the hands of those who organised the financial rather than the industrial operations. This more generalised direction, while quite compatible with keen competition between rival groups, removed the controls of the economic system much further from the individual worker or consumer.

While these tendencies are very clear, it is possible to exaggerate both the extent to which production is at present organised on a monopolistic basis and the permanence of many existing controls. Competition is still a powerful economic force. Particularly in the basic commodities of almost universal production and consumption, there remains a high degree of competitive production and trading. This fact is demonstrated by the comparatively small list of raw materials and foodstuffs which are, or recently have been, subject to some degree of international control.[2]

Inspection of the commodities included in the League's index of world production of foodstuffs and raw materials, indicates that, using the weights by which the index is calculated, probably not more than 20 per cent of the world production of these commodities is subject to even partial monopolistic control. If steel and cotton are included, the figure might be 25 per cent; but, of the first 20 per cent, wheat, the control over which is very weak, accounts for 8 per cent. Even allowing for local and partial controls and for monopolies of intermediate processes such as transport, there remains a considerable margin of unregulated, competitive production. This is true even of some commodities subject to control, such as wheat and cotton, and is a fact to be reckoned with, when considering national plans for regulation of production and prices.

There is, however, a fair amount both of international agreement and of partial, local and temporary monopoly which is not measurable. During the depression, also, the increasing tendency for Governments to support trade organisations in their efforts to regulate production and prices has brought a tendency towards monopolistic control into many new areas of production. Higher tariffs and the introduction of quota systems have stimulated trade associations and the tendency towards

[1] *Cf.* " Preise im Aufsteig ", *Frankfurter Zeitung, Handelsblatt*, May 27th, 1934.

[2] WALLACE and EDMINSTER, " International Control of Raw Materials ", Brookings Institution, 1930, page 13, give the following list: camphor (natural), cinchona bark, citrate of lime, coffee, cotton (long staple), currants, kauri-gum, mercury, nitrate, pearl-shell, potash, pulpwood, quebracho, rubber, sandalwood oil, silk, sisal, sugar, sulphur, tin.

monopoly. If such forms of protection are diminished as recovery proceeds, some of the existing controls may well be abandoned. An outstanding example of Government regulation and control is the Wheat Agreement entered into after the Monetary and Economic Conference. A successful restriction of tea production, rice control in Japan, coffee control in Brazil, jute control in India, cotton controls in Egypt and the United States and tobacco controls in South-Eastern Europe are other examples.

If to these one adds shipping pools, petrol, potash, salt, rayon and similar international agreements and the successful Tin Pool of 1933, it is obvious that the trend towards monopolistic regulation of production and marketing has been strengthened during, and because of, the depression. The manner in which sub-sub-committees multiplied at the Monetary and Economic Conference as one group of producers after another stimulated the Governments there represented to demand regulated production was clear evidence both of the trend and of the method by which it operates.[1]

It is possible in some cases to give more precise evidence of the growth and strengthening of monopoly during the depression. The number of industrial cartels has steadily grown in most European countries for several decades.[2] In the United States, such organisations were illegal except for export purposes; but it was common knowledge that monopolistic practices without the actual form of trust organisation were widespread even before the National Recovery Act reduced the legislative barriers to trade association. Even in Japan, a latecomer in the industrial field, cartellisation spread rapidly in the post-war period and there was a large measure of trade association outside the actual cartels, some of which were very extensive. In Czechoslovakia, a new law was passed in 1933 requiring the registration of cartels, and the number registered was 538.

[1] Committees were set up to deal with dairy products, sugar, wine, coffee, cocoa, timber, coal, copper and tin.

[2] Estimates made at various dates by different authorities may not be exactly comparable, but the trend of increase is very definite. The following estimates may be collated showing the number of cartels in Germany at different dates. The effect of previous periods in which tariff protection was greatly increased is clearly demonstrated — *e.g.*, after 1879 and 1908. This is a *prima facie* reason for expecting increased cartellisation again to follow the strengthening of protective policies. The post-war inflation period, which gave exchange protection, also facilitated the organisation of cartels.

1865 (Sombart)	4	1900 (Zentralverband der Deutschen Industrie)	300
1875 (Sombart)	8	1905 (Amtl. Enquete)	385
1887 (Philippovich)	70	1911 (Tschiersky)	550–600
1888 (Philippovich)	75	1922 (Liefmann)	1,000
1889 (Philippovich)	106	1925 (Metzner)	1,500
1895 (Bücher)	143	1930 (Wagenführ)	2,100
1896 (Sombart)	250		

Wherever protective tariffs have been high, as in Central Europe, there are many cartels, whereas there are relatively few in the low-tariff countries such as the Netherlands and Belgium.

The extent to which cartellisation has been pushed in Germany, admittedly the most developed country in this respect, is indicated by a semi-official estimate that trade organisations controlled about 50 per cent of the raw materials, 25-30 per cent of the manufactures and 15-20 per cent of the handicraft products. Including wage rates fixed by agreements, it was estimated that 50 per cent of all industrial costs were regulated by cartel prices.[1] An estimate for Poland is that 40 per cent of all Polish industrial production is subject to cartel control.[2]

There seems little doubt that the depression has not resulted in a widespread breakdown of the cartels. Many cases are known, particularly in the international sphere, where international agreements became difficult to maintain, not only because of the natural tendency for stronger units to break away from the agreements, but also because the growing mass of trade regulations and restrictions, accompanied as they were by currency instability and exchange controls, made some of the existing international agreements almost superfluous. The tendency for international cartels to break down was especially pronounced after the depreciation of sterling and other currencies gave increased competitive advantages to the countries off gold and at the same time caused a great increase in tariff and quota restrictions on international trade.

On the other hand, there has been a persistent strengthening of national cartels, encouraged or tolerated in most countries as a necessary basis for the national economic planning in vogue. Measurement is not possible for any country but Norway, where the official statistics have run as follows:[3]

	1928	1929	1930	1931	1932	1933	1934
Trusts and cartels (*Sammenslutninger*) registered at January 1st	158	155	171	190	192	198	201
Agreements (*Overenskomster*) registered at January 1st	29	33	38	47	51	54	55

[1] WAGEMANN: "Struktur und Rhythmus der Weltwirtschaft", Berlin 1931, pages 275-277.

[2] Ludwik LANDAU: "Prace Instytutu badani", 1933.

[3] "Beretning om Trustkontrollens virksomked i 1927-1933."

Information from Poland confirms this trend. The opinion of a recent investigator in that country is that "unfavourable economic conditions constitute a cause of progressive industrial concentration. The strong movement of our industries in that direction took place just in the years of depression."[1]

Statistics of cartellised and non-cartellised prices are available for a number of countries, and the divergence between the trends as disclosed, for example, in the statistics of Belgian and German prices indicates that the strength of the cartels has not diminished in the depression. In the German case, the definite and marked steps in the reduction of cartellised prices reflect Governmental pressure at particular periods. In Belgium, where restrictions are fewer and trade has been more competitive, the reductions have been smoother and greater, but there remains a considerable margin between the fall in cartellised and non-cartellised prices.

While the commercial and financial developments of the depression were working against international production controls, but stimulating the formation of national cartels, the weakened bargaining power of the trade unions in most countries reinforced this trend. In some important industries during the post-war period, the tendency for minimum-wage legislation and wage bargaining to follow much the same lines in all important industrial countries stabilised labour costs of production at about the same level in each. Conscious policy on the part of certain strong trade unions which were grouped in international federations reinforced this tendency, which had the effect, as far as labour costs were concerned, of encouraging a geographical division of markets. The depression has weakened trade union organisation in different degree in many countries and, apart from the fact that, in some important countries, workers' organisations have been re-fashioned along nationalist lines, international labour co-operation has been weakened and differential labour costs have been greatly emphasised. In many countries, the trade-union tendency towards a uniform wage has been largely replaced by efficiency wage systems.[2] Like currency depreciation, differential wage reductions bring both competitive trade advantages and reprisals by way of trade restrictions. In both cases, international agreements are weakened; but national controls tend to be more systematic and effective.

There was therefore a convergence of varied forces from within private capitalist industry towards an increasing degree of

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[1] M. Slowikowski in *Polska Gospodarcza*, 1933, No. 9, page 272.

[2] *Cf., e.g.*, the new German law of January 20th, 1934: "Gesetz zur Ordnung der nationalen Arbeit".

large-scale organisation and monopolistic control. During the depression, such controls were diverted into predominantly national channels, and were directly and consciously reinforced by Government policy almost everywhere. The motives behind national economic policy in this respect differ a great deal from country to country. Not only economic, but political, social, strategic and even religious influences have been powerful in shaping the revolt against the related systems of democracy, *laissez-faire* and internationalism.[1] Dissatisfaction with the working of democratic institutions in critical emergencies, a profound distrust of concentrated economic power uncontrolled except by enlightened self-interest and diminishing competition, and resentment against the seeming effects of international financial commitments, were widespread even before the depression, and became crystallised into policies which in most countries placed great emphasis upon re-organisation that could start only within national boundaries. Faith was largely shattered in the directive, organising ability of "impersonal, undifferentiated, colloidal capital". The social functions of industry were re-emphasised and re-examined.[2] Inevitably, organisation and regulation took national forms.

The importance of such national reorganisation has increased during, and partly as a result of, the depression. Not only the varied peoples organised in the Russian Federation of Soviet Socialist Republics, but also Italy, Germany and Austria have adopted forms of organisation which, differing widely in many respects, are similar in calling for a greater measure of national regulation of production and trade. There is a great difference of spirit and of method between, for example, Soviet Russia and Fascist Italy, but in each case private initiative is no longer self-regulatory. Controls of production, including regulation of capital costs and profits, as well as wages, are almost inevitably bound up with trade regulation and the direction of credit policy. The world in which reliance is placed, even nominally, upon the automatic regulatory and corrective influence of competition has, at least temporarily, greatly shrunk. It is not yet certain, however, that, as the depression passes, State regulation will continue to dominate private enterprise as much as it has done during the depression years.

It is unnecessary to attempt here a description — that must in any case be too abbreviated to be accurate — of the new

[1] *Cf.*, *e.g.*, the influence of the Papal Encyclical "Quadragesimo Anno" in shaping economic philosophy in many countries.

[2] *Cf.* Signor Mussolini's speech in the Italian Senate on the Guild Law, January 13th, 1934: "When an enterprise appeals to the capital of all, its private character ceases, it becomes a public or, if you prefer, a social fact."

forms of organisation that have emerged in those countries which have moved away from capitalist conceptions of free enterprise. The Soviet planning of industrial development and collectivisation of agriculture are well known. The strength and weakness of this essentially centralised and statistically planned direction of economic life can therefore be appraised. The corporative system in Italy is more difficult to appraise, mainly because there has been a more experimental and supple process of development which is far from complete as yet. Certain directions in which that development is leading are, however, becoming clearer. It is obvious that great circumspection has been required in the attempt to achieve a regulated, orderly development of economic life, without running too great a risk of inflexible and unrealistic planning. On two main problems, those of labour cost and capitalisation, it has been necessary to find means of adjustment to the difficult depression conditions. The corporative organisation of the State, affording direct contact between workers and employers, both vertically within industries and horizontally between the corporations, appears to have rendered labour cost more flexible than in most countries.

The effort made to solve capitalisation problems in the interests of the whole community has involved, not only the distributive conflict of interest between workers and capitalists, but also the conflicting claims of rival groups within the different branches of industry and between those branches. The circumstances of the post-war period were not easy in Italy. The stabilisation of the currency at a relatively high level imposed banking and industrial policies of a deflationary character, which, necessarily, were accentuated during the depression, while, on the other hand, the resources of the Treasury were used to sustain economic activity to the greatest possible degree. The administrative methods by which the Government intervened to force and facilitate capital reconstruction are naturally not fully disclosed; but emphasis has recently been laid upon the temporary nature of the State assistance granted and the necessity for drastic re-organisation along the lines of private enterprise. The debate on the Institute for Industrial Reconstruction (Istituto per la Riconstruzione Industriale) in the early part of 1933 laid stress upon the fact that the Institute was intended to reorganise industries, but not to subsidise special interests or support unsound enterprises.

The principles followed in the use of the corporative system to control and balance free enterprise are perhaps best illustrated in the working of the law regarding the creation of new factories. The law aims at restricting profits from the mere promotion of

enterprises, at preventing the over-straining of capital resources by insisting upon sound amortisation practices, and generally at protecting the national savings and directing them into the most useful channels from a national standpoint. During the first five months of the operation of this law, 142 applications for authorisation of new capital issues were considered, 88 of which were approved, 31 rejected and 23 held over for further investigation.

The Institute for Industrial Reconstruction has also taken an important decision in regard to the liquidation of enterprises for which Government assistance had been found necessary. It is intended to reorganise these enterprises and launch them again by issuing debentures which carry a guaranteed 4 per cent and participate also in dividends; but which may later be exchanged for ordinary shares in the enterprise.

These decisions, which are not intended to be exhaustive, are cited merely as illustrations of the attempt to utilise the new corporative system not to displace, but to regulate private enterprise. No final evaluation of such an experiment can be attempted in such a difficult and transitional period, and the purpose here is not to make such an evaluation, but merely to draw attention to recent developments.

It is clear that there is an increase in State regulation, not only in Germany, where somewhat similar ideas are being worked out by different methods, but also in Turkey and the neighbouring countries, which are influenced by the Soviet example, and in Japan, where the manufacturing industries are highly integrated and organised in close relation to the banks. The new German system of industrial organisation announced in the middle of March has yet to be fully developed and tested and the Austrian corporative constitution has barely been announced.

Not only in Germany, but also in many other countries, the depression has seen the logical development of a double process by which industry has passed under the control of the banks and banks have needed Government support of one kind or another. The effort, which has taken varied forms in different countries, but is very widespread, to nurse bankrupt industries over the years of crisis has inevitably strengthened the tendency for a greater degree of Government control. In Germany, for example, not only is a great part of the industry under the control of the banks, but a very high proportion of the banks are under the control of the Government. In the United States, the Reconstruction Finance Corporation has deliberately adopted the policy of gaining a voice in the control of important banks. Banking reconstructions in Austria, Hungary and other

countries have depended largely upon Government support. Advances from the Treasury to banks in difficulties have been made by such countries as France and Sweden also. Many Governments have thus become involved in a greater measure of control over industry through the banks, and the effect of this situation is distinctly traceable in Government policies. In particular, the incentive to tariff protection is much increased when the industries to be protected have fallen directly or indirectly under Government tutelage.

Apart from the more formal and logically complete systems of national reorganisation in such countries as Italy and the U.S.S.R., there is obviously a strong tendency towards the extension of State activities in many other countries. The experimental programme that has so rapidly developed in the United States contains, in addition to emergency action directed towards recovery from the depression, a considerable degree of planned economy in which controlled agriculture, industries working under codes, and regulated foreign trade must eventually be combined. The British proposals, not only for agricultural, but also for industrial re-organisation, the plans mooted in Japan for export control, and schemes of Government reconstruction in many countries from China to Peru, are all indicative of a general trend. The extent and importance of these developments are discussed in the preceding chapter in connection with the various national recovery programmes.

It so happens, however, that many of the industries which are most difficult to control are strongest in the new developing countries, and competition from these growing points constitutes an awkward problem for the planners in more stable national economies. The economic system has such resilience and its reactions are often so unexpected that the indirect effects of competition need to be carefully watched. However necessary a limitation of wheat production may be at the moment, to take a simple example, any long-continued effort to control production in the main exporting countries must take account of the possibility that, if prices rise, exports may trickle out from dozens of countries not now considered. The experience of rubber restriction schemes is a clear warning in this respect. Moreover, there are the reactions upon consumption habits, upon competitive and complementary production and, indeed, the whole balance of economic activity in different countries, to be considered. Planning, once begun, is a process that must always be pushed further. Unless considerable scope for automatic competitive adjustments is a part of the original plan, the completion is apt to demand action that cannot be confined to a single commodity or to one country.

It is true that the techniques of control both of national production and of external trade have been greatly developed during the depression. Trade associations with banking and Government support, quotas and quantitative restrictions, together with currency and exchange controls, have proved efficient methods of quantitative, though much less satisfactory methods of price, adjustment within national boundaries. The processes of national insulation have been much improved. It is now much more possible to keep the trickles of wheat, for example, out of any particular national market. The risk emerges, however, that the very efficiency of the insulation may divert vital energies and forces into other channels of development. Already it seems evident that the multiplication of trade restrictions, particularly in European countries, especially the closing of many markets to agricultural imports, has accelerated the industrial development of the agricultural countries. If the aggregate effect of the trade restrictions necessary to protect and develop regulated agricultural production in the national interest of the older industrial countries is to render less profitable the agricultural exporting industries of the newer countries, the energies of their expanding populations will be diverted to local manufactures. The inevitable accompaniment of such a diversion is a demand for industrial protection in the home market. The long-run tendency of nationally planned and regulated production is clearly towards less international differentiation and co-operation, and the loss of those advantages which spring from territorial division of labour. The extent to which this tendency has developed is discussed in the following section.

Meantime, it should be said that some caution is necessary before assuming that emergency measures which are accepted as desirable expedients in years of depression, will remain as permanent structural changes. The experience of the years 1914-1918 led at the time to a widespread belief that the war-time organisation would remain; but in most countries it was largely abandoned. No doubt the influence of that organisation remained and was potent to some extent in the depression; but it is too soon yet to assume the permanence of the new controls that have been developed.

The Insulation of National Economies.

The two-way connection between international trade restrictions and national regulation of production is very clear. It was not simply an historical accident that associated the *laissez-faire* philosophy with free trade. The regulation of

national industry presupposes a measure of planned control over external trade and all trade restrictions of this character naturally react upon national production. It has recently been suggested in the United Kingdom, the traditional home of *laissez-faire* and free trade, that modern conditions demand "a frame for industry". While the exact meaning of such a phrase is difficult to define and open to varying interpretations,[1] there seems no doubt that the idea of regulation by some authority in the national interest as replacing reliance upon consumers' control through the bargaining of the price-system has recently gained ground.[2] Nor is there any doubt that such regulation, however exercised, must include some planning and control of international trade and perhaps ultimately of international finance.

In the preceding section, attention was drawn to the economic and political forces which were directing the organisation of production into national forms, with some degree of planning either by industrial or national authority. The purpose of the present section is to illustrate some of the ways in which national planning is connected with the insulation of national economies one from another. Planned trade is already a conscious policy in many countries. Planned finance has proved a more elusive conception; but it is obvious that, if national production and international trade are to be subjected to an increasing degree of regulation, international investment of an unregulated character is likely to pose difficult problems. The informal embargo upon foreign capital issues in the London money market since conversion operations were begun in the middle of 1932, is a clear indication of the trend of events.

In the ideal world of the *laissez-faire* economic philosophers, free trade was envisaged as a necessary condition for territorial division of labour. The doctrine of free trade was paralleled by advocacy of the free movement of capital and unrestricted migration. The governing principle of economic organisation was the comparison of relative prices by the ultimate consumer. It was essential that no political obstacles should be added to the inherent practical difficulties in establishing the economic principle that there should be only one price in a single market. The aim, moreover, was to extend the range of this market to the utmost extent. It was a world-market and a world-unit of production that was in the minds of the advocates of universal free trade or the most-favoured-nation clause in commercial treaties.

[1] *The Times*, March 16th, 1934: "The interpretation of the phrase given by the context is rather that of a planned outline (*cadre*) than of a framework (*ossature*), or a framing (*encadrement*)."

[2] *Cf.* Barbara WOOTTON: "Plan or no Plan", Gollancz, 1934.

The introduction of the most-favoured-nation clause into the commercial treaty between France and England in 1860 and its use in the great majority of subsequent treaties was intended to widen and deepen every breach made in the tariff walls by extending the privileges offered as widely as possible. It was hoped and expected that the result would quickly be a widespread extension of a low-tariff or free-trade area. That hope was disappointed by the revival of economic nationalism from the 'seventies onward ; but the most-favoured-nation clause continued to be included in commercial treaties.

Meanwhile, however, the universal application of most-favoured-nation treatment was somewhat limited, not only by narrowing interpretations of the conditional form of the clause in many treaties, but also by specific exceptions of a regional character, the most important of which was the British preferential system. Many other similar clauses have been inserted in past treaties; but their importance was not, in practice, very great.[1]

The various ways by which the trade negotiations of the depression period have endeavoured to avoid the obligation of most-favoured-nation treatment are well recognised as having brought about a new situation.[2] The range of preferential duties has been greatly extended, notably as a result of the Ottawa Agreements, in which the colonies as well as the self-governing Dominions of the British Empire participated. In addition, bilateral or regional agreements have used the machinery of quotas, import monopolies, unofficial industrial agreements, preferential transport charges, foreign-exchange controls, clearing agreements, milling and similar regulations and import prohibitions to give effective if concealed preferences. The increasing differentiation of tariff items leads to the possibility of so defining particular classes of goods as to give effective preference while maintaining legal equality as between countries. While the total effect of all these practices is much less than a mere recital of the possibilities might indicate, they indicate a trend of some importance.

In recent months, the free-trade area has narrowed, and not only have trade restrictions been vastly increased and their efficiency strengthened, but they have been associated with bilateral or regional bargaining of a discriminatory character

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[1] The mere recital of such accepted derogations from the general principle as the Imperial preferential arrangements between members of the British Commonwealth, and the Scandinavian, Baltic, Russian, Turkish, Iberian, Bulgarian, South-American, Central-American, Cuban, Japanese, Dutch Asiatic, Egyptian and South-European clauses, is sufficient to indicate that there exist precedents which may be made more effective in the future than they have been in the past.

[2] BRANDT: "Die Durchbrechung der Meistbegünstigung", Berlin, 1933.

by which trade is split up into a series of controlled and insulated areas. There is no longer the same wide neutral market or series of markets to which trade may be diverted if shut out of one area.

It is possible, however, to exaggerate the extent to which international trade is now regulated by such agreements. A great part of the basic exchange of raw materials against finished manufactures still remains little hampered even by tariffs. There are considerable areas also, notably the British Commonwealth, where little use has been made of the formidable new arsenal of weapons, such as quotas and foreign-exchange controls, that are now available for restricting trade. But the quantum of international trade has fallen heavily, and its value has fallen still more. A great and growing proportion of what remains is narrowly confined to exchanges between each pair of partners in bilateral bargaining, which takes the form of an endeavour to balance trade between the bargainers. The administrative problem involved in the more detailed regulation of trade has proved formidable.

This administrative problem, however, is not the most difficult aspect of the tendency to bilateral trade bargaining. The fact that such agreements are now being laboriously worked out between the important trading countries, and dovetailed in most cases with an increased degree of national planning of domestic production, suggests the possibility that international trade may in the near future prove less elastic. In default of multilateral agreements for a reduction of trade restrictions, the quickest way towards a fairly rapid expansion in the quantum of trade may perhaps be found in some form of concerted action, of simultaneous liberalising of existing quota and other quantitative restrictions. It is possible that economic recovery may facilitate such a movement in much the same way as the post-war recovery caused a rapid abandonment of the wartime emergency restrictions. A more limited expansion in certain areas may take place by regional preferential agreements; but the limits of such an expansion are narrow.

The argument of the preceding paragraph is largely independent of such temporary factors as the present low level of prices compared with 1929, and exchange instability leading to exchange controls. These are often, and rightly, regarded as strengthening the forces making for protectionism and isolation; but the main point of the preceding argument is that, in seeking ways of salvaging at least a remnant of world trade, many of the bilateral negotiations as recently conducted, not only tend to eliminate triangular trade, but introduce a system

of Government regulation of external trade closely connected with domestic controls of industry that may outlive the present emergency. It is clear that no financial operations could maintain equilibrium against powerful long-run forces of maladjustment; but in the pre-war period the incessant operations of speculators levelled out short-run fluctuations of exchange rates. In recent years, this valuable function has largely been lost and the existence of large Governmental funds designed to equalise exchange fluctuations acts as a deterrent against speculation in this field. Among the complications which have tended to restrict international trade in recent months, managed exchanges, affording the possibility of Governmental action to raise or lower the whole scale of national prices vis-à-vis the rest of the world, have had an important place.[1]

The first volume of this series of WORLD ECONOMIC SURVEYS drew attention to the difficulties even before the depression of harmonising international financial organisation with economic controls that remained stiffly national.[2] The events that have happened since have greatly increased these difficulties. International investment virtually ceased after the financial panic of 1931. Some slight renewal of loans to dependent or closely related countries has been possible in the principal money markets; but the amounts involved have been small and the circumstances special. The free international flow of capital which was marked before 1929 has ceased. There are particular cases, where direct commercial investment in industrial enterprises has been revived, and it is possible that in future this form of participating investment may become more important; but, for the present, its volume is small.

The economic world, which seems to be emerging from the lowest depths of the long depression, has gone far towards changing the basis of its organisation from international to national or at most regional conceptions. The international finance which had run ahead of economic organisation has shrunk; but, in the meantime, the national "frames of industry" have set still narrower limits to international specialisation. Two final comments, however, are suggested. First, it is obvious that, natural resources being as unevenly distributed as they are, the limits of national self-sufficiency are likely to cause a definite lowering of standards of living wherever national policy is pushed beyond a moderate diversification of economic life. Not only raw materials, but climate, labour resources and the

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[1] *Cf.* "World Trade": Currency Stabilisation Number, April 1934.
[2] *World Economic Survey*, 1931-32, pages 43-46.

aggregations of population and therefore of markets, are too uneven in the modern world to permit of the curtailment of specialisation without great economic cost.

In the second place, economic life is too dynamic to warrant any belief that planning or regulation can long preserve the *status quo* at any particular stage of development. Change and growth are as fundamental in economic as in any other human activities, and it may be found that the more thoroughly national economies are insulated the more effective in the long run will be the stimulus to development in those areas which remain relatively free to develop hitherto unused resources. Moreover, the resilience and adaptability of private enterprise is very great and restrictions which are effective in the depths of depression may prove less so when a measure of prosperity returns.

Chapter III.

THE RECOVERY IN WORLD PRODUCTION.

The Extent of Recovery in 1933-34.

During 1933 and the first half of 1934 there was a marked recovery of production in the world as a whole. Although the recovery varied in different regions and there was a recession in some countries during the early summer of 1934, the world indices showed substantial improvement over the previous year. There is no completely satisfactory index of world production, but the available indices show considerable agreement as to the upward trend. The summary table below brings together estimates of the world production of foodstuffs, raw materials, and industrial activity to the end of 1933.

World Production of Raw Materials and Foodstuffs compared with International Indices of Industrial Activity 1925-1933. [1]

(Base: Average 1925-1929 = 100.)

Index	1925	1929	1930	1931	1932	1933 *
Foodstuffs	98	103	104	102	104	103
Raw Materials:						
Agricultural	97	105	103	103	96	100
Non-agricultural . .	90	114	101	86	73	82
Total	92	111	102	91	81	88
Industrial activity [2] . .	91	112	98	87	77	86

From this table, it is clear that the main recovery in 1933 was in industrial activity and in the production of industrial raw materials, especially those of non-agricultural origin. Later sections deal in more detail with agricultural and manufacturing production respectively. Here it is sufficient to note

* Provisional indices, subject to revision.
[1] League of Nations: *World Production and Prices, 1925-1933.* Geneva, 1934.
[2] Institut für Konjunkturforschung, *Vierteljahrsheft* 9.II.B.

the fact that the former has remained practically stationary, while there was a substantial recovery in the latter during 1933. Between 1925 and 1929, the production of foodstuffs increased by 5 per cent, roughly in proportion to the increase in world population. Since 1929, the index has been almost stationary, though population has continued to increase. Between 1925 and 1929, the production of raw materials increased by 21 per cent and most of the increase was in non-agricultural materials. Industrial activity in the same period rose by 23 per cent.

During the depression from 1929 to 1932, raw material production fell by 27 per cent and industrial activity by 31 per cent. In 1933, however, the production of raw materials was 9 per cent greater than the low level of 1932 (non-agricultural raw materials increasing in that year by 12 per cent), while industrial activity increased by 12 per cent. The relatively greater decline of industrial activity during the depression was reflected in a large accumulation of stocks of raw materials. On the other hand, as will be shown later, the revival of industrial activity in 1933 has led to a decrease of stocks.

The statistics given above refer to the world as a whole, including the U.S.S.R., which, throughout the period under review, has developed along lines which are to some extent independent of the rest of the world. Industrial development has been rapid in the U.S.S.R., the index-number doubling between 1925 and 1928 and again between 1928 and 1932, and standing in 1933 at 253 compared with 232 in 1932, 100 in 1928 and 50 in 1925. The inclusion of the U.S.S.R., to which a large weight must be given in view of its industrial importance, slightly moderates the decline of world production during the depression and increases the rate of recovery shown in 1933. This is particularly true as regards industrial activity.

The magnitude of the decline in production during the depression is shown by the fact that, despite substantial increases in 1933, the index-numbers of raw material production and industrial activity remained in that year well below the levels of 1925, and 21 per cent and 23 per cent respectively below the levels of 1929. There is a good deal of leeway still to make up before recovery can be regarded as having restored the pre-depression levels of productive activity.

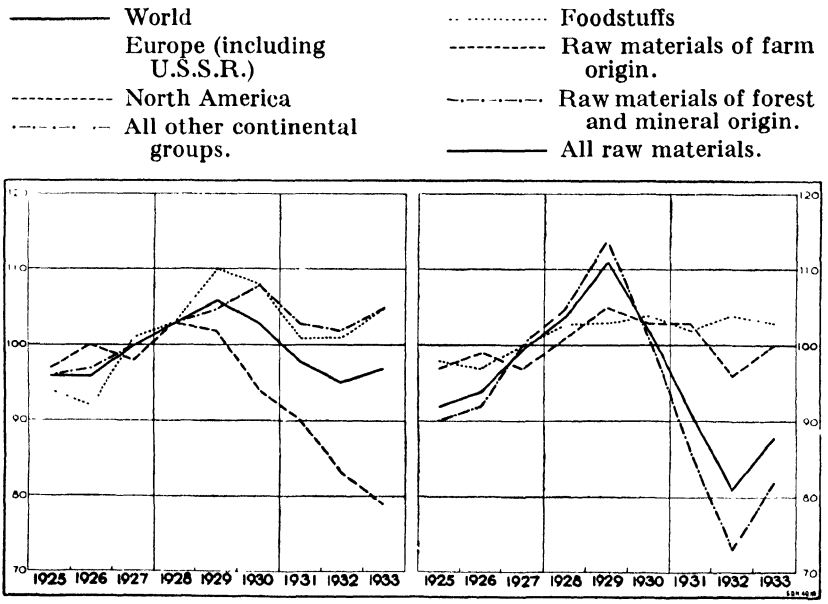
More detailed analysis of the material from which these index-numbers are compiled shows very clearly that the disturbance of production was concentrated in the investment industries. Manufacturing activity declined more than the production of raw materials, and among the raw materials such groups as metals, chemical products, non-metallic minerals and fuels fell most heavily. Indeed, the metal group is the

only one which fell more than the average for all raw materials, its fall being great enough to enable it to drag the average down below the indices for the other groups. It was therefore a breakdown in the heavy industries which was primarily responsible for the fall in manufacturing production.

Analysis of the geographical spread of the fall in production during the depression, and of the recovery in 1933, reveals the great extent to which the decline has been concentrated upon the North-American continent. This is partly because agricultural production, which forms a very large proportion of the total primary production in Africa, Asia, Oceania and Latin America, was relatively well sustained throughout the depression. Moreover, agricultural production in Europe increased while in North America it decreased heavily, and in the latter continent also non-agricultural production declined more heavily than it did elsewhere. The following diagram illustrates these movements very clearly.

World Primary Production,
by Main Territorial Divisions and by Chief Classes of Commodities.[1]

(Base: Average 1925-1929 = 100.)
Yearly movement: logarithmic scale.



[1] *World Production and Prices, 1925-1933.*

This diagram may be supplemented by the following table, which shows the index-numbers of world production of foodstuffs and raw materials in recent years. The marked decline (23 per cent) of the index for foodstuffs in North America in 1933, as compared with 1932, is in sharp contrast with the indices for other areas. It is accounted for mainly by the reduction in cereal production in the United States. It will be noted also that the index of raw material production in the United States, despite a rise of about 13 per cent in 1933, remained at a very low level compared with the similar indices for other areas. Inspection of the group indices shows that this decline was mainly in non-agricultural raw materials. The metals group, for example, fell in 1932 to little more than 27 per cent of its 1929 level, and in 1933 was barely up to 40 per cent of that level. It is estimated that, as a result of these movements, the share of North America in the total of world production fell from about 31 per cent in 1925-1929 to 27 per cent in 1930-1933. Since production, both of foodstuffs and of raw materials, has remained at higher levels and is increasing again in the other important producing areas, it is obvious that the restoration of world production to pre-depression levels now depends largely upon a revival of raw material production and manufacturing activity in the United States.

Index-Numbers of World Production of Foodstuffs and Raw Materials, 1925-1933.

(Base: Average 1925-1929 = 100.)

Continent	Foodstuffs				Raw Materials			
	1925	1929	1932	1933	1925	1929	1932	1933
Africa	95	107	111	109	96	111	96	109
Latin America .	97	102	97	102	91	111	81	83
North America .	99	96	101	88	94	108	62	70
Asia	98	103	104	105	93	107	101	109
Europe (including U.S.S.R.).	97	107	106	109	89	117	90	96
Europe (excluding U.S.S.R.).	98	109	112	110	90	116	81	86
Oceania	93	102	124	118	93	103	103	96
World. . . .	98	103	104	103	92	111	81	88

The national index-numbers of industrial production also show a greater decline in the United States in 1932 than in

the other important industrial countries. There was a sharp recovery in that country in the spring of 1933, but a decided check again in the autumn of that year. Recovery was resumed in the first half of 1934, but, while the latest available figure (77.5 in May 1934) shows a decided gain from that recorded in November 1933 (64.9) and still more from the lowest level (54.1 in March 1933), it has not yet reached again the peak (90.1) recorded in July 1933.[1]

Annual index-numbers, however, do not disclose either the point at which improvement began or the full extent of the recovery so far achieved. There is some difficulty in determining the lowest point from which world production gradually began to recover. Agricultural production is seasonal and monthly index-numbers cannot be used to measure progress in this respect. The crops in 1933 and 1934 were, moreover, so greatly affected by climatic conditions in important producing areas that agricultural production is best considered separately.

Perhaps the best available indication of the turn in production, and of the extent of recovery since the turn, is afforded by the monthly index-numbers of industrial production which are published for many countries. Most of these indices include raw material production and others rely partly upon other phenomena, such as orders filled, labour employed, hours worked, plant utilised, raw materials consumed. They are probably as good an index of month-to-month changes in production and general economic activity as are available.

In the following table, the monthly indices for a number of important countries are combined in a weighted index of world industrial activity and compared with the unemployment index in the world, as calculated by the International Labour Office. Though the two indices are not exactly comparable, it is of some interest to observe the general agreement of their trend since the low point of the depression was reached in July 1932.

[1] The base period for the index of industrial activity here quoted is the year 1928, not the average of the years 1925-1929.

Industrial Activity and Unemployment in the World (excluding the U.S.S.R.).[1]

(Base: 1929 = 100.)

Monthly Movement, adjusted for seasonal variations.

Month	Industrial Activity						Unemployment					
	1929	1930	1931	1932	1933	1934	1929	1930	1931	1932	1933	1934
March . .	100	91	78	64	62	78[2]	89	131	206	266	270	
June . . .	104	86	75	60	78	77[2]	95	154	224	276	263	
September	101	81	71	62	75	. . .	100	175	237	280	248	. . .
December.	93	77	68	64	72	. . .	112	190	251	278		. . .

World Production and Prices, 1925-1933, from which this diagram is taken, dates the beginnings of recovery from July 1932, when the Reparations agreement was signed at Lausanne. Since that time, however, there have been two setbacks, the first from December 1932 to March 1933, while the banking crisis was gathering in the United States, and the second from July to November 1933. Between these two periods there were some months of rapid recovery in the United States. Elsewhere, the increase of production was steadier, but the violence of the setback in the United States in the autumn of 1933 brought the indices so far back towards the lowest levels reached in 1932 that by the middle of 1934 that country had not regained all the lost ground.

These figures may be supplemented by the following table, which shows the index-numbers of production for eighteen countries as they stood in June of the last three years. The uneven progress of recovery is sufficiently evident from this table and it is to be remembered that the number of unemployed in the world at the middle of 1934 was not far short of twenty millions, while the index of world industrial production stood only at about 83 per cent of its 1928 and at 78 per cent of its 1929 level.

[1] *World Production and Prices, 1925-1933.*
[2] Provisional.

The Increase of Industrial Production in Certain Countries from June 1932 to June 1934.

(Base: 1928 = 100.)

Country	Index-numbers — June			Percentage increase	
	1932	1933	1934	1932-34	1933-34
France	73.2	87.4	78.0	6.6	—10.8
United States [1]	53.2	82.9	77.5[2]	45.6	— 8.3
Belgium	65.9	72.8	70.2	6.5	— 3.6
Netherlands	58.6	68.7	70.0	19.4	1.9
Norway	.	111.6	114.9	.	3.1
Austria [1]	63.2	65.6	68.1[3]	7.8	3.8
Chile [1]	105.1	117.5	125.6	19.5	6.9
Poland [1]	54.4	57.8	62.1	14.2	7.4
Italy	62.7	79.1	85.7	36.7	8.3
Finland [4 5]	101.5	117.5	130.0	28.1	10.6
Hungary [1]	68.0[5]	81.2[5]	90.9[6]	34.0	12.0
United Kingdom [5]	89.4	91.7	104.0	16.2	13.4
Japan [3]	108.9	126.0	143.5	31.7	13.9
Czechoslovakia [2]	67.6	63.0	74.0	9.5	17.5
Canada [1]	65.3	67.1	80.8	23.7	19.4
Roumania [6]	81.5	93.9	116.8	43.3	24.3
Germany [1]	60.7	69.5	68.1	45.8	27.3
Sweden [1]	76.9	81.7	107.7	40.1	31.8

Before analysing the geographical spread of recovery, it is of some interest to examine the nature of the increase in production that has so far been registered. The incomplete nature of the available statistics renders this a task of some difficulty, as there is reason to believe that recovery in the agricultural exporting countries has taken a different form from that in more highly developed industrial countries. Thus there has been a marked increase in the production of foodstuffs in some of the British Dominions, notably dairy produce in Australia and New Zealand, and the great bulk of this increased production has been exported. The Ottawa agreements, assuring to the British Dominions and colonial possessions a preferential entry to their principal export market, have enabled them up to the present to expand production without fear of meeting new trade restrictions. These countries, therefore, form a conspicuous exemption to the general tendency for increased production to be directed mainly towards domestic markets. The French and Netherlands colonial empires are in much the same position.

[1] Adjusted for seasonal variations. [2] May. [3] April. [4] 1926 = 100. [5] Second quarter. [6] First quarter.

Raw material production has in most countries been less handicapped by trade restrictions than other kinds of production. The following table is illuminating in this respect.

Indices of the Quantum of World Trade and World Production.

(Base: 1929 = 100.)

		1929	1932	1933
Foodstuffs:	Production	100	101	100
	Quantum of trade .	100	91	83.5
Raw Materials:	Production	100	73	79
	Quantum of trade .	100	80	86.5
Manufactures:	Production	100	68.5	77
	Quantum of trade .	100	58	59

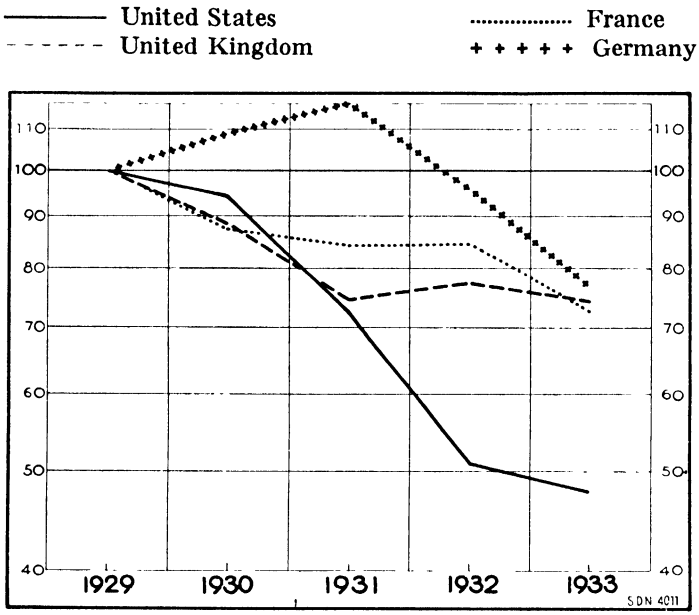
The production and trade indices shown above are not strictly comparable, since manufactured foodstuffs are included in the trade indices with foodstuffs, while the production indices are confined to crude foodstuffs. Both manufactured foodstuffs and semi-manufactured articles other than foodstuffs (which in the trade indices are included with raw materials) enter into the indices of manufacturing production, which also includes mining and to some extent building activities. Nevertheless, these differences of calculation are not sufficient to invalidate the striking contrast between the relative freedom of trade in raw materials and the restrictions imposed upon trade in manufactures and, latterly, in foodstuffs. Those countries whose chief exports are raw materials find their production less hampered and those whose main export outlet for foodstuffs has not up to the present time been restricted gain an added advantage from this fact.

If, however, the production and export trade of industrial countries are compared, it becomes clear that the revival of production has been primarily for the domestic market. Such a comparison is made in "World Production and Prices 1933" and the main results of the calculations are summarised in the following diagram.

Ratio of Export Indices to Production Indices for Manufactures.

(Base: 1929 = 100.)

Logarithmic Seale.



From this diagram, it would appear that the industrial recovery which took place in France during 1933 related to the domestic market alone. Moreover, after July 1933, the index of industrial production in that country fell month by month and was still falling in the summer of 1934. The greater part of this decline was in the export industries, but renewed deflation in an attempt to reduce industrial costs after the devaluation of the dollar in January 1934 depressed the domestic industries also. Even in the United Kingdom, where currency depreciation relieved the strain on the export industries after September 1931, those industries did not share in the recovery during 1933 to the same extent as the home market industries. The increased production in the United States was mainly a domestic matter also, though the depreciation of the dollar led to an increase in the quantum of manufactured exports. The recovery of production in Germany during 1933 coincided with a sharp decline of manufactured exports.

More detailed information is available for Finland and Sweden and is reproduced in the table below.

Production in Export and Home Market Industries in Finland and Sweden.

(Base: 1929 = 100.)

	1930	1931	1932	1933	1934 1st Quarter	1934 2nd Quarter
Finland:						
Export industries . .	93	86	92	104	117	122
Home-market industries	95	82	83	97	99	107
Sweden:						
Export industries . .	97	78	66	72	85	82
Home-market industries	97	89	87	88	101	112

Finland is a country whose economic system is largely based upon exported raw materials, in this case wood products, and its figures illustrate the gain that has accrued to such countries from the relatively less restricted trade in raw materials. Sweden's exports are more varied and it is clear that, as in the case of the industrial countries, the recovery in production has been mainly for the home market.

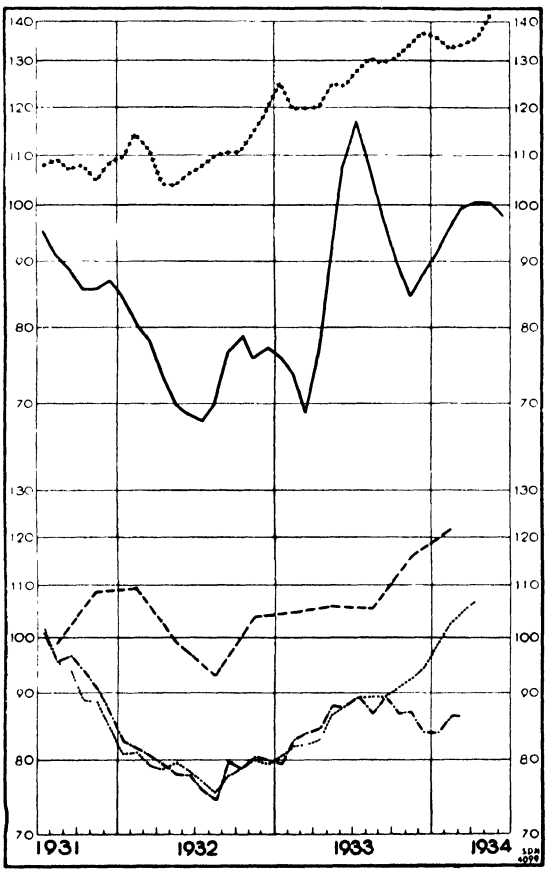
It is difficult to summarise the relative movements of production after the end of 1933. Up till that time, it is evident that agricultural production had increased considerably during the depression in Australia and New Zealand and also in Europe and Africa. Adverse climatic conditions caused a partial decline of production in Oceania during 1933, but the index still remained high both for foodstuffs and for agricultural raw materials. In Europe, agricultural protection was increased and there was a considerable expansion particularly of cereal production. Up to the end of 1933, the greatest increase in industrial activity had been in Japan, New Zealand, Chile, Greece, the three Scandinavian countries, Finland and the U.S.S.R. In all of these countries, the index for 1933 was higher than it had been on an average in the five-year period 1925-1929. There is some evidence, moreover, that industrial production increased rapidly in many of the smaller agricultural countries whose industrial development was the counterpart of increased restrictions on their agricultural exports to industrial countries. In the first quarter of 1934, the industrial activity index for the United Kingdom also rose above the 1925-1929 average.

In the next diagram, the course of industrial production is shown, separately for Japan and the United States, and for

General Industrial Activity in Certain Countries: Monthly Movements.

(Base: First half of 1931 = 100.)
Logarithmic scale.

———— United States ++++++ Japan
---------- Paper Currency Countries (Europe) ..... Exchange Control Countries (Europe)
—·—·— Gold Group



three groups of European countries. The first group — the United Kingdom, Sweden, Finland and Austria — consists of countries whose currencies depreciated in the latter part of 1931; the second — Germany, Czechoslovakia and Hungary — of countries which have maintained exchange controls while allowing certain transactions to be effected at depreciated

rates, or, in the case of Czechoslovakia, have devalued their currency; the third group consists of the countries of the gold *bloc* for which indices are available — France, Italy, Belgium, Netherlands and Poland. The United Kingdom, Germany and France dominate their respective *blocs* by reason of the heavy weights that must be attributed to them.

The first point to be noted in this diagram is the relatively independent development of Japanese production. Many factors have entered into that development, of which the chief is obviously a large external depreciation of the currency, while domestic costs and prices did not rise to a corresponding extent. As was shown in Chapter I, some important costs actually fell in Japan. There has also been a considerable extension and reorganisation of Japanese industry in recent years, resulting in a peculiarly effective combination of low labour costs with the advantages of mass production. Moreover, the bulk of the increase in Japanese exports has been to markets where entry was not greatly restricted until a series of commercial negotiations beginning with the Indo-Japanese agreement in January 1934, and followed by the imposition of quota restrictions in the British colonies and later in the Netherlands Indies, began to set limits to their expansion.

The movement of production in the European paper currency group has also followed a relatively independent course. [1] The composite index of this group rose fairly steadily after the depreciation of sterling, and rapidly between the third quarter of 1933 and the summer of 1934. There was a check in the United Kingdom in the early summer, but the *Economist* index of industrial activity rose again in June. The advance in Sweden and Finland was more pronounced than that in the United Kingdom; but, in the first quarter of 1934, there was a marked slackening of production in Austria.

The curve for the group of countries where the nominal gold parity was maintained by exchange control, while a certain proportion of transactions was effected at depreciated exchange rates, moved in close sympathy with the index for the gold countries until the third quarter of 1933, but, dominated by the German development, its movement after that quarter was rapidly upward. The German index of industrial output rose rapidly by over 28 per cent between June 1933 and May 1934 and stood at that date only 11 per cent below its peak level of 1928. There was a marked increase of industrial production

[1] Austria is included in this group since, from 1932 onwards, exchange control was gradually relaxed *pari passu* with a gradual extension of private exchange clearing between Austrian exporters and importers at a depreciated schilling rate. The currency depreciation was formally sanctioned in April 1934.

also in Hungary, especially during 1933 and 1934, though agriculture remains the predominant form of production in that country and a relative improvement in agricultural prices has recently been the most important influence upon economic conditions. In Czechoslovakia, on the other hand, industrial activity remained depressed throughout 1932 and 1933, though the index has risen somewhat since the currency was devalued in February 1934.

The third group of European countries consists of those which have remained on the gold standard. There was some tendency towards an increase in production in those countries from the middle of 1932 until the middle of 1933. This may have been in part a reflection of the revival at that time in the raw-material markets, the index for France which bulks large in the composite index of the group being based partly, and that for the Netherlands wholly, on imports of raw materials. From the middle of 1933 when the dollar depreciated rapidly, followed by sterling and the yen, there has been a distinct downward tendency of production in the gold countries. Wholesale prices declined slowly, but the cost of living and wages were more resistant and interest rates remained high or rose. In April 1934, both France and Italy undertook further measures of a deflationary character and, while the budgetary position improved and interest rates fell somewhat, production was further depressed in France. Poland, which had carried through a drastic deflationary policy at an earlier stage, experienced a gradual expansion of production in 1933 and early in 1934. In Belgium, production was practically stationary in this period. For the gold group as a whole, however, deflation persisted and there was a marked decline in production.

Developments in the United States have depended largely upon Government policy. The banking crisis early in 1933 brought the production index back almost to the low level of July 1932. There followed a great spurt of production which, between March and July 1933, raised the index from 54.1 to 90.1, a gain of two-thirds in four months. From that month, however, a sharp recession set in which brought the index down to 64.9 in November. Since then there has been a more gradual increase once more, and in May 1934 the index stood at 77.5. The Canadian index was naturally affected by these developments, but the expansion of production in that country was less spectacular, and the recession in the autumn of 1933 less marked, than in the United States. The index rose from its lowest point (51.7) in February 1933 to 76.6 in September of that year, fell to 71.3 in February 1934 and has since risen sharply to 84.8 in May.

The coincidence of the fluctuations of industrial activity with changes of Government policy in the United States is too marked to have escaped notice. There is disagreement concerning the extent to which the spectacular rise between March and July 1933 was caused by a flight to goods in anticipation of inflationary policies or by a more wholesome revival of confidence, and concerning the influence to be attributed to the launching of the National Recovery Administration policies in causing the recession which followed. But there is more general agreement concerning the influence of Government expenditure in promoting industrial revival since November 1933. At the time of writing, there has been a seasonal recession, and steel output in particular dropped heavily in June 1934; the immediate outlook is so obscure and so dependent upon the evolution of Government policy in the near future that there is no means of judging how important that recession may prove to be.

The Reorganisation of Food Supplies.

Agriculture is both the most widespread and fundamental and the most stable of human activities. Indices of agricultural production for the world as a whole show remarkable stability in years of depression as in years of prosperity. The index of total agricultural production in the world compiled by the Economic Intelligence Service of the League of Nations rose from 98 in 1925 to 103 in 1929, roughly in proportion to the estimated increase in world population. Since 1929, it has not risen above 104 or fallen below 102, at which figure it stood in 1933. This apparent stability, however, marked extremely important changes both as between the different types, and among the different areas, of agricultural production.

The foodstuffs and raw materials which are comprehensively grouped under the term agricultural production vary enormously. The chief foodstuffs such as the grains used for human consumption are almost universal, but their conditions of production are very different in the great exporting countries which use large-scale methods of mechanised production and in the peasant countries either of Europe or of the Far East. Cattle and sheep raising and dairy production are pursued in the countries of "extensive" production — the Argentine, the United States, Canada, Australia and New Zealand — by methods so different from those where animal husbandry is on a smaller scale and conducted more largely by human labour and less by machine methods that they present in

practice very different problems of financial and labour organisation. The European countries, such as Denmark, which have concentrated upon the production of animal products for export present different problems again, if only because of the importance in their economy of the raw materials used for feeding the cattle in their farm factories. In the densely populated tropical and Far-Eastern countries, animal husbandry is of minor importance. Moreover, the broad heading "agricultural production" includes the tropical plantations of cane sugar, as well as the production of sugar-beet in more temperate climates, the vegetable oils from tropical regions as well as the linseed of the Argentine. Raw silk from Japan, cotton from Egypt and the United States and wool from the southern hemisphere enter into the index for textiles along with flax and wool from Europe.

It is necessary, therefore, to analyse in more detail the different kinds of production that are massed together in this general index. In so doing, it becomes apparent that very important changes have been taking place in agricultural production in different areas, the full effects of which cannot as yet be estimated. It is advisable to begin with a more detailed study of the production of foodstuffs, though these cannot be dissociated altogether from the production of agricultural raw materials, not only because there are such joint-products as meat and wool to be considered, but also because alternative uses of resources, as, for example, between grain-growing and mixed farming, play an important rôle.

The indices of aggregate production of crude foodstuffs in recent years are shown in the table below.

Indices of Production of Crude Foodstuffs, weighted by 1930 Values.[1]

(Base: Average 1925-1929 = 100.)

Continental Groups	1925	1929	1932	1933*
Europe (excluding U.S.S.R.)	98	109	112	110
U.S.S.R.	93	102	93	107
Europe (including U.S.S.R.)	97	107	106	109
North America	99	96	102	88
Latin America	97	102	97	102
Africa	95	107	111	109
Asia, excluding U.S.S.R. and China, except Manchuria	98	103	104	105
Oceania	93	102	124	118
World	98	103	104	103

* Provisional indices, subject to revision.

[1] *World Production and Prices, 1925-1933.*

In order to explain the movements shown in this table, it is necessary to study the variations of production in the main commodities included in the indices. There are naturally great differences in the importance of these commodities in the total agricultural production of different areas, and even within the continental groupings shown above there are important divergences, as, for example, between the agricultural and industrial countries of Europe.

There has in the last three years been a rather marked tendency towards a shift from cereal to animal farming. This is illustrated by the following table, which compares, for the world as a whole, excluding the U.S.S.R., the indices of bread crops (wheat, rye and rice) and meat (beef, veal, pig-meat, mutton and lamb). The index-numbers are based upon the average for 1925-1929 = 100.

	1925-1927	1928-1930	1931-1933
Bread crops and rice . .	98	104	103
Meat	98	103	106

The index for the first group was high in the second three-year period mainly because of large wheat harvests in 1928 and 1930, the surplus from which, however, went mainly into accumulated stocks. The available information in respect of dairy produce, though incomplete, points to an increase of output in recent years and this, together with the marked upward trend of meat production shown above, indicates a shift from cereal to animal farming.

The most important cereal grown for human consumption is wheat, and it is in respect of wheat-growing that the most marked changes of production have occurred in 1933-34. The acreage under wheat in 1933 (1933-34 for the southern hemisphere) fell in the world, excluding the U.S.S.R., by about 5 per cent, but the distribution of this acreage and the crops harvested changed very greatly. The following table shows the acreage and yield in three groups of countries — the four major exporting countries (Canada, the United States, the Argentine and Australia), the Danubian exporters (Hungary, Roumania, Yugoslavia and Bulgaria) and importing Europe (Austria, Belgium and Luxemburg, Czechoslovakia, Denmark, Estonia, Finland, France, Germany, Greece, Irish Free State, Italy, Latvia, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom).

The Production of Wheat 1928-29 to 1933-34.

(000's.)

	1928-29	1930-31	1931-32	1932-33	1933-34
Four major exporting countries:					
Area (hectares)	48.9	50.1	45.5	46.9	43.6
Yield (metric tons). . . .	54.5	46.9	44.4	43.3	33.0
Danubian exporters:					
Area (hectares)	7.9	8.1	8.5	7.6	8.0
Yield (metric tons). . . .	10.0	9.6	10.1	6.1	9.9
Importing Europe:					
Area (hectares)	19.5	19.9	20.2	20.9	21.5
Yield (metric tons). . . .	26.6	24.9	26 5	32.9	34.2

The most remarkable feature of this table is the fact that the crops of "importing Europe" in 1933-34, for the first time in many years, exceeded those of the four major exporting countries. This was the result of increased protection carried out, not only by higher tariffs, but also by quotas, subsidies and milling regulations. Thus, in 1933-34, the area sown to wheat, compared with the area sown in the average of the years 1927-28 to 1931-32, increased by 17 per cent in Germany, 35 per cent in Greece, 43 per cent in Latvia, 17 per cent in Lithuania, 2 per cent in France, 16 per cent in Sweden and 11 per cent in Czechoslovakia. Many of the importing countries outside Europe also — for example, Japan, Egypt and South Africa — increased their acreage considerably. On the other hand, there was a restriction of acreage in many of the great exporting countries. Thus, in Europe, the area sown in Hungary was 10 per cent less. In Canada it was 6 per cent less and in the United States 12 per cent less than the average in 1927-28 to 1931-32. On the other hand, the area sown in the U.S.S.R. was 28 per cent greater and there was expansion also in the Argentine.

The strong tendency thus revealed towards a greater degree of national self-sufficiency as regards wheat supplies is one of the most important changes of agricultural organisation now in progress. Inevitably, a greater proportion of the world's wheat supplies is now being produced at a higher cost. The prices in national markets have diverged widely so that wheat is now sold in some countries at more than three times the price at which it can be purchased in the greatly shrunken world market. The paradoxical situation has been created whereby some Governments subsidise their farmers to grow

wheat at three times the price at which it might be secured from other countries whose Governments are paying their farmers to refrain from production.

The effect of the price disturbances thus caused has encouraged some increase in consumption in the free markets, where prices are low, both by affording China, for instance, the opportunity to consume more wheat and by diverting some of the accumulated stocks to alternative uses such as cattle-feeding. But this increase appears to have been more than counterbalanced by a shrinkage of consumption in the countries where prices have risen, and the net result to the end of the 1933 harvest was an almost continuous accumulation of stocks, as shown in the table below.

Wheat Stocks on August 1st, 1928, to August 1st, 1933.

(Base: Average 1925-1929 = 100.)

	1928	1929	1930	1931	1932	1933
Four major exporters . .	106	166	168	189	199	228
Danubian exporters . .	61	182	107	138	119	70
Importing Europe . . .	104	117	106	90	90	118
World (excluding U.S.S.R. and minor areas) . . .	102	140	133	145	144	159

There have been two major increases in stocks, the first caused mainly by the very good harvest of 1928 and the second the result of diminished consumption in 1932-33. [1]

In 1933-34, however, adverse climatic conditions in many important producing areas, particularly in the United States, caused a considerable diminution in the yields. The new situation created by this harvest failure is, however, more conveniently considered in the last chapter of this *Survey* in the light of the latest information available.

It should be added that, in the foregoing tables, the U.S.S.R. has been excluded from consideration because of the lack of definite information concerning recent harvests in that country. The collectivisation of farm lands has been proceeding rapidly and, at the end of 1933, it was stated that 65 per cent of all peasant households had been merged into 225,000 collective units covering 74 per cent of the entire area under grain crops. An extension of the cultivated area and favourable climatic

[1] Current consumption and current supplies for the World (excluding the U.S.S.R. and minor areas) in recent years are estimated as follows in metric tons (000's):

	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34
Current consumption . .	100	96	102	103	98	97
Current supplies	107	94	104	102	100	96
Surplus (+) or Deficit (—)	+ 7	— 2	+ 2	— 1	+ 2	— 1

conditions in 1930 gave rise to a record crop in 1930 and the exportation of a large part of that crop contributed to the derangement of world markets. But a serious reduction of live-stock and light harvests in subsequent years largely removed this disturbing factor and the second "Five-year Plan", which commenced in 1933, does not lay such stress upon the export of grain to purchase materials for industrial development.

In the Far East, rice takes the place of wheat as the principal cereal for human consumption, and it is interesting to note that an almost parallel situation has developed in respect of that commodity. Increased trade restrictions and diminished purchasing power leading to lower consumption in many important areas have created difficulties for the principal exporting countries — Burma, Indo-China and Siam. These difficulties have been accentuated by an increasing substitution of wheat for rice, and the currency depreciation of certain normally importing countries, notably Japan, has further added to the difficulties of the exporting areas. In 1933-34, both China and Japan reaped abundant crops, and the Japanese dependencies were even able to compete on the export markets in that year. A crop failure in certain parts of India was offset by record yields in Burma and thus the exportable surplus in the Far East as a whole continued to increase.

Before passing to a consideration of the changes that have taken place in other types of farming in the temperate zone, it is necessary to point out the influence of the cereal developments noted above upon the countries which depend largely upon cereal imports as the raw material for their animal production. In the first years of the depression, the maintenance of the prices of animal foodstuffs placed these countries in a relatively favourable position; but the area under maize, the chief fodder crop, was rapidly extended in Europe, the United States and the Argentine. Later, the prices both of meat and of dairy produce fell considerably and the use of other cereals, including wheat, for feeding purposes was greatly extended.[1] There were inevitable reactions both in the maize-exporting countries, chiefly the Argentine, and in the countries which relied chiefly upon cereal imports for their animal husbandry. The situation of the latter was greatly worsened by the increased restrictions placed upon their exports by the countries upon which they normally relied for their chief markets. Such restrictions were particularly important in the case of Germany and the United Kingdom, and Denmark suffered heavily.

[1] For the three years ending with the season of 1932-33, the Food Research Institute of Stanford University has estimated the total increase in the amount of wheat used for feeding purposes as follows (in metric tons): United States 8.2 millions, Canada 2.7 millions, Europe 1.4 millions.

The subsequent rise in the price of cereals in the latter part of 1933 and the early months of 1934 was not accompanied by a lifting of the trade restrictions and there is always a lag of several months before the prices of animal products rise in sympathy with those of cereals.

There was a continued expansion of the production of meat and dairy produce in the newer farming countries, particularly Australia and New Zealand. The situation that developed in the latter years of the depression was one in which there was a distinct turnover from cereal to animal farming in the surplus-exporting countries as the market for cereals narrowed and their prices dropped. The increased production of meat and dairy produce in these countries, however, was met by an extension of agricultural protection in the importing countries, the effects of which were most seriously felt first by the farm-factory countries which utilised cereals as raw materials, and to a less extent by those newer countries such as the Argentine which also found their access to important markets restricted. In the summer of 1934, with plans being discussed for a limitation of meat and dairy produce exports from the British Dominions to the United Kingdom, these important areas of animal husbandry, hitherto protected by the Ottawa Agreements, began to express apprehension concerning the effects of possible limitations upon their exports.

Import restrictions in the European importing countries have not been confined to tariffs and quotas, but have been reinforced by more rigorous application of veterinary regulations. While the meat production of the world has been well maintained throughout the depression, the effect of the added restrictions on trade has been to cause a divergence of prices in the different national markets, a falling-off of consumption together with a transference of demand from dearer to cheaper meats in the highly protected markets, and an accumulation of supplies and low prices in those countries where imports were not so restricted.

Dairy produce, as well as meat, increased in the earlier years of the depression, as may be seen from the following table.

Indices showing Quantum of Dairy Production.

(Base: Average 1925-1929 = 100.)

Country	1925 1925-26	1928 1928-29	1929 1929-30	1930 1930-31	1931 1931-32	1932 1932-33	1933 1933-34
Germany.	90	107	110	95	98	...	...
Switzerland . . .	101	102	99	92	94	93	97
Denmark	101	102	108	115	119	112	115
United Kingdom .	98	101	100	99	99	103	106
Canada	99	100	99	102	106	107	108
United States . .	95	102	105	106	108	108	...
Australia [1]	96	102	104	114	122	...	...
New Zealand . . .	90	104	112	109	121	132	...

It will be seen from this table that the greatest increases of production took place in Australia and New Zealand, while the Danish production also increased. There was an expansion of production also in the United Kingdom and to a less extent in the United States and Canada.

Consideration of sugar, and of the beverages of tropical origin — coffee, cocoa and tea — is deferred to a later section dealing with schemes for restricting and regulating production. Other foodstuffs are dealt with in "World Production and Prices 1933-34", from which volume most of the information above has been taken. It is not possible in a brief space to give a comprehensive review of all the principal foodstuffs. Soya beans in Manchuria, wine in Europe, vegetable oils of both temperate and tropical origin, and many other commodities should be included in such a review; but the main object here is to draw attention to what, after all, is the principal agricultural problem of the moment — viz., the struggle for markets which has followed upon the increasing effort at self-sufficiency of food supplies in the principal European countries. Behind that effort is a combination of economic, political and social causes which show few signs at present of weakening. The quantum of foodstuffs entering into international trade decreased by more than 8 per cent in 1933, though that of raw materials increased by over 8 per cent, and that of manufactures also increased by almost 2 per cent, as compared with 1932. The earliest manifestations of agricultural protection in the depression were concerned with wheat, but, as the disturbance of the cereal markets caused a diversion of agricultural resources to other types of farming, the increased competition in such commodities as meat and dairy produce caused disorganisation of these markets also, and agricultural protection was extended to an increasing range of production in the importing countries.

[1] Includes poultry and bee farming.

The exporting countries have therefore experienced further restrictions of their export outlets. It is too soon to estimate the full consequences of this momentous development, which has so far fallen most heavily upon the less-privileged exporting countries such as Denmark and the Argentine, but which obviously has important bearings also upon the reorganisation of agriculture in the United States and upon the prosperity of the British Dominions.

The Demand for Raw Materials.

As was pointed out in the first section of this chapter, the most noticeable recovery of production in 1933-34 has been in the manufacturing industries and in the raw materials which they use. The world index of raw-material production rose from 81 in 1932 to 88 in 1933. The rise was, however, greatest in raw materials of non-agricultural origin, the metals group rising from 52 to 64. The movement of these indices is shown in more detail below.

The Production of Industrial Raw Materials of Agricultural Origin.

(Base: Average 1925-1929 = 100.)

Continental Groups	1925	1929	1930	1931	1932	1933*
Europe, excluding U.S.S.R.	94	121	84	92	88	86
U.S.S.R.	97	106	111	131	124	123
Europe, including U.S.S.R.	95	115	95	108	103	102
North America	104	100	98	113	86	90
Latin America	96	96	103	104	88	93
Africa	98	110	108	95	98	110
Asia, excluding U.S.S.R.	95	105	109	95	98	105
Oceania	91	104	102	110	112	100
World	97	105	103	103	96	100

In order to understand the principal causes governing the movement of these index-numbers, however, it is necessary to consider the main groups of commodities included. It should be pointed out that raw-material production, as measured by the indices quoted in this section, is not altogether a trust-

* Provisional indices, subject to revision.

worthy guide to variations in industrial activity. The indices do not measure the whole production of raw materials and in certain cases, such as fuels, include production for other purposes than manufacturing (transport and domestic consumption). Moreover, there have been large variations of stocks. These are particularly important in the case of certain agricultural raw materials, the production of which is dependent partly upon climatic conditions and partly upon the demand for joint products used for foods. The series of diagrams showing for the most important raw materials of both agricultural and non-agricultural origin the yearly movement of production and stocks (from which consumption may be deduced) should therefore be consulted in connection with the pages that follow.

Among the raw materials of agricultural origin, textiles occupy a prominent place. Their production is governed, not only by the demand from industry, but also by conditions of supply which are relatively inelastic. The wide discrepancies between the supply and demand for textiles that developed during the early years of the depression, together with the marked recovery of demand in 1933, may be judged from the following summary table.

World Production of Textile Materials and Manufactures.

(Base: Average 1925-1929 = 100.)

	1925	1929	1930	1931	1932	1933
Textile materials . . .	97	105	103	105	98	104*
Textile manufactures [1] .	96	104	91	92	92	102

The textile industries as a whole are less apt to suffer during depression than the more complicated investment and luxury industries. There is a marked tendency towards an increase of textile production in regions which hitherto have been mainly devoted to agriculture, and, as the example of Japan has again proved, once the processes of industrialisation begin in these relatively simple industries, they are apt to spread to others. Meantime, it seems clear that the demand for textile products, and consequently for raw materials, has been maintained relatively better than in most industries during the depression. Even so, there has been a considerable fluctuation in production, stocks and consumption. The following diagrams illustrate this very clearly.

Fuller details concerning the production of the main textile materials — cotton, flax, hemp, jute, wool, raw silk, artificial

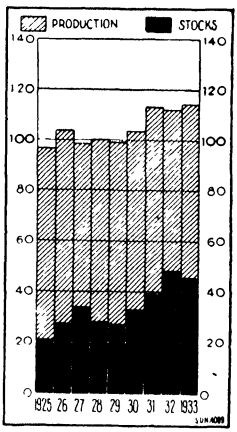
* Provisional indices.

[1] Weighted average of composite indices of activity in the textile industry in seven important countries, compiled by the Institut für Konjunkturforschung, Berlin.

silk — and of rubber, may be found in "World Production and Prices 1933-34". The diagrams which follow are taken from this volume also. They represent aggregate supplies (stocks at the beginning of each crop-year, plus annual production for that year). By 1933-34, the production of American cotton had fallen from its peak of 17,096,000 bales in 1931-32 to 13,177,000 bales, while a further reduction was planned for 1934-35. The area harvested in 1933-34 fell to 30 million acres as compared with 36 millions in the preceding year; but, under the Bankhead Act passed in March 1934, the acreage is to be reduced to 25 millions in 1934-35, the new crop which is to be marketed free of taxes being fixed at 10 million bales. Production elsewhere rose from 11,334,000 bales in 1932-33 to 13,613,000 bales in 1933-34. Despite the substantial reduction of the American crop and some recovery in demand, there still remained substantial accumulated stocks, mostly of American cotton. At July 31st, 1933, the total stocks were 16,076,000 bales, compared with 9,625,000 in 1929 and 17,046,000 in 1932. Of this total, American cotton accounted in 1934 for 11,814,000 bales. Since July 31st, 1934, however, there has been a further substantial reduction.

World Supply of Cotton.

(Base: 1925-1929 = 100.)



In the other principal textile materials, there is much less difficulty with regard to accumulated stocks, production having been restricted to the demands for current consumption. This position is well illustrated by the statistics for wool given below.

World Production and Consumption of Wool.

(Base: Average 1925-1929 = 100.)

	1929	1930	1931	1932	1933
Estimated production . . .	104	103	105	107	101
Estimated consumption . . .	107	105	105	103	114

A revival of demand in 1933-34 coincided with a short clip and, as a result, prices rose appreciably.

The position was less satisfactory for raw silk, the bulk of which is produced in Japan, where production rose in 1933 to record figures. Depression in the principal importing market (the United States) and ever-increasing competition from

artificial silk have resulted in low prices and a maintenance of stocks at a relatively high level.

Reference is made in a later section to the situation of the rubber industry; but, before passing to consider raw materials of non-vegetable origin, something should be said concerning the production of wood and wood pulp, which is of peculiar importance to some countries, notably Finland. Depression in the building industry in practically all countries severely restricted the demand for wood products until 1932. Since that time, however, demand has revived greatly with the widespread recovery of building activity. The extent of this revival is shown by the following table.

It is interesting to note also that, in 1933, there was a recovery in cement production in most European countries, though a further decline in the American production, partly caused by the existence of large but diminishing stocks, carried the world index still lower.

Exports of Sawn and Planed Soft-woods.

Standards (000's.)[1]

Groups of Countries	1929	1930	1931	1932	1933
Europe, excluding U.S.S.R. .	4,426	3,687	2,873	2,463	3,069
Of which:					
Northern exporters [2] . .	2,503	1,999	1,576	1,540	1,909
Baltic States	285	264	171	132	230
Central European exporters [3].	1,562	1,344	1,052	751	909
U.S.S.R.	829	966	961	969	983
North America	1,534	1,206	804	542	732

The revival of demand for wood products in 1933 by reason of the improvement in building activity in many countries is paralleled by the increased production of raw materials of non-agricultural origin.

[1] One standard equals 4.672 cubic metres, equals 2.5 metric tons.
[2] Norway, Sweden and Finland.
[3] Poland, Czechoslovakia, Austria, Yugoslavia, Roumania.

The Production of Industrial Raw Materials of Non-agricultural Origin.

(Base: Average 1925-1929 = 100.)

Continental Groups	1925	1929	1930	1931	1932	1933
Europe, excluding U.S.S.R.	90	115	104	90	80	86
U.S.S.R.	60	137	165	176	192	211
Europe, including U.S.S.R.	88	117	109	96	88	95
North America	92	110	92	73	55	65
Latin America	88	124	111	91	75	78
Africa	89	114	117	99	91	107
Asia, excluding U.S.S.R.	88	114	115	108	110	120
Oceania	98	100	93	77	81	88
World	90	114	101	86	73	82

A comparison of these indices with those of agricultural raw materials given earlier shows that the greatest increase during 1933 took place in the non-agricultural raw materials, the production of which increased in every continental group.

A substantial increase in the production of metals was the chief cause of this development, reflecting the expansion of the heavy industries which, as will be shown later, was so marked a feature of the recovery during 1933 and the early part of 1934. The most important group in this respect is iron and steel, which accounts for about 70 per cent of the aggregate production from which the index of the metals group is calculated. The importance of the recovery in iron and steel production may be judged from the following table:

World Production of Pig-iron and Steel and Non-ferrous Metals.

(Base: Average 1925-1929 = 100.)

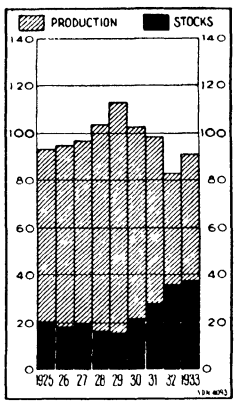
	1929	1930	1931	1932	1933
Pig iron and steel	116	92	87	48	64
Non-ferrous metals	114	103	85	62	67

Further consideration of the recovery in iron and steel production is deferred to the last chapter of this *Survey*. Among the non-ferrous metals, the existence of large accumulated stocks and the operation of restriction schemes in respect of certain important commodities render it necessary

to consider each metal separately. The development of production stocks and consumption in recent years is summarised in the diagrams.

World Supply of Copper.

(Base: 1925-1929 = 100.)



The indices of production prepared by the Economic Intelligence Service and reproduced in the table on page 109 are based upon smelter returns and not upon mining production. If the statistics of mine production had been available, they would have shown higher indices for the countries outside Europe and North America and lower indices for those continents. There has been a distinct tendency for production to show a relative increase in those areas which are outside the restriction schemes that have been put into operation. Thus the production of copper in Northern Rhodesia increased from 9,070 metric tons in 1931 to 105,876 tons in 1933. Copper Exporters Incorporated, which originally included American and other producers controlling 90 per cent of the world output, has pursued a policy of raising prices with the result that there has been a large accumulation of stocks. The indices of copper production and consumption are summarised below:

Production and Consumption of Copper.

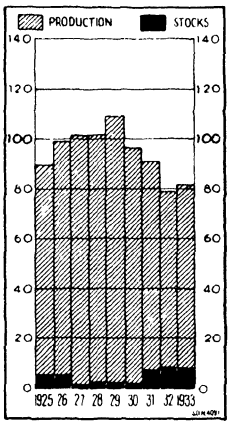
(Base: Average 1925-1929 = 100.)

	1925	1929	1930	1931	1932	1933
Production:						
United States . . .	95	111	81	60	31	27
Rest of world . . .	80	128	121	119	92	114
Consumption:						
United States . . .	88	121	87	65	36	41
Rest of world . . .	93	105	98	88	81	93

World Production and Prices 1925-1933 gives further details regarding other non-ferrous metals, and a later section of this chapter summarises some of the more outstanding schemes for the restriction of production.

Supply of Coal in Central Europe.

(Base: 1925-1929 = 100.)



It remains to point out the recovery that has taken place during 1933-34 in fuel and power production. Coal remains the most important source of manufacturing energy, but its importance relative to alternative sources such as petrol and hydro-electric power continues to diminish. The demand for coal was maintained in some degree during the depression by the relative stability of its use in household consumption and for transport. The increase in production was less than that of other forms of power in 1933, but was accelerated during the early months of 1934.

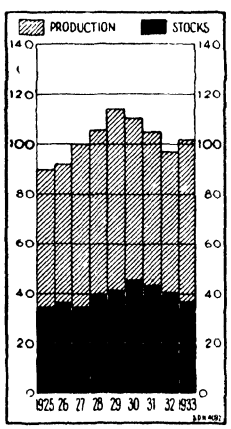
World Production of Coal.

(Base: Average 1925-1929 = 100.)

	1929	1930	1931	1932	1933	1934 (first five months)
Europe, excluding U.S.S.R.	112	104	94	85	86	93
U.S.S.R.	136	154	175	210	248	288
North America	101	89	73	60	63	73
Other areas [1]	103	100	92	89	94	102
World	107	98	86	77	80	89

Supply of Petroleum in the U.S.A.

(Base: 1925-1929 = 100.)



The increase in petrol production is more striking, the cancelling in May 1933 of the international agreement by which supplies had been controlled leading to a substantial rise in production and some accumulation of stocks in recent months. Available figures for the early months of 1934 indicate a continuation of this tendency.

World Production of Petroleum.

(Base: Average 1925-1929 = 100.)

	1929	1930	1931	1932	1933
United States.	116	103	98	91	103
Other countries	126	117	115	115	137
World	119	113	109	104	114

The production of electrical energy is not easy to estimate with accuracy, but available information suggests that, after

[1] Principally Japan, India, South Africa and Australia.

falling by about 4 per cent from 1930 to 1932, it rose by nearly 7 per cent in 1933 to a new record high level. Most of the recovery appears to have taken place in Europe, record figures being reached in Italy, Sweden, Switzerland, the United Kingdom and the U.S.S.R., as well as in some of the smaller countries, while there was a slight recovery also in the United States. In some European countries, notably the United Kingdom, the production of electric power by the utilisation of coal was more important than hydro-electric generation.

Schemes for restricting Production.

With great accumulations of stocks hanging over the markets for many important raw materials, schemes for restricting production and regulating sales have recently engaged the attention, not only of private producers but also of Governments. An adequate description of the national and international agreements in which such schemes have been incorporated would demand more space than is available here; but even such a description would fail to cover the whole field of the regulation of production. In the pages which follow, attention is drawn only to the salient characteristics of some of the more important international agreements. Trade restrictions, exchange controls and similar measures have covered a wider range and been more effective in limiting production than the particular agreements discussed below. Official and unofficial regulation of the national markets for important commodities, often sheltered behind trade barriers, has also increased during the depression. Resort has been had to subsidies, marketing assistance, Government purchases of stocks and other devices, and there has been a general tendency towards national regulation which has implied interference with competitive markets and in most cases limitation of production either in the country applying such measures or in its suppliers. As in all such interference, the profusion (and accompanying waste) of natural growth is checked. The economic philosophy of abundance which dominated 19th century policy is giving way to a philosophy of regulation and control. In that philosophy, regulated trade and national planning are even more important elements than limited international agreements for the control of particular commodities.

For the most part, such agreements are of a private character and arise naturally from the monopolistic tendency which has been marked in the production of homogeneous raw materials, especially certain metals, for several decades. In two respects,

however, the influence of the depression has brought significant changes in production controls. Some of the most important schemes have been propounded, not in respect of commodities such as nickel or tin where production is concentrated in relatively few hands, but in respect of basic foodstuffs and raw materials like wheat, sugar, coffee, cotton, the production of which is scattered over many countries and is organised in small, hitherto competitive, units. Even where the control of such commodities has been effected on a national basis, it was inevitable that some measure of Government assistance and enforcement would become necessary. Where such schemes are international in character, as in the wheat and silver agreements reached at the Monetary and Economic Conference or the tin and rubber schemes, they have taken the form of official agreements, even though the original impulse came from interested groups of producers.

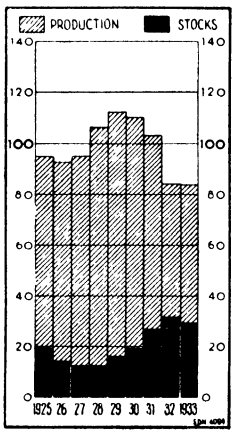
Restriction schemes vary greatly both in their technique of control and in the circumstances of supply and demand with which they must grapple. There is a broad distinction between the control of marketing, either by restricting imports or by allocating export quotas, while allowing production to adjust itself to diminished trade, and more direct attempts at restricting production. In the former case, stocks are apt to accumulate and, even if measures are taken to hold these stocks off the market, their existence is a constant menace to the success of the control. In both marketing and production controls, the possibility of alternative supplies, either of substitutes or from new areas, must be reckoned with. The reaction of consumption is an important factor also. In general, restriction schemes are most likely to be successful where the supplies are concentrated in a few hands, so that agreement to reduce production is relatively easy to achieve, and where demand is relatively inelastic. These conditions are most fully met in the case of certain metals, and control has proved most effective in regard to those commodities. The criterion of effectiveness, however, needs to be defined. A reduction of stocks, rising prices and increased profits for the industry concerned are the natural tests under a system of free enterprise; but these may be achieved, with or without the aid of Governments, at the cost of diminished consumption at the expense of the final consumers.

Perhaps the most successful case of restriction in 1933-34 was that organised by the International Tin Committee. This Committee, consisting of representatives of the Governments of Bolivia, Malaya, Nigeria, Siam and the Netherlands Indies, was formed in February 1931 and at that time controlled 87 per cent of the world production. World production of tin

ore, measured in terms of the metal content, fell from 195,000 metric tons in 1929 to 88,000 in 1933. The greater part of this decrease took place in 1933, when mine production dropped by about 13 per cent because of agreed restrictions in the countries mentioned above. Other producing countries — China, Burma, Belgian Congo and the United Kingdom — increased their share of world output from 8 per cent in 1929 to 20.5 per cent in 1933; but, early in 1934, most of the countries which had remained aloof joined the restriction scheme, receiving quotas substantially greater than their 1929 production. Meantime, the price of tin had been raised very substantially — in terms of gold by 66 per cent between June 1932 and June 1934. This was the result, not only of restricted production, but also of a considerable diminution of stocks, which from a peak of 62,700 tons in 1931 declined to 27,000 tons in 1933. An international pool was formed which gradually released 21,000 tons of stocks in 1933, and a buffer pool of 8,000 tons was subsequently formed at the end of the year.

World Supply of Tin.

(Base: 1925-1929 = 100.)



The statistics of copper production were given in a preceding section of this chapter. The control in this case was less effective because of the rapid increase of supplies from areas outside the scope of the agreement, notably Northern Rhodesia.

Zinc and spelter production is largely controlled by the cartel formed at Brussels in July 1931, including producers in Australia, Belgium, Canada, Czechoslovakia, France, Germany, Italy, Mexico, Norway, Poland and the United Kingdom — the principal important producing areas remaining outside the agreement being Japan, the United States, and the U.S.S.R. In 1933, production was restricted on the basis of quotas amounting to 45 per cent of the pre-depression quotas, though smelter production greatly increased. There was therefore a large reduction of stocks, which fell from 206,400 tons in August 1931 to 109,600 in May 1934. The price of the metal, in terms of sterling, rose some 20 per cent in 1933; in January 1934, the cartel agreement was renewed, the quotas being continued at 50 per cent, to which figure they were raised on August 1st, 1933.

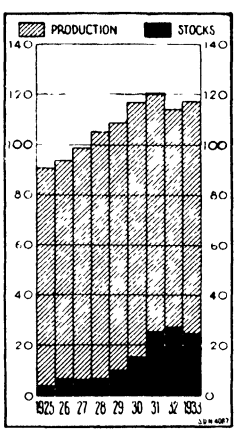
Nickel is another metal which is strongly controlled, in this case by an amalgamation carried through in 1929. Production outside the control of this single unit is not great and demand has been strong in 1933, so that world production rose in that year above its pre-depression level, the price rising from £172 to £230 per ton after the depreciation of sterling.

Aluminium stocks were also greatly reduced in 1933, the cartel comprehending American and European producers and controlling 50 per cent of the world production. This commodity, like iron and steel, is much less thoroughly controlled than those cited above. It will be noted that, of all these commodities, the only one in which Government support proved necessary for international agreement was tin.

The agreement on silver reached at the Monetary and Economic Conference is not an agreement to restrict production, but an agreement among certain Governments to regulate the marketing of the metal. The countries holding large stocks mainly of demonetised silver agreed not to sell more than specified amounts, while the United States Government agreed to neutralise such sales by purchasing at least equivalent amounts of American silver. Since the silver-buying policy of the United States was put into operation at the beginning of 1934, the price of silver in the world market has been very firm, but in ratifying the agreement reached in London the Chinese Government reserved the right to withdraw should the price of silver rise so rapidly as to aggravate the already serious price deflation in that country.

World Supply of Sugar.

(Base: 1925-1929 = 100.)



The most significant developments of 1933, however, have been the schemes developed for controlling and restricting the output of agricultural products — wheat, rubber, cotton, silk, coffee, tea and sugar. Indeed, the list might be greatly extended if account were taken of all the national controls of agricultural commodities in various countries. Rice in Japan, timber in Central Europe, wine in France, meat in Australia and New Zealand, cocoa in Trinidad have either been subjected to regulation or are the subject of discussion with that object in view. Reference is made here, however, only to the more important international agreements for limiting the supply of agricultural products.

Of these agreements, the Chadbourne plan launched in May 1931 to restrict the production of sugar has been longest in operation. By this plan, the output of sugar in the controlled area — Belgium, Cuba, Czechoslovakia, Germany, Hungary, Java, Mexico, Peru, Poland and Yugoslavia — has been greatly reduced; but production has continued to increase in other areas. Thus, while the area under beet was reduced in the controlled countries by about a third between 1930 and 1934, it was slightly greater in the rest of the world. The total production, including cane — as well as beet — sugar, is summarised in the following table.

World Production of Raw Sugar.

Quintals (000,000's.)

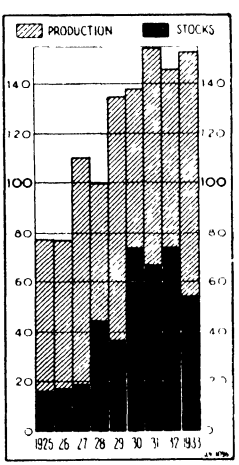
Area	1929-30	1930-31	1931-32	1932-33	1933-34*
Controlled area	129	113	88	62	58
Uncontrolled area . . .	150	173	180	183	202
World	279	286	268	245	260

The result has been a relative maintenance of world sugar stocks, which in May 1934 were equal to about thirty weeks' consumption as compared with thirty-three weeks in May 1932, despite a considerable reduction of stocks in the countries practising restriction. The price of sugar remains very low.

Coffee is another commodity which has been subjected to control for a long period, but is still low in price and suffering from large stock accumulations. Brazilian production is so large a proportion of the world total that its fluctuations dominate the market. Despite the fact that, since the beginning of 1931, the Brazilian Government has destroyed 32 million bags (of 60 kilogrammes), the visible world stocks remain very large. The world consumption has been almost stationary, despite low prices, and a record Brazilian harvest in 1933-34 was the main cause of a surplus of world production over current consumption in that year amounting to more than 17 million bags.

World Supply of Coffee.

(Base: 1925-1929 = 100.)

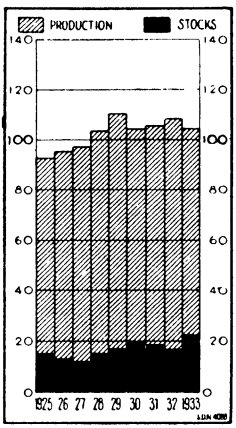


The tea-restriction scheme introduced in April 1933 has been much more successful, mainly because tea is produced

* Provisional

on large-scale plantations and there is therefore not the same difficulty, as, for example, with rubber and coffee, in controlling the production of small farmers and particularly "native" production. The scheme covers production in Ceylon, India and the Netherlands Indies, and the export quota allotted for 1933-34 was 85 per cent of the maximum exports in any of the three years 1929 to 1931. The demand for tea is inelastic in the most important markets and the restriction effected was adequate to cause a substantial diminution of stocks and a marked rise in prices. The quota was, in consequence, raised to 87½ per cent for 1934-35.

World Supply of Tea.
(Base: 1925-1929 = 100.)



The Wheat Agreement which was concluded in London shortly after the Monetary and Economic Conference was a limited agreement among the principal exporting countries to restrict their exports in the 1933-34 season and, except in the Danubian group, to reduce their acreage by approximately 15 per cent.[1] It was hoped that, by thus relieving the world market, higher prices would be secured and the importing countries might then lower their import restrictions. In fact, as was pointed out in an earlier section, production in the importing countries continued to increase and the price has not yet risen to the level at which they bound themselves to reduce their import restrictions. This price was 63.02 gold cents (U.S.) and was to be maintained for at least sixteen weeks. In January 1934, the price of May futures at Liverpool was 43 (gold) cents. The average price of all wheat imported into the United Kingdom from August 1st-10th was 55.6 pre-devaluation gold cents per bushel.

Among the exporting countries the allocation of the export quotas gave rise to disagreement in the early months of 1934. The statistical position in these countries is summarised in the following table.

[1] The actual reductions affected were: Argentine, 5 per cent; Australia, 15 per cent; Canada, 10 per cent; the United States, 12 per cent.

(Bushels (000,000's)

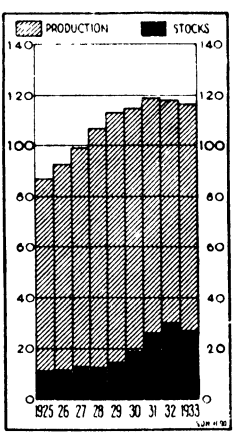
Countries	Quotas	Exports August 1st, 1933, May 31st, 1934	Balance allowed to July 31st, 1934	Exportable Surplus at June 1st, 1934
Argentine	110	112	— 2	103
Australia	105	69	36	110
Canada	200	160	40	200
Danubian countries	50	31	19	22
United States	47	30	17	200
U.S.S.R. and others	48	49	— 1	10
Totals	560	451	109	645

The Argentine asked for an additional quota of 40 million bushels and continued to export heavily despite the failure to reach agreement on this point. Meantime, however, the continued drought in the United States and poor harvests in other important areas caused a diminution of stocks and an upward price tendency, though in the middle of 1934 the wheat problem as a whole was still very far from being solved.

It remains to consider various textile controls, the most important of which are those of silk and cotton. The former is a problem chiefly for Japan, where an increasing production of cocoons has coincided with an even greater increase of rayon production and a virtual collapse of the principal export market in the United States. Prices have fallen heavily, there are large stocks, and production shows little sign of diminishing. The Government's intervention has consisted mainly in the holding of stocks, but power was taken in early 1934 to regulate production of all export commodities and, in the exercise of that power, the control of the silk market must play an important part.

World Production of Raw Silk.

(Base: 1925-1929 = 100.)

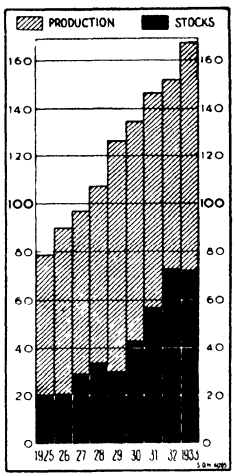


Cotton production control is again largely a concern of one country, the United States. The principal statistics relevant to this control are given in an earlier section. Rubber, however, is again subject to international control, despite the unfortunate experience of earlier schemes. The annual world production exceeded

consumption by large quantities in every year from 1925 to 1933, and world stocks at the end of 1933 were equal to almost one year's production. In May 1934, an agreement was reached among the main producing countries to regulate exports. These countries control over 99 per cent of world production. In consequence of the agreement, and even in anticipation of it, the price of rubber rose sharply. The new scheme is comprehensive in the sense, not only of including practically all the important areas of production, but also of exercising control over "native" as well as plantation rubber. Even before the scheme went into operation, the price of smoked sheet rubber in London rose from 2.16 pence per pound in March 1933 to 5.15 pence in March 1934 and it has since risen (in June 1934) to 6.5 pence.

World Supply of Crude Rubber.

(Base: 1925-1929 = 100.)



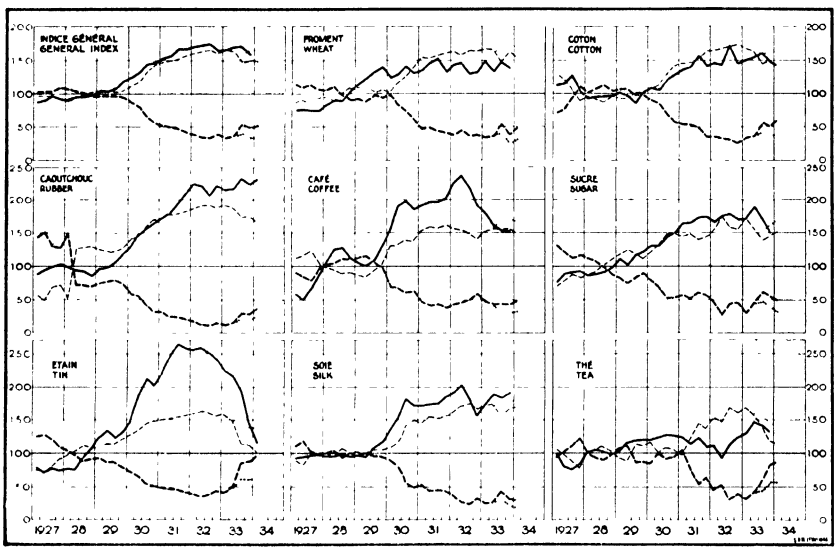
A Reduction of Accumulated Stocks.

Information regarding the existing stocks of certain important foodstuffs and raw materials has already been given in the preceding section of this chapter. This information may now be summarised briefly by bringing up to date the diagram and table given in the preceding *Survey*. It will be seen that, in April 1934, the index was about 6 per cent below the figure for April 1933.

It will be seen that, though the movement of the general index was distinctly downward in 1933 and the early months of 1934, there was an increased accumulation of silk, rubber, lead, silver and tea. In each case but that of lead, this accumulation continued into the early months of 1934; but the latest available figures show some tendency for stocks to fall. Monthly figures also indicate substantial reductions in the stocks of wheat, tin, tea, and cotton since April 1934. Because of the failure of the United States harvest, it is probable that wheat stocks in that country will be reduced to about the normal carry-over.

General Index of World Stocks of Staple Commodities.[1]

——— World stocks
– – – – – – Dollar prices
---------- Dollar prices (inverted)
..... Gold prices
Gold prices (inverted)



It is more than usually difficult to supplement these statistics by giving indications of stocks of semi-manufactured and manufactured goods in the hands of manufacturers and retailers. Statistics of retail trade are very slow in appearing and there is some evidence that, in both wholesale and retail trade, one of the lasting effects of the depression may prove to be a tendency to hold lower stocks in the final stages of distribution. Indices of the quantum of manufactured stocks are available for Sweden and the United States and it will be seen that stocks increased very substantially in the United States during the latter part of 1933 and the beginning of 1934, but that in Sweden there was a general tendency for stocks to fall rather than rise.

[1] League of Nations : *World Production and Prices, 1925-1933*, Chapter IV: "Price Movements".

Indices of the Quantum of Manufacturers' Stocks of Manufactured Commodities in Sweden and the United States.

(Base : Average 1925-1929 = 100.)

Country and Group of Industry	1930	1931	1932				1933				1934	
			Jan.	April	July	Oct.	Jan.	April	July	Oct.	Jan.	April
Sweden : [1]												
All industries	98	93	89	100	105	100	92	96	95	88	.	.
Producers' industries . . .	97	99	89	94	100	94	83	89	90	83	.	.
Consumers' industries. . .	107	93	96	115	120	114	109	114	107	100	.	.
United States : [2]												
Manufactured goods . . .	110	102	96	96	93	88	87	85	93	97	98	97
Iron and steel products . .	118	106	86	77	72	69	63	65	80	79	76	83
Textiles	102	81	84	77	66	68	65	72	109	157	148	148

[1] Sveriges Industriforbund, *Meddelanden* (Stockholm). The indices are corrected for seasonal variations.
[2] United States Department of Commerce, *Survey of Current Business* (Washington). Not corrected for seasonal variations.

Indices of World Stocks of Primary Commodities.

(Base: Average 1925-1929 = 100.)

Date	General world index[1]	Wheat[2]	Sugar	Coffee	Cotton: world visible supply	Natural silk
1925 average . .	76	72	70	43	80	89
1926 ,, . .	89	76	103	73	98	90
1927 ,, . .	104	90	89	85	117	103
1928 ,, . .	108	112	109	150	101	102
1929 ,, . .	124	150	129	149	103	116
1930 ,, . .	158	155	157	243	127	174
1931 ,, . .	183	167	209	259	151	193
1932 ,, . .	194	163	230	284	161	193
1933 ,, . .	186	163	225	208[4]	159	196[4]
1931 January . .	172	181	196	262	173	205
April . . .	177	187	236	253	163	168
July	189	138	196	230	132	160
October . .	186	156	190	277	124	212
1932 January . .	192	189	240	300	178	238
April . . .	196	185	254	300	168	200
July	196	138	226	256	143	172
October . .	184	155	196	.	144	191
1933 January . .	189	184	244	249	184	216
April . . .	191	180	249	219	171	181
July	191	143	221	187	146	167
October . .	178	160	180	190	138	216
1934 January . .	178	166	233	. . .	176	247[3]
April . . .	180	166	225	. . .	155	. . .

Note. — The above indices should be interpreted in the light of the various explanatory notes which will be found at the foot of Table 6, Appendix I, of the League of Nations *World Production and Prices, 1925-1933*, Geneva, 1934.

[1] General world index: based on the following nine commodities, the weights being indicated in parentheses: cotton (9); sugar (6); wheat (6); rubber (3); coffee (2); copper (2); silk (2); tea (1); tin (1). The weights have been allocated in accordance with the value of the stocks on hand in the original base period, 1923-1925. All series, except those for copper and tin, are adjusted for seasonal variations (United States Department of Commerce; *Survey of Current Business*, Annual Supplement, 1932, and subsequent numbers).

[2] Wheat: calculated from Broomhall's visible supply.

[3] December 1933. [4] 11 months' average.

Indices of World Stocks of Primary Commodities.

(Base: Average 1925-1929 = 100.)

Rubber	Petroleum (U.S.A.)	Copper	Lead (U.S.A. and U.K.)	Zinc (U.S.A. and U.K.)	Tin	Silver (Shanghai)	Tea (U.K.)
63	93	109	41	56	117	74	98
80	90	108	73	56	89	94	90
111	97	104	110	111	83	99	90
118	106	85	117	134	92	93	106
129	114	94	159	144	118	140	117
183	116	153	311	356	169	172	126
230	107	167	544	467	218	160	122
262	100	(206)	730	448	219	197	118
263	96	.	793	386	165	275	142
210	112	161	423	464	191	166	143
227	110	155	.	464	218	164	132
226	109	171	.	477	225	162	111
236	103	189	.	458	225	157	106
267	103	204	664	458	224	147	142
268	102	.	.	458	224	157	116
255	100	.	.	464	222	210	99
258	99	.	.	422	213	240	120
266	95	213	795	415	207	249	156
268	95	.	.	454	190	270	151
255	96	.	.	399	169	266	134
260	99	.	.	314	126	280	128
276	96	191	790	333	97	339	147
279	94	.	.	350	79	341	137

Stocks of raw and semi-manufactured articles appear to have increased substantially in Germany in 1933 and early 1934. This is shown by the index published by the Institut für Konjunkturforschung, which has varied as follows:

Quantum Index of Stocks of Raw and Semi-manufactured Commodities in Germany.[1]

(Base: 1928 = 100.)

1929	89	1932	86
1930	81	1933	106
1931	77	1934 (spring) . .	114

On the other hand, manufacturers' stocks of raw materials and finished goods, estimated on the basis of balance-sheets published up to the middle of 1933, appear to have fallen to low levels at that date. According to the Institut für Konjunkturforschung, manufacturers' stocks of raw materials and finished goods were at about the same low levels as in 1926-27. Production of consumers' goods, however, increased rapidly in the latter part of 1933 and the first months of 1934 and, since retail sales fell slightly in 1933, there is reason to believe that stocks in the hands of manufacturers and retailers subsequently increased substantially.

Statistics of retail stocks are very scanty, but there has been a tendency for the quantum of stocks to fall in the United States, since the increase in the value of stocks was less than the rise in the index of department store prices. In Australia and the United Kingdom, the value of stocks fell up to the end of 1933 and, since prices rose slightly, the quantum of stocks must in those countries also have fallen.

The Revival of the Investment Industries.

The first section of this chapter gave a general outline of the nature and extent of the recovery in production during 1933 and the first half of 1934. Subsequent sections have dealt with the reorganisation of food supplies, with the revived demand for raw materials, the movement of commodity stocks and the progress of schemes for restricting the production of important commodities. The present section contains a further analysis of the nature of the revival so far experienced, and in particular of the extent to which it is manifested in the industries devoted to the production of producers' goods or to the production of consumers' goods. The distinction between these two categories of goods is not quite clear nor conclusive. Indeed, the importance in modern times of commodities of durable

[1] *Vierteljahrsheft zur Konjunkturforschung*, 9-II-A.

consumption, such as motor-cars, renders it necessary to consider them separately from goods for current consumption. A more useful distinction in many ways is between those commodities which are bought from current income and those, whether producers' or consumers' goods, which require the investment of savings or the undertaking of a capital obligation. The latter can be more easily postponed and consequently their production fluctuates more widely. Within the group of producers' goods there is a marked difference between those used for the production of articles of current consumption such, for example, as textile machinery, and the more durable instruments of production, such as locomotives and ships. Among the commodities of current consumption also there is the same kind of difference. Thus, the production of gloves, silk fabrics and sugar meltings in the United States, and of porcelain, sugar products and chocolate in Germany fell more during the depression and has since recovered more rapidly than that of other consumption goods. The tables below illustrate these movements.*

Industrial Activity in Germany.

(Pre-depression base: average 1928.)

Commodity	Decrease from 1928 to lowest point 1932-33 %	Increase from lowest point to March 1934 %	Increase or decrease from 1928 to March 1934 %
Producers' goods:			
Cement	—89	+659	—15
Lorries	—88	+569	—20
Steel	—68	+137	—24
Rolling-mill products	—71	+152	—26
Iron	—73	+141	—35
Machines	—69	+90[1]	—41
Ships under construction	—95	+268	—80[1]
Durable consumption goods:			
Passenger-cars	—86	+399	—30
Motor-cycles	—90	+240	—65
Pianos	—95	+61	—91[2]
Current consumption goods:			
Cocoa (consumption)	—35	+100	+30
Footwear	—33	+65	+10
Cigarettes	—17	+29	+7
Meat products (consumption)	—16	+26	+5[1]
Textiles	—29	+45	+3
Wood pulp (chemical)	—23	+31	—3[3]
Paper	—28	+29	—7
Pipe tobacco	—20	+10	—12
Sugar products	—44	+39	—22
Beer (consumption)	—52	+15	—45
Porcelain	—62	+39	—47

* Fuller information for a greater number of countries is available in *World Production and Prices, 1925-1933.*

[1] First quarter 1933. [2] February 1934. [3] December 1933.

Industrial Activity in the United States.
(Pre-depression base: average 1929.)

Commodity	Decrease from 1929 to lowest point 1932-33 %	Increase from lowest point to March 1934 %	Increase or decrease from 1929 to March 1934 %
Producers' goods:			
Trucks	—81	+ 381	—10
Steel	—83	+ 354	—38
Portland cement	—80	+ 89	—63
Electric motors	—92	+ 303	—65
Machine-tools	—93	+ 385[1]	—66[1]
Foundry equipment	—95	+ 514	—67
Electrical goods	—83	+ 59[2]	—73[2]
Wood-working machines	—94	+ 216	—82
Ships under construction	—99	+ 810[2]	—88[2]
Locomotives	—86[3]	— 80[4]	—97[3]
Durable consumers' goods:			
Passenger-cars	—91	+ 692	—27
Furniture [5]	—80	+ 80	—68
Current consumption goods:			
Shoes	—33	+ 71[6]	+ 14[6]
Tobacco products	—10	+ 45	+ 9
Cigarettes	—31	+ 37	— 6
Wheat flour	—30	+ 24	—13
Books sold	—40	+ 43	—13
Food products	—17	+ 4	—13
Silk fabrics (consumption)	—48	+ 64	—15
Textiles (group index)	—48	+ 60	—17
Sugar meltings	—55	+ 62	—27
Gloves and mittens	—62	+ 72[6]	—35[6]

It is evident that, in Germany and in the United States, producers' goods and durable consumption goods fell during the depression to much lower levels of consumption than articles of current consumption. Within all these categories, the fall was greatest in those commodities the consumption of which could most readily be postponed. The percentages shown in the second column of these tables need careful handling if they are not to be misleading. Thus, in the German table, the index-number for cement production fell from 100 in 1928 to 11 at the lowest point, recovering in March 1934 to 85, a rise of 659 per cent from the lowest point, whereas cocoa consumption fell from 100 in 1928 to 65 and subsequently rose to 130, a rise

[1] February 1934.
[2] First quarter 1934.
[3] Decrease from average 1927-1929 to 1932 and 1933 respectively; annual figures.
[4] Decrease from 1932 to 1933.
[5] Shipments expressed in working days' production.
[6] January 1934.

of only 100 per cent. It is not valid, therefore, to compare the percentages in the second column vertically, since they are calculated from different bases. It is legitimate, however, to make this comparison in the final column and it is there clear that, in both countries, despite a larger relative recovery in 1933-34, the production of producers' goods and commodities of durable consumption still remained on the average much below their pre-depression levels in relation to the production of articles for current consumption.

This fact needs constantly to be borne in mind in considering the statistics which follow. These statistics, taken from *World Production and Prices, 1925-1933,* are subject to certain statistical qualifications which are set out in that volume, but which do not affect the general validity of the conclusions to be deduced from the table below. In order to minimise the danger of misinterpretation arising from the use of percentages calculated from different bases, the table gives index-numbers based upon the average of the years 1925-1929 being equated to 100.

The Production of Investment and Consumption Goods in Certain Countries.

(Base: Average 1925-1929 = 100.)

Country	Quarter of lowest production	Lowest indices		Indices at first quarter 1934	
		Investment goods	Consumption goods	Investment goods	Consumption goods
France	II 1932	70	71	76	95
Germany	III 1932	10	83	65	101
Netherlands	III 1932	51	76	64	110
Poland	I 1933	19	56	59	80
Sweden	III 1932	73	93	103	117
United Kingdom . .	III 1932	72	85	97	98
United States . . .	III 1932	24	73[1]	19	89

It is evident from this table that the recovery of production in the countries off gold, and in Germany, has been mainly in investment goods, while, in the gold-standard countries, it has been mainly in consumption goods. The relation of the two indices in each group of countries at the important dates brings out this difference very clearly. If the average of each index in the years 1925-1929 is taken as 100, so that the ratios

[1] Second quarter 1932.

were 100 in those years, the subsequent movements of the ratios have been as follows:

Ratios of the Production Indices of Investment and Consumption Goods.

Country	1925-1929	Lowest quarter	March 1934
Germany	100	48	64
Sweden	100	78	88
United Kingdom	100	85	99
United States	100	33	55
France	100	99	80
Netherlands	100	67	58
Poland	100	88	74

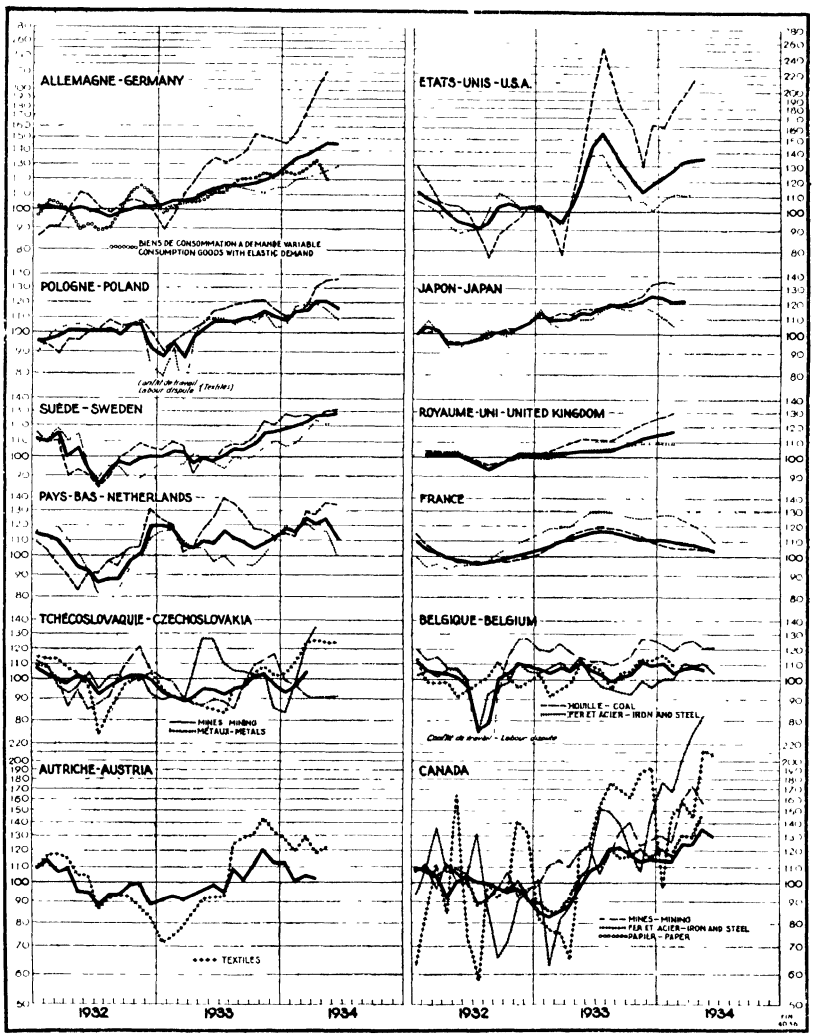
It is clear that, in the countries off the gold standard, there has been a great improvement in the ratios. In the United Kingdom, indeed, the production of investment goods was almost back to the 1925-1929 proportion by the first quarter of 1934. In Sweden, where the investment industries have also improved considerably, there has simultaneously been a substantial increase in the production of consumption goods.

In the gold-standard countries, the trend was in the reverse direction, though there were some indications of improvement towards the middle of the year. The following diagram gives the monthly movement (except for the United Kingdom, where no monthly figures are available).

Movement of Production of Investment Goods and Consumption Goods.[1]

(Base: Monthly average 1932 = 100.)
Logarithmic scale.

——— General Index - - - - - - Investment Goods
Consumption Goods



[1] League of Nations: *Monthly Bulletin of Statistics* No. 8, 1934. The structure of the indices of investment and consumers' goods is explained in detail in that publication.

In producing the recovery of production shown above, many factors have been at work and, in particular, the fact hardly needs emphasising that large Government expenditure, much of which has benefited the construction industries, has contributed to the improvement in Germany, Sweden and the United States. It is important to add that the reduction of unemployment has followed the revival of investment industries. This is clearly shown by the statistics given in *World Production and Prices, 1925-1933,* which are summarised in the table below.

The Production of Investment Goods and Unemployment.

(Base: Third quarter 1932 = 100.)

Country	1932		1933				1934	
	III	IV	I	II	III	IV	I	II
Germany:								
Production of investment goods. .	100	105	100	128	135	150	163	211[4]
Unemployment[1] . .	100	103	112	97	79	73	63	49
Sweden:								
Production of investment goods. .	100	116	116	105	116	132	141	141[4]
Unemployment[2] . .	100	101	110	100	97	89	88	74
United Kingdom:								
Production of investment goods. .	100	104	110	117	115	126	135	...
Unemployment[3] . .	100	104	107	95	89	88	89	80
United States:								
Production of investment goods. .	100	117	113	179	258	183	204	...
Unemployment[4] . .	100	101	106	101	92	91	87	80
France:								
Production of investment goods. .	100	101	109	120	121	116	109	107[4]
Unemployment[5] . .	100	99	120	104	88	100	126	121
Netherlands:								
Production of investment goods. .	100	120	124	124	143	124	125	140[4]
Unemployment[5] . .	100	119	142	111	106	129	136	118
Poland:								
Production of investment goods. .	100	100	91	104	113	113	109	128[4]
Unemployment[5] . .	100	98	148	129	111	147	214	184

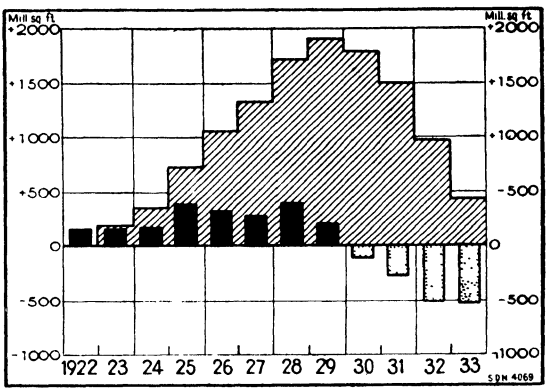
[1] Employment Exchange Statistics: not including persons employed in labour camps.
[2] Trade union returns, unemployment percentage corrected for seasonal variation.
[3] Compulsory unemployment insurance statistics: wholly unemployed only.
[4] Based on figures for April and May.
[4] Trade union returns. The number of members in the reporting trade unions did not exceed 700,000 at any time in this period.
[5] Employment exchange statistics: number of applications for work.

Building Activity in the United States.[1]

I. Building Surpluses or Deficits.

(Square ft. (000,000's omitted).)

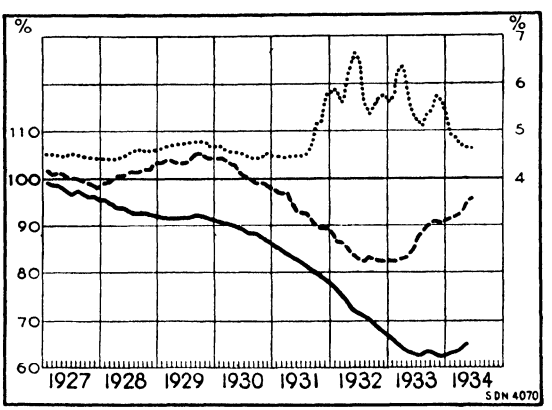
Building surplus, yearly. Building surplus, cumulative. Building deficit, yearly.



II. Building Costs and Rents.

(Base: 1921-1927 = 100.)

Building costs ——— Rent ····· Interest of long-term loans.

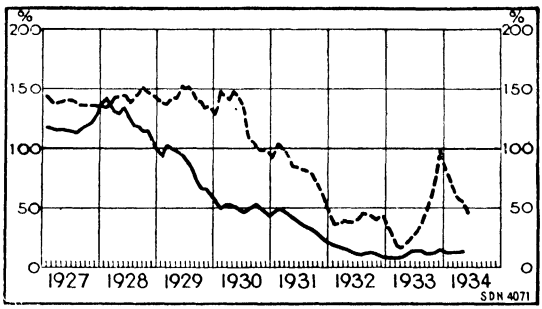


[1] Alexander Hamilton Institute: Bureau of Business Conditions. Institut für Konjunkturforschung, Vierteljahrsheft, 9-I-B.

III. Residential and Non-residential Building Contracts awarded.

(Base: 1923-1925 = 100.)

——— Residential - - - - - - Non-residential



The information available concerning building activity may be used to support and supplement the analysis made above. There has, in many countries, been a considerable revival of building activity caused by the low price of long-term capital and a reduction in building costs. [1] Building activity was well maintained throughout the depression in all the European countries — the United Kingdom, Netherlands, France, Switzerland and Belgium — where capital accumulated. In the borrowing countries, and also in the United States, it dropped to very low levels compared with 1929. During 1933 and the early part of 1934, however, there was a marked recovery in many of these borrowing countries — *e.g.*, Australia and New Zealand, South Africa, Finland and several of the South-American countries — while improvement continued in the United Kingdom and the Scandinavian countries. There was improvement also in Germany, Austria, Hungary, Italy and Poland, apparently caused by a fall in building costs, including interest rates. There was, on the other hand, some recession in Belgium, France, the Netherlands and Switzerland, and a big decrease in the United States and in Czechoslovakia. The situation in the United States is particularly interesting in view of the stagnation of investment in that country despite a continued policy of cheap credit. The diagrams above show to what low levels residential building activity has fallen despite the hypothetical annual deficit compared with the growth of population.

The cumulative surplus inherited from the boom period would appear to have been almost equal at the end of 1933 to

[1] Cf Chapter X.

the annual deficit of that year, so that a similar deficit during 1934 would appear likely to restore the situation which existed in 1925. Building costs, however, were high, interest rates remaining well above the pre-depression level, while wages and the prices of building materials were rising and rents were at low levels. The boom in non-residential building activity in the latter part of 1933 mainly reflected Government expenditure, and it would appear that a revival of activity awaited the renewal of a demand for increased housing.

Chapter IV.

THE COURSE OF PRICES IN 1933-34.

Prices in National and World Markets.

Commodity prices are necessarily stated in terms of some national currency and each quotation represents the value of a particular commodity at a certain time and in a particular market. National index numbers of prices are calculated by combining such quotations for a variety of commodities, weighting them by some scale of importance and comparing the result with a similar calculation at a given base period, so as to show the average movement of prices in the national market. As will be shown later, the various national index numbers, even of wholesale prices, and still more of retail prices, have moved differently in ways that cannot be explained by the movements of exchange rates representing the external value of the different currencies in question. In these circumstances, there is a good deal of interest in comparing national price index numbers with the movement of prices in world markets, even though world markets are now more restricted than they were before the depression.

When trade was less restricted, competitive dealings and international speculation in the world market for a certain number of important staple products exercised an important influence on national price levels. Even though most prices were the result of bargaining within national markets, the influence of these important staple commodity prices upon the average levels of prices in different countries was very great, both directly and through their influence upon the volume of international trade and therefore upon the balances of payments and ultimately upon the foreign exchanges and the monetary system. As long as international economic equilibrium was

maintained mainly by changes in relative prices, the close liaison between the prices of these staple products in the principal markets was one of the pivots upon which the international monetary system worked. Since exchanges have become variable and quantitative trade restrictions are so freely invoked as a means of securing a balance between imports and exports, the influence of the world staple markets has dwindled.

Recent tariff increases and quantitative trade restrictions, together with monetary restrictions on trade, such as exchange controls, have not only caused a great shrinkage of world trade, but have gone far to isolate national markets. The world market for the surplus exports of staple products from the raw-material-exporting countries has greatly shrunk. A much smaller amount of the total trade in these products is now dealt with in a free world market, and the quotations in national markets have therefore a relatively greater importance in the aggregate. Moreover, the differentials between these national prices and the world-market price are not only greater, but are also more variable than formerly. This is particularly true in the case of wheat.

The conception of an average price level in world markets is extremely elusive and attempts to measure movements of such a price level encounter great statistical difficulty. It is possible to compile an index which represents the average price movement of a certain number of internationally traded articles in the narrowing world market; but this index is necessarily confined to a few commodities which have fallen heavily in price, and the quotations of these commodities in the present world market vary considerably from the quotations in important national markets.

For each individual country, also, it is possible to compare national and world-market prices for those commodities which have been chosen as a representative sample for the purpose of compiling the national index numbers. Such a comparison has been made for Austria and the results of the calculation are summarised in the following table, to which have been added two columns converting the price levels in Austrian currency to gold prices at the annual average rates of exchange.

The following table shows both the divergence of prices in the national market from the prices of the same commodities in the world market, and the divergence of gold prices from prices expressed in the national currency.

Index Numbers of Agricultural and Industrial Prices in Austria compared with World-Market Prices.[1]

(Base: Average 1923-1931 = 100.)

Year	Agricultural Prices			Industrial Prices		
	Austria	World Market		Austria	World Market	
		Austrian currency	Gold		Austrian currency	Gold
1929	101	100	100	100	98	98
1930	87	86	86	97	87	87
1931	87	69	67	81	68	66
1932	95	59	49	74	60	49
1933	86	56	44	76	65	51
1934: 1st Quarter	85	57	44	78	67	52

The extent to which the prices of identical commodities have diverged in different national markets since September 1931 is shown in the following table:

Comparative Wholesale Prices and Gold Parities of the National Currencies in Ten Countries, September 1931-February 1934.[2]

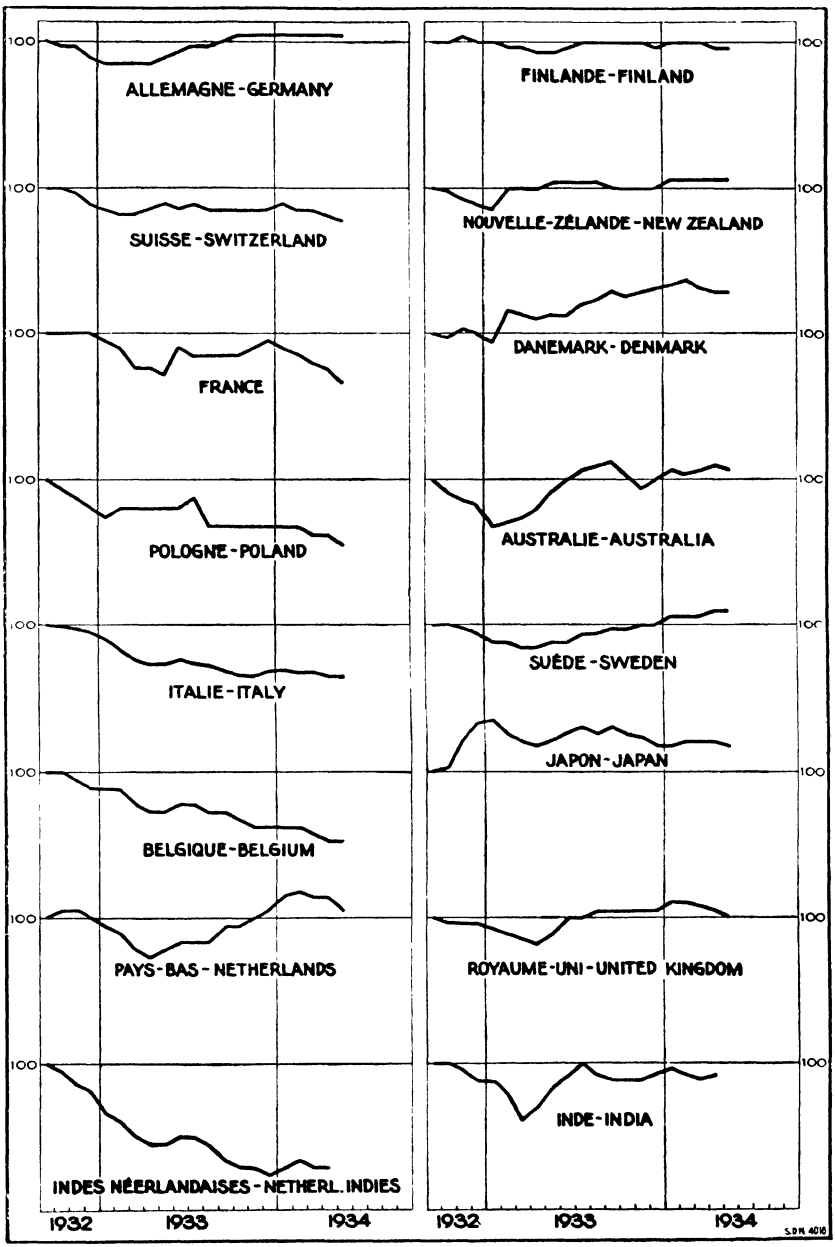
(Base: September 1931 = 100.)

Country	Wholesale Prices		Exchange Rate on Gold currencies	
	September 1931	February 1934	September 1931	February 1934
United Kingdom	100	102	100	67
United States	100	107	100	61
Sweden	100	107	100	60
Netherlands	100	85	100	100
Germany	100	90	100	100
Belgium	100	83	100	100
France	100	88	100	100
Italy	100	86	100	100
Canada	100	103	100	62
New Zealand	100	100	100	59

The movement of national prices in two important groups of countries, on and off the gold standard, since the third quarter of 1932 is summarised in the diagram which follows.

[1] *Monatsberichte des Österreichischen Institutes fur Konjunkturforschung*, February 27th, 1933, pages 22-24, and May 26th, 1934.
[2] London-Cambridge Economic Service, Monthly Bulletins.

Index Numbers of National Prices.
(Base: September 1932 = 100.)
Logarithmic Scale.



If, however, national index numbers of prices are compared in this way, important qualifications both of a statistical and of a general character must constantly be borne in mind. The index numbers of average wholesale prices, and still more the subsidiary index numbers of retail and other prices published in most countries, are calculated in different ways. The commodities included, their weighting, and the methods adopted for calculating the average differ a good deal, as they should, if it is intended to compare movements of the average price level in different countries. Upon close investigation, it is often found that variant movements are the result of one index number giving greater weight to a group of commodities which, because they are subject to some special cause such as import restrictions, have moved abruptly in a different direction from the general movement. Apart from these statistical considerations, it must be borne in mind that prices expressed in national currencies have not moved in accordance with the changes that have taken place in the foreign exchanges.

The confused movement of the national price levels is further demonstrated by the following statement showing the different times at which the price levels began to rise and the extent of the rise from these low points up till April 1934. It is obvious that many different forces besides some measure of business recovery — for example, currency depreciation, tariff changes, and harvest conditions — have been at work.

Movement of Wholesale Price Indices.

Percentage Rise in National Price-Levels from the Lowest Point of the Depression.

Year	Month of Lowest Prices	Country	Percentage Rise to April 1934
1931	January	Austria	6
	August	Greece	37
	September	Denmark	17
		Norway	5
		Finland	13
	October	Chile	141
	December	Latvia	1
1932	April	Peru	15
	June	Japan	21
	October	South Africa	20
1933	January	Germany	5
		New Zealand	5
	February	U.S.A.	23
		Canada	12
		Australia	11
	March	Estonia	9
		India	9
1933	April	Netherlands	10
		United Kingdom	6
		Sweden	8
	May	Egypt	15
	September	Yugoslavia	4
	October	Argentine	13
	November	Hungary	7
1934	January	Czechoslovakia	2
		Bulgaria	4
Still falling in April 1934:		Belgium China France Indo-China Italy Netherlands Indies Poland Switzerland	

It is, however, useful to show the extent to which the index numbers of wholesale prices have fallen during the depression in different countries and the extent of the rise that has recently taken place in some of these countries. In order to do so, the following table gives the index numbers of wholesale prices for a number of countries. For comparison, a column is added to the table showing the index number of gold prices (calculated upon the same base) at the latest date available.

Index Numbers of Wholesale Prices in Various Countries March 1929 - March 1934.

(Base: March 1929 = 100.)

Country	Index Numbers National Currency					Gold Prices
	March 1930	March 1931	March 1932	March 1933	March 1934	March 1934
Czechoslovakia	87.0	79.4	72.3	68.0	69.6	69.6
Germany	90.5	81.6	71.5	65.3	68.7	68.7
Austria	91.0	80.5	85.0	80.5	85.0	65.8
Switzerland	92.4	80.1	69.6	63.5	64.1	64.1
France	85.5	82.5	68.0	59.7	60.3	60.3
Poland	88.9	77.8	68.9	60.6	58.1	58.1
Belgium	89.1	75.9	63.1	58.0	55.0	55.0
Italy	87.4	71.3	64.5	57.5	55.1	53.5
Netherlands	83.5	70.1	54.9	48.2	53.0	53.0
China	106.9	121.1	112.1	102.9	92.8	46.8
Yugoslavia	85.5	70.0	63.6	62.9	59.4	45.5
Sweden	86.8	78.5	75.7	72.9	77.8	45.4
Netherlands Indies	92.7	74.0	60.7	18.0	45.3	45.3
New Zealand	99.8	92.6	89.5	88.9	90.5	45.1
Canada	96.0	77.9	72.2	67.4	75.3	44.7
Australia	91.9	81.3	80.2	74.4	81.4	40.4
India	87.4	69.9	65.7	57.3	61.5	38.5
Argentine	97.4	88.8	91.0	86.4	97.4	34.8
United States	93.9	79.1	68.7	62.6	76.7	31.3
Japan	86.6	70.0	70.1	78.4	78.2	28.0
United Kingdom	88.7	75.6	74.6	69.6	74.0	27.6

Interpretation of the confused movements disclosed in the preceding tables is complicated by the fact that, during the year 1933 and the early months of 1934, deliberate efforts were made by some Governments to influence the course of prices either in an upward or in a downward direction. The outstanding example of the former is the policy pursued in the United States of America. Between March 1933 and March 1934, the average of wholesale prices in that country rose by 23 per cent. In most of the countries off gold, prices rose fairly substantially, though the extent of the rise varied a good deal. Thus, a rise of 16 per cent in South Africa was partly due to the heavy weight given to wool in the South-African index.

The only countries not on the gold standard in which prices fell on the average during this period were Japan (less than 1 %), Greece (— 4 %), Yugoslavia (— 6 %) and China (— 10 %), the heavy fall in the case of China being caused by a rise in the price of silver in terms of most of the world's currencies.

In general, the prices in the gold-standard countries tended to fall during 1933 and the early part of 1934. The fall was clear in the case of Poland (— 4 %), Italy (— 4 %), Belgium (— 5 %), and Hungary (— 10 %), but prices had risen in the case of France (+ 1 %), Switzerland (+ 1 %) and the Netherlands (+ 10 %). The index number for the Netherlands includes a great number of imported commodities which have been subjected to trade restrictions, and this fact somewhat exaggerates the rise that has taken place.

After the devaluation of the U.S. dollar at the end of January 1934, deflationary pressure was resumed in most of the gold countries. In France and Italy, definite action was taken in April to lower prices and the movement of gold prices was generally downward.

Index Numbers of Wholesale Prices in the Gold-Standard Countries, January-June 1934.

(Base: 1913 = 100.)

Country	January	February	March	April	May	June
Belgium [1]	69.8	69.6	68.9	68.3	67.7	68.0
Bulgaria [2]	1,742	1,844	1,818	1,816	1,858	1,853
Czechoslovakia [3]	94.3	81.1 [4]	80.8	80.2	80.5	85.3
France	82.2	81.2	80.0	78.6	77.4	77.0
Germany	96.3	96.2	95.9	95.8	96.2	97.2
Hungary	71	74	74	75	83	81
Indo-China	104	103	100	99	99	99
Italy	278	276	275	275	274	275
Netherlands	79	80	79	79	79	77
Netherlands Indies	68	69	68	68	67	...
Poland	57.8	57.6	57.3	56.7	56.1	55.8
Switzerland [3]	91.8	91.4	90.9	89.6	89.0	89.0

The movement of prices in other countries varied a great deal in these months. In the United States and Canada it was definitely

[1] Base: April 1914 = 100.
[2] Base: 1914 = 100.
[3] Base: July 1914 = 100.
[4] Since February 1934, compiled according to the new gold parity (devaluation of 16.66 %).

upward, but in the United Kingdom prices fell rather sharply after February and there was a similar movement in some other countries of the sterling group. In the conflict of tendencies brought about by policies aiming at lower prices in the European gold countries and higher prices in the United States, now also back upon the gold standard, it is not yet clear what effect will be produced upon the countries whose exchange rates remain variable. The first results of the United States provisional stabilisation at a lower gold parity were to reinforce the downward movement of prices in the countries of the gold bloc.

The Rise in Raw Material Prices.

The statistics given in the preceding section refer to index numbers representing the average movement of wholesale prices in different countries. Stress has been laid upon the divergence of these average movements of prices measured in national currencies and upon the difficulty of correlating these divergences with movements of the exchange rates. The artificiality of attempting to reduce these statistics to a common measure, as, for example, gold prices, is very clear. As long as a considerable measure of uncertainty continues regarding the relations of the principal currencies one to another, comparisons of prices in national markets must be very confusing.

Within the average movement in each particular country also, there have been very remarkable changes during 1933 in the prices of particular commodities and groups of commodities. This fact is illustrated by the following table, which gives index numbers on a common base (January 1929) of both gold and sterling prices for a number of different commodities.

Before commenting upon the divergent movements of different commodities, it is necessary to point out the exact nature of the calculations that are summarised in this table. Sterling prices represent quotations of wholesale prices in the London market. Gold prices represent quotations in important producing areas or markets, unchanged when those quotations are in a gold currency, but converted at current rates when originally quoted in a paper currency. Thus, petrol prices are calculated from quotations in the United States, but for 1934 these dollar prices are converted to gold prices by allowing for the depreciation of the dollar in terms of gold. In this case, prices in paper dollars have risen, but not as much as the exchange has fallen, so that the calculated gold price has declined.

Wholesale Price Movements of Certain Foodstuffs and Raw Materials, 1929-1934.

(Base: January 1929 = 100.)

Commodity	Sterling Prices January 1933	1934	Percentage Change in 1933	Gold Prices January 1933	1934	Percentage Change in 1933
Fuel oil	89	118	+ 33	62	76	+ 23
Petrol	121	111	— 8	84	72	— 14
Tin	67	103	+ 54	47	66	+ 40
Coal	101	101	± 0	71	65	— 8
Soda crystals	100	100	+ 0	69	64	— 7
Steel rails	100	100	+ 0	69	64	— 7
Bacon	66	98	+ 49	16	63	+ 36
Cement	97	97	+ 0	67	62	— 7
Iron bars	95	95	+ 0	66	61	— 8
Timber	79	95	+ 20	55	61	+ 11
Beef	96	94	— 2	67	61	— 9
Tin plates	89	93	+ 5	62	59	— 5
Pig iron	83	88	+ 6	58	56	— 3
Crude petroleum	90	86	— 4	63	55	— 13
Tea	52	86	+ 65	36	55	+ 53
Barley	69	93	+ 34	48	49	+ 2
Sugar	72	77	+ 7	50	49	— 2
Mutton	65	75	+ 15	45	48	+ 7
Linseed oil	64	71	+ 11	45	46	+ 2
Oats	63	65	+ 3	44	42	— 5
Flax	61	59	— 4	43	38	— 12
Cotton	49	60	+ 22	34	38	+ 11
Creosote	56	60	+ 7	39	38	— 2
Flour	60	59	— 2	42	38	— 10
Cocoa	69	58	— 16	48	37	— 23
Spelter	52	57	+ 10	36	36	+ 0
Lead	51	55	+ 8	35	35	+ 0
Wool	31	54	+ 74	22	35	+ 59
Wheat	60	50	— 17	42	32	— 24
Rice	60	48	— 20	41	31	— 24
Jute	44	48	+ 10	31	31	+ 0
Butter	60	47	— 22	42	30	— 29
Copper	41	46	+ 12	29	29	+ 0
Coffee	59	45	— 24	41	29	— 30
Coconut oil	59	44	— 25	41	28	— 32
Rubber	19	44	+132	13	28	+115
Hides	42	44	+ 4	30	28	— 7
Maize	46	42	— 9	32	27	— 16
Hemp	52	40	— 23	37	26	— 30
Silk	40	35	— 12	28	23	— 18

It is common knowledge that, in fact, the price of petrol has not declined in gold-standard countries. Prices have, indeed, apart from variations in local taxation, conformed to the steady behaviour shown by the sterling indices, and for the same reason — very firm control of prices by the producers and distributors. Even in cases where the original price quotations used are in a gold currency, the basic wholesale price for export purposes has been selected. The index numbers of gold prices, therefore, represent the price in world markets rather than in the gold standard national markets. But it should be recognised that considerable divergences have arisen between gold prices in world markets and prices in gold-standard countries. Two illustrations are sufficient to demonstrate the importance of these divergences. In the case of petrol, distributive controls have kept prices steady in most countries, including those on the gold standard. Supplies of petrol coming from countries with depreciated currencies cost less in terms of gold currencies, but this reduction of cost is, in general, not reflected in a reduction of prices in the gold-standard countries. The second illustration might be taken from any product the importation of which is restricted quantitatively — as, for example, wheat and butter in many countries. The heavy fall in gold prices in world markets is not fully reflected in national prices. Indeed, the severity of the fall in world prices is largely due to the accumulation of supplies caused by these quantitative restrictions. Thus there are few countries where butter prices have fallen to 30 per cent of the 1929 level as the world-market gold price has fallen. Even allowing for the depreciation of sterling, the sterling price is above the world-market price, the difference being due to the effect of quotas.

Apart from these general considerations, the table above, which arranges the commodities in the inverse order of their fall in world-market gold prices in January 1934 from the levels of 1929, affords a significant grouping of commodities. A few firmly controlled raw materials and standardised products are at the top of the table with their prices relatively well maintained, while the agricultural commodities are grouped at the bottom. The seriousness of this situation from the point of view of the agricultural exporting countries is obvious. Coconut oil may be taken as an example. With world prices only 28 per cent of what they were in 1929, the price of the raw material (copra), has fallen even lower, and the tropical countries, great and small, which in the past have relied upon this export are in extreme depression.

The spread of price movements in 1933, as disclosed in the table, bears witness to the variety of forces at work. The percentages given above may be rearranged in order of the increase of gold prices in world markets during 1933.

Price Movements in 1933.
Percentage Change in Sterling and Gold Prices.

Commodity	Sterling Prices	Gold Prices	Commodity	Sterling Prices	Gold Prices
Rubber	+132	+115	Oats	+ 3	— 5
Wool	+ 74	+ 59	Soda crystals	+ 0	— 7
Tea	+ 65	+ 53	Cement	+ 0	— 7
Tin	+ 54	+ 40	Steel rails	+ 0	— 7
Bacon	+ 49	+ 36	Coal	+ 0	— 8
Fuel oil	+ 33	+ 23	Iron bars	+ 0	— 8
Barley	+ 34	+ 22	Beef	— 2	— 9
Cotton	+ 22	+ 11	Flour	— 2	— 10
Timber	+ 20	+ 11	Flax	— 4	— 12
Mutton	+ 15	+ 7	Crude petroleum	— 4	— 13
Linseed oil	+ 11	+ 2	Petrol	— 8	— 14
Copper	+ 12	+ 0	Maize	— 9	— 16
Spelter	+ 10	+ 0	Silk	— 12	— 18
Jute	+ 10	+ 0	Cocoa	— 16	— 23
Lead	+ 8	+ 0	Wheat	— 17	— 24
Sugar	+ 7	— 2	Rice	— 20	— 24
Creosote	+ 7	— 2	Butter	— 24	— 30
Pig iron	+ 6	— 3	Coffee	— 24	— 30
Tin plates	+ 5	— 5	Hemp	— 23	— 30
Hides	+ 4	— 7	Coconut oil	— 25	— 32

Of the forty commodities listed, twenty-one have risen, in terms of sterling, by percentages ranging from 3 to 132, five are unchanged and fourteen have fallen by percentages ranging from 2 to 25. In terms of gold in the world market, eleven commodities have risen by percentages ranging from 2 to 115, while four are unchanged and twenty-five have fallen by percentages ranging from 2 to 32. It is obvious that sterling has depreciated in terms of gold or, to put the same fact another way, gold has appreciated in terms of sterling, and this currency movement has been one of the factors making for higher sterling prices, but lower gold prices.

The other important factors making for a rise in certain commodities, mainly raw materials, have been effective control of production, in at least one case (bacon) connected with quota restrictions, and special demands. Rubber, tea, tin, bacon, are examples of the former, and wool and barley of the latter. The increased price of timber is a reflection of greater building activity, largely with Government support; but most of the

other raw materials which have gone up most in price are not those utilised for the fabrication of capital goods. The heaviest declines in price are in agricultural foodstuffs and some agricultural raw materials.

These price movements, while going some distance towards correcting the disequilibrium between export and import prices in the agricultural exporting countries, are not very strongly suggestive of revival in the investment industries such as succeeded the depression stages of most business cycles in the past.

The Correction of Price Disequilibria.

In the course of the depression, the heavy downward pressure on prices affected different groups of commodities in uneven degree. Attention has been drawn in previous editions of this Survey to some of the more important price disequilibria that were the result of these uneven pressures. During 1933, there was some evidence that, for various reasons, the disequilibria had been partly corrected in many countries; but the price movements responsible for these corrections varied so greatly from country to country that no generalised statement is possible concerning them.

A comparison of wholesale and retail prices brings out the considerable differences that persisted in early 1934 between the countries on and off the gold standard. In the following table, the countries are arranged in order of the fall in wholesale prices from the 1929 levels, an arrangement which brings the gold countries to the top and the paper-standard countries to the bottom. Incidentally, apart from China, where the rising price of silver in terms of most other currencies deflated commodity prices in 1933, the only countries where average wholesale prices continued to fall were those on the gold standard. This fall, however, in 1933 was counteracted in the Netherlands, France, Switzerland, Germany and Czechoslovakia by the effects of increased tariffs and quotas, particularly those affecting agricultural products. Such a development served in some measure to attenuate the discrepancy which continued to be very great between wholesale and retail price movements in the gold countries. Only in Poland and Yugoslavia, where deflation has been wholehearted, had retail fallen to about the same extent as wholesale prices. In the countries off gold there was, in March 1934, a much closer approximation of the whole-

sale and retail price levels to their 1929 relationships, caused obviously in most cases by the upward movements of the wholesale price levels in 1933, correcting previous discrepancies. The greater apparent fall of retail prices in New Zealand and Peru, however, is due to the composition of their indices — the wholesale index being weighted by imports whose prices have risen because of exchange depreciation, while retail prices give more weight to local food products whose price has fallen heavily in export markets.

Percentage Change in Wholesale and Retail Prices in Certain Countries at March 1934.[1]

Country	From Average 1929		From March 1933	
	Wholesale	Retail	Wholesale	Retail
Belgium	— 44	— 21	— 5	— 5
Netherlands	— 44	— 16	+ 10	+ 3
Italy	— 43	— 18	— 4	— 2
Poland	— 40	— 33	— 4	— 6
Hungary	— 39	— 25	— 10	— 5
France	— 37	— 5	+ 1	+ 1
Yugoslavia	— 37	— 36	— 6	— 8
Switzerland	— 36	— 19	+ 1	— 2
Germany	— 30	— 22	+ 5	+ 3
Czechoslovakia	— 27	— 9	+ 2	— 1
Canada	— 25	— 20	+ 12	+ 2
United Kingdom	— 24	— 15	+ 6	+ 1
United States	— 23	— 22	+ 23	+ 9
Japan	— 20	— 18	+ 0	+ 3
Sweden	— 20	— 10	+ 7	+ 0
Australia	— 19	— 21	+ 9	+ 1
Norway	— 18	— 13	+ 1	— 1
Austria	— 13	— 6	+ 6	+ 0
New Zealand	— 10	— 20	+ 2	+ 1
China	— 8	— 8	— 10	— 11
Peru	— 1	— 16	+ 6	+ 2

The course of agricultural as compared with industrial prices during 1933 and the first months of 1934 is shown on the following diagrams. This classification, however, obscures the important divergence in this period between the prices of agricultural raw materials and of foodstuffs, the former tending on the whole to rise and the latter to fall, though there were conspicuous exceptions in both groups.

[1] *Monthly Bulletin of Statistics*

Agricultural and Industrial Prices.

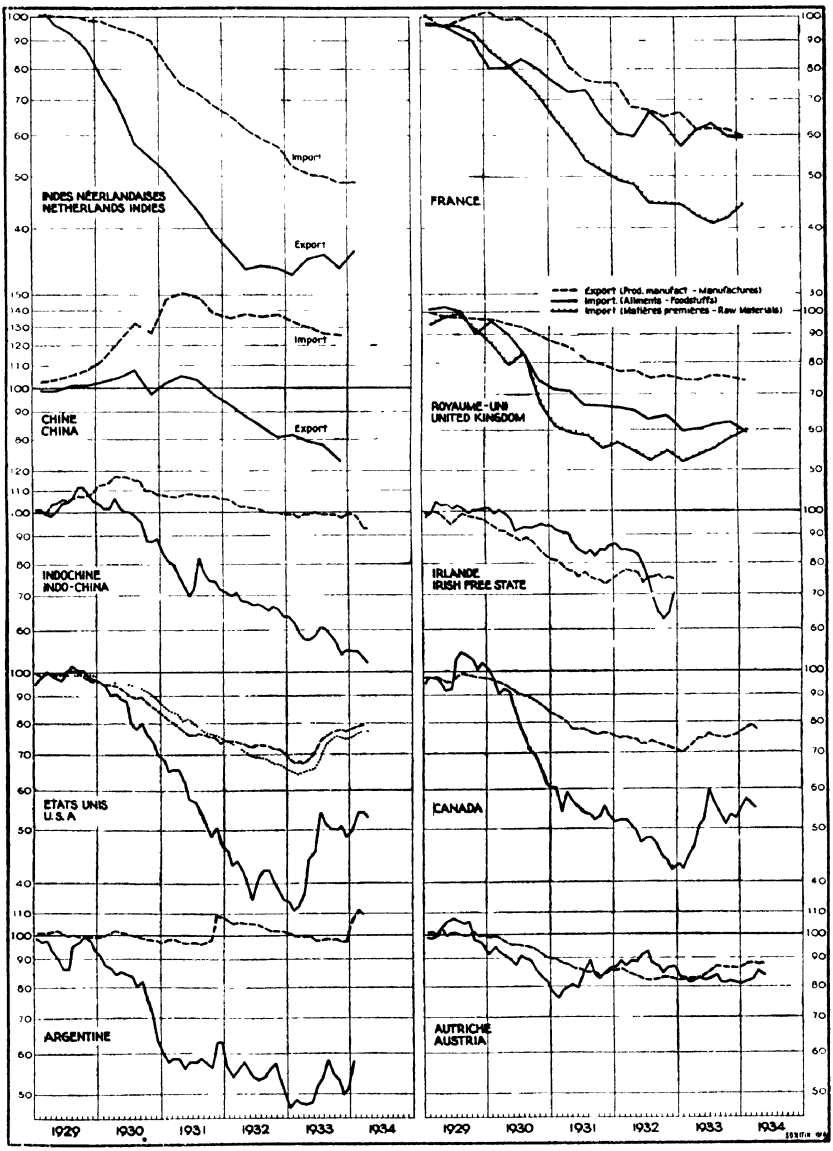
(Base: 1928 = 100.)

Logarithmic scale.

——— Agricultural Products

.. Articles bought by farmers

---------- Industrial Products

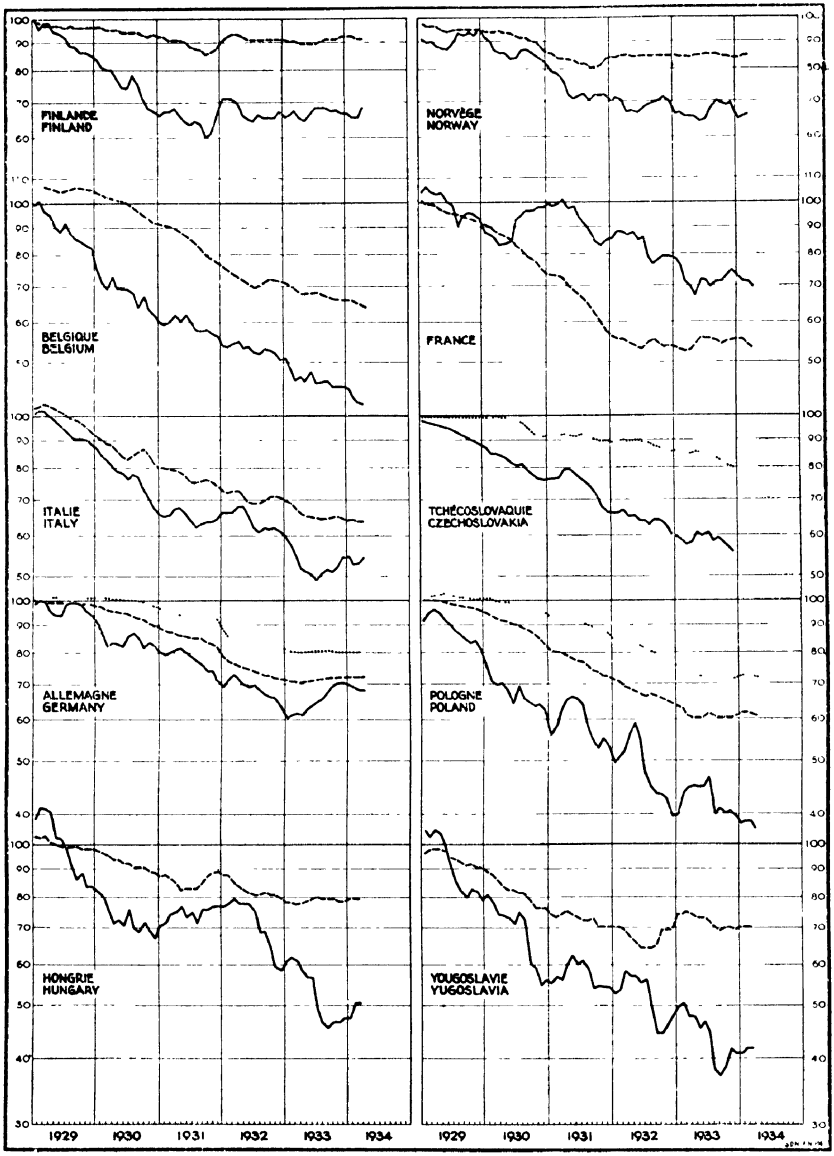


Agricultural and Industrial Prices.

(Base: 1928 - 100.)

Logarithmic scale.

——— Agricultural Products
Articles bought by farmers
---------- Industrial Products



The diagrams show the weighted average movement according to such national indices as are available; but these indices differ a great deal in their composition and the diagrams should not be used to compare anything more than the general direction of movement in the various countries.[1]

It will be apparent that, in most of the gold-standard countries — whether agricultural like Indo-China and Hungary or industrial like Belgium, or mixed like Poland and Czechoslovakia — the general trend was mostly downward and the "price-scissors" tended to widen. In Hungary, this deflationary movement was accentuated by the necessity, as neighbouring markets closed, of seeking more distant outlets for agricultural exports; but, in the spring of 1934, agricultural prices were rising again in Hungary. China also has been undergoing a severe deflation.

In the Netherlands Indies, where the price of rubber is extremely important, and in Italy and Germany, where agriculture has been heavily protected, agricultural prices have risen. In France, during 1933, there was little change in the level of either agricultural or industrial prices.

Among the paper-standard countries there were some agricultural exporters such as Finland in which the level of agricultural prices remained about the same, and it is perhaps significant that in the United Kingdom, a very important market, prices on the average remained steady. In these countries there was no narrowing of the price-scissors. On the other hand, agricultural prices rose sharply in the United States and Canada. If statistics were available for Australia and New Zealand, the same phenomenon would be apparent, if only because of the striking rise in wool prices. A glance at the previous table showing the rise in various commodities — with rubber, wool and tea heading the list, and bacon, barley, cotton and mutton not far behind — is sufficient to show that other agricultural exporting countries must have benefited in 1933. There were declines, however, in the prices of sugar, hides, beef, maize, silk, cocoa, wheat, rice, butter, coffee and coconut oil, and these declines were unfavourably concentrated on some agricultural countries. It seems probable, on the whole, that the steadiness of prices in the United Kingdom reflects the average of these conflicting movements. Those countries in which wool or rubber was of great importance gained; but it is unlikely that there was any great narrowing of the price-

[1] For sources, *cf.* League of Nations *Monthly Bulletin of Statistics*, June 1934.

scissors in most agricultural countries,[1] though towards the end of 1933 the situation improved somewhat in this respect.

The situation in the United States is, of course, exceptional. A sharp rise in agricultural prices between February and July 1933 greatly narrowed the gap separating them from industrial prices; but after July a decline set in and the subsequent recovery early in 1934 did not carry the index beyond the July peak. Meanwhile, industrial prices rose steadily and the price-scissors began to widen again. In March 1934, indeed, at least half the relative gain registered in July had been lost.

The next table gives index numbers of export and import prices for a number of countries ranged in order of the proportion which manufactured commodities form of their total exports. Among the industrial countries at the head of the table, and among the agricultural countries at the bottom, there is an obvious confusion of movement. Measured in national currencies, the terms of trade have turned in favour of Switzerland, France, the United Kingdom, Belgium and the United States among the industrial countries, and in Finland, Denmark and the Netherlands Indies among the agricultural countries.

On the other hand, the terms of trade went against Germany and Italy among the industrial countries, and against Latvia, Hungary, China and New Zealand among the agricultural countries for which statistics are available at the moment of writing (June 1934).

Such a confusion of movement is perhaps natural at such a period as the year 1933 proved to be, when, not only were prices moving in opposite directions for different classes of commodities, but also currency depreciation was uneven. The marked rise of raw-material prices towards the end of 1933 brought improvement to many agricultural countries; but the persistent weakness in the prices of important foodstuffs rendered generalisations about these countries very hazardous. It is possible that, in retrospect, the year 1933 may appear as a period of transition, with all the confusion of price movements which attends such periods after a long depression.

If, however, quarterly figures are used, as in the two diagrams which follow, it is evident that, in the latter part of 1933 and the first quarter of 1934, there was a distinct tendency for the terms of trade to turn in favour of the raw material exporting countries.

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[1] The *Review of World Trade, 1933*, estimates the following average price movements for 1933 compared with 1932 of commodities entering into world trade: foodstuffs, — 12 %; raw materials, — 9 %; manufactured goods, — 12½ %.

Import and Export Prices and Terms of Trade in Industrial and Agricultural Countries, 1930-1933.

(Base: 1927 = 100.)

Country	Import Prices				Export prices				Terms of Trade (Export Prices as Percentage of Import Prices)			
	1930	1931	1932	1933	1930	1931	1932	1933	1930	1931	1932	1933
Germany	88	67	50	46	93	81	71	64	106	121	142	139
Switzerland	87	75	61	58	96	86	76	70	110	115	119	121
France	80	65	55	50	92	77	65	60	116	118	118	120
United Kingdom	87	71	66	62	93	83	78	76	107	117	118	123
Italy	78	61	48	42	71	58	49	42	91	95	103	100
Belgium-Luxemburg	87	76	66	62	92	79	64	65	106	104	97	105
Japan	85	61	69	...	79	61	67	...	93	100	97	...
United States	75	57	45	45	91	70	59	62	122	123	131	138
Canada	84	71	67	...	77	61	54	...	92	86	81	...
Latvia	80	68	71	70	76	57	45	43	94	84	63	61
Hungary	93	84	70	59	82	69	58	47	88	82	83	80
India	77	65	60	...	72	60	58	...	94	93	96	...
Indo-China	95	83	76	...	99	69	55	...	104	83	72	...
China	118	140	131	123	102	101	85	77	86	72	65	63
Finland	79	67	76	75	91	74	73	70	115	110	96	94
Australia	90	82	...	...	74	52	52	...	82	63	...	...
Argentine	84	84	83	80	94	71	68	...	111	84	82	...
Denmark	86	76	82	90	92	70	62	73	106	92	76	81
Netherlands Indies	91	72	60	49	52	36	28	28	57	51	47	57
New Zealand	89	82	80	85	84	65	59	59	94	79	74	69

Export Prices as Percentage of Import Prices.

(Base: Average 1929 = 100.)

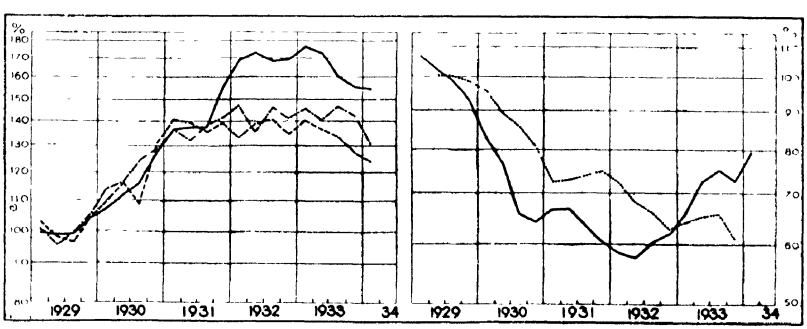
Quarterly movement. Logarithmic scale.

——— Germany
·-·-·-·-·- France
- - - - - - United Kingdom

(Prices of manufactured goods exported as percentage of those of raw materials imported.)

·· China
——— Netherlands Indies

(Prices of all exported goods as percentage of those of all imported goods.)



Finally, attention may be drawn to the narrowing of the discrepancy, in those countries for which statistics are available, between the prices of consumers' and producers' goods. Unfortunately, statistics are available only for the United States, Canada, Japan and Germany. The course of events in these countries can hardly be taken as typical of world developments in 1933, and the inferences to be drawn from the statistics cited below are strictly limited to the countries concerned.

There was a strong upward pressure on prices in the United States, and one result of that pressure was some narrowing of the gap between the prices of producers' and consumers' goods. Throughout the depression, the former had remained high, though investment and productive activity fell. It was goods destined for immediate consumption that in most countries suffered the brunt of the fall in prices. During 1933, all prices rose in the United States, especially in the first half of the year; but on the average the rise in consumption goods was greater than the rise in production goods.

Prices of Producers' and Consumers' Goods in the U.S.A. during 1933.[1]

(Base: 1929 = 100.)

	Dec. 1932	July 1933	Dec. 1933	Percentage change Dec. 1932-Dec. 1933
Goods destined for capital equipment:				
Raw	57.5	74.5	75.0	+ 30.4
Processed	80.0	79.5	83.3	+ 4.1
Total	74.6	78.3	81.3	+ 9.0
Goods destined for human consumption:				
Raw	47.4	62.1	59.6	+ 25.7
Processed	68.2	75.3	78.0	+ 14.4
Total	60.1	70.2	70.9	+ 18.0

Upon examination, however, this narrowing of the gap appears to be due almost entirely to the increased costs of processing in the consumption industries. The prices of raw materials for capital equipment rose sharply, but the same monetary influences that promoted this rise tended to discourage private investment, which was restricted in other ways also. The chief exception to the lagging tendency of processed capital goods was the continuous rise in prices of processed building materials. Here, as elsewhere in the American price structure during 1933, the dominant influence was Government policy.

[1] *World Production and Prices, 1925-1932.*

In Canada, consumption goods, mainly because of higher food prices, increased in price by almost 5 per cent during 1933, while producers' equipment fell slightly.[1] In Germany, the prices of finished consumption goods rose by 2.5 per cent, while the prices of finished investment goods fell by 1 per cent.[2] In Japan, the price movements of consumers' and producers' goods have been irregular during the depression. The latter fell heavily before Japan left the gold standard; but in 1933, mainly because of the increased cost of imported raw materials, they rose by 23 per cent, consumers' goods rising only 5½ per cent in that year.

Prices of Consumers' and Producers' Goods in Japan 1929-1933.

(Base: 1929 = 100.)

Year	Consumers' Goods	Producers' Goods.
1930	85	72
1931	64	60
1932	72	65
1933	76	80

In these four countries, therefore, there was some narrowing of the gap between the prices of investment and consumption goods — the movements in Japan, however, being opposite from those in the other countries. The rise in raw material prices previously mentioned leads to a presumption that the correction of this discrepancy was widespread also in the countries which, during 1933, experienced rising prices. In the gold-standard countries, however, prices continued to fall, and this fact, if only because the prices of investment goods are more firmly controlled, points to an aggravation rather than a narrowing of the discrepancy.

Policies of agricultural protection in some of these countries, however, raised agricultural prices and this tended to restore equilibrium in the price structure, but on the basis of a greater degree of self-sufficiency. As the prices of industrial, and particularly investment, goods tended to remain steady, any rise of agricultural prices helped to narrow the existing discrepancies.

In Germany and Austria, cartellised prices of industrial raw materials remained unchanged on the average during 1933, while "free" prices of industrial materials rose by 9 per cent in Germany and 12 per cent in Austria.[4]

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[1] *Monthly Review of Business Statistics.*
[2] Institut für Konjunkturforschung, *Vierteljahrsheft zur Konjunkturforschung.*
[3] Mitsubishi Economic Research Bureau *Monthly Circular*, April 1934.
[4] Institut für Konjunkturforschung, *Vierteljahrsheft zur Konjunkturforschung.* Institut für Konjunkturforschung, *Monatsbericht*, Februar 1934.

The fact is that, in the countries where deflation has stopped — at least for the time being — there is a tendency for price disequilibria to be corrected. It is impossible as yet to estimate the strength of the varied forces which, in different countries, have produced this tendency during 1933. Both a natural cyclical reaction and Government policies, particularly in the United States, must be taken into account. Where, on the other hand, deflation is still being actively pursued, there is little sign at present of price disequilibria being corrected.

Indices of building costs are now compiled for several countries and the following table summarises the information available.

Building Costs in Certain Countries at the End of Each Year 1929-1933.[1]

(Base: December 1928 = 100.)

	1929	1930	1931	1932	1933
Austria	100	111	111	101	101
Belgium	120	120	106	92	86
Czechoslovakia	96	92	85	83	80
Germany	102	94	84	71	73
Sweden	100	99	94	90	92
United Kingdom	101	97	95	92	(89)
United States: A.G.C.	100	99	97	80	83
E.N.R.	100	97	86	76	91

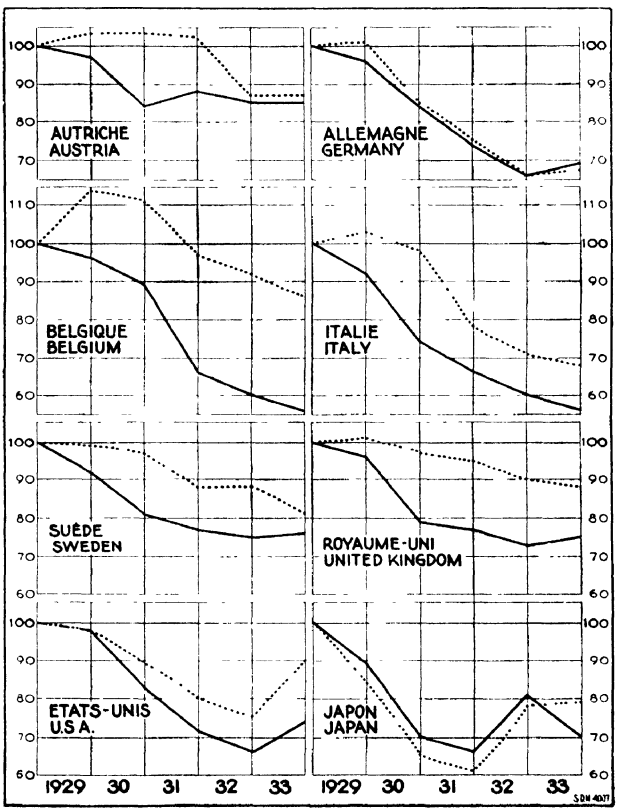
If these costs are analysed in more detail, it becomes clear that, in most countries for which statistics are available, the prices of building materials have fallen less than average wholesale prices. Germany is a significant exception to the general rule, the severe deflation policy followed in that country until the end of 1932 having been applied to cartellised as well as free prices. It may be seen also that, in 1933, there was a tendency for the prices of building materials to approach more closely to average wholesale prices in Austria, Germany, Sweden and the United Kingdom; but that, in the other countries represented in the diagram, the movements of these indices were still diverging.

[1] Austria: Institut für Konjunkturforschung, *Monatsbericht*, Februar 1934.
Belgium: Compiled in the Secretariat on the basis of indices of building-material prices, and of wages in the building industry in Brussels. (See Banque nationale de Belgique, *Bulletin Mensuel*, February 25th and April 25th, 1934.)
Czechoslovakia: *Annuaire Statistique 1934.* The figures are for July in each year.
Germany: Statistisches Reichsamt, *Statistisches Jahrbuch 1933.*
Sweden: Svenska Handelsbanken, *Index*, April 1934.
United Kingdom: *Economist*, November 11th, 1933.
United States: *Survey of Current Business*, May 1934.
A.G.C. — Associated General Contractors of America.
E.N.R. — *Engineering News Record.*

Prices of Building Materials and Average Wholesale Prices at the End of Each Year.

(Base: December 1928 = 100.)

Building Materials
——— Wholesale Prices



Another important element in building costs is wages, and here the reverse tendency is clear, wages in the building trades having fallen more than the average level of wages. The following table shows this movement clearly.

Wages in the Building Trades Compared with the General Index of Industrial Wages, 1928-1933.

(Base: December 1928 = 100.)

	Belgium		Germany		Sweden		United Kingdom	
	Building Trades	General Index	Building Trades	General Index	Building Trades	General Index	Building Trades	General Index
1928 . . .	100	100	100	100	100	100	100	100
1929 . . .	130	126	105	104	100	102	100	100
1930 . . .	129	128	105	104	100	106	97	99
1931 . . .	120	121	94	96	100	106	96	97
1932 . . .	107	114	71	82	100	104	93	96
1933 . . .	98	111	67	82	100	. . .	90	95

It will be seen that the greater part of this fall in wages in the building trades took place in 1932 and 1933. In past depressions, a revival of the building industry has often been one of the earliest signs of recovery and such a revival has followed reduced building costs. Wherever costs have been reduced in the last two years, building activity has recommenced; but, where the prices of materials remain high, building activity necessarily languishes.

Chapter V.

WAGES AND LABOUR CONDITIONS.

Wage Readjustments in 1933.

Estimates of national income in 1933 are not yet available, except for Germany, Japan and the United States; but the statistics of production and prices cited in the preceding chapters of this volume leave no reasonable doubt that the fall in national incomes has ceased in most countries. The slight increases in the estimates already available for the United States and Germany confirm this conclusion, which would probably be strengthened if monthly or quarterly instead of annual figures were available. The recovery was mostly concentrated in the latter part of 1933, and for the year as a whole was rather in the nature of stabilisation at the new low levels of prices and production than any very great advance towards the higher levels of 1929. The following table gives an indication of how great the fall has been

The estimates quoted are compiled by different methods in the different countries and are therefore not comparable from one country to another. Since the methods do not change greatly from year to year, however, it is legitimate to compare the general direction of the changes that have taken place. The fall appears to have been particularly heavy in the United States, where it was approximately 60 per cent between 1929 and 1932. This estimate refers to income produced, whereas income paid out did not fall as much, pointing to an increase of indebtedness. The fall was heavy also in Roumania (over 50 %), Germany (about 40 %), Latvia (35 %), Greece (32 %) and Australia and New Zealand (25-30 %). On the other hand, national income did not fall in Sweden, and in Norway, Denmark, France, Japan and the United Kingdom the fall was well below 20 per cent.

The Fall in National Incomes.

(000,000's omitted.)

Country	Unit	1929	1930	1931	1932	1933
Australia [1]	£ A	556	459	430	...	...
Denmark [2]	Kr.	3,700	3,750	3,550	3,200	...
France [3]	Franc	245,000	243,000	228,000	206,000	...
Germany [4]	RM.	76,100	70,200	57,100	46,500	47,500
Greece [5]	Dr.	41,000	37,000	30,000	28,000	...
Japan [6]	Yen	11,919	10,471	9,421	9,813	11,101
Latvia [7]	Lat	1,151	...	...	754	...
New Zealand [8]	£ N.Z.	142	117	100	101	...
Norway [9]	Kr.	2,200	2,197	1,994	1,938	...
Roumania [10]	Leu	184,900	138,900	105,600	90,000	...
Sweden [11]	Kr.	5,323	5,676	5,737	5,328	...
United Kingdom [12]	£	3,996	3,938	3,499	3,380	...
United States [13]	$	83,000	70,500	54,700	38,300	39,800
[14]	$	81,040	75,438	63,289	48,952	...

The decline in monetary income has had far-reaching effects everywhere. Even in small, isolated communities the shrinkage of trade and uneven fall in prices brings the necessity for considerable readjustments of economic life. Thus, a letter from one of the Samoan islands refers to the discrepancy between the very low price of copra and the still high prices of imported goods:

> "It is a regular thing now in practically every Samoan fale (house) to see a home-made lamp burning home-made oil from copra or coconuts, a flickering, smoking flame for light. I have never seen the people so poor -- no soap, no kerosene, the most, and perhaps only, necessary foreign

[1] Commonwealth report, *Preliminary Survey of the Economic Problem*, April 1932.
[2] *Statistiske Meddelelser* 1931-1934.
[3] *Revue d'Economie Politique*, mai-juin 1933; mai-juin 1934.
[4] Institut für Konjunkturforschung, *Vierteljahrsheft fur Konjunkturforschung*, 8.III.A.
[5] Banque d'Athènes, *Bulletin Mensuel*, septembre 1933. Report of the League of Nations Mission to Greece.
[6] Mitsubishi Research Bureau, *Monthly Circular*, March 1934.
[7] *Lettlands Oekonomist*, Riga, 1933. (Ministry of Finance, editor.) Figure for 1929 refers to 1929-30.
[8] Report of the Economic Committee, 1932. The figure for 1932 is estimated on the basis of the change in the gross value of national production. The figures refer to the years 1929-30 to 1932-33.
[9] *Statistiske Meddelelser* Nr. 7/8, 1933.
[10] *Buletin Trimestrial* al Institut Românesc de Conjunctura.
[11] *Vierteljahrshefte zur Statistik des Deutschen Reichs*, Erstes Heft 1934.
[12] CLARK: "The National Income", London, 1932. *The Economic Journal*, June 1933.
[13] National income produced. *National Industrial Conference Board Bulletin*, February 20th, 1934.
[14] National income paid out. Department of Commerce, *National Income*, 1929-1932.

things to them. The depression is forcing the natives to get back to their old Samoan usages . . . If the depression lasts any longer and the prices remain the same it will not be long before we are brought face to face with Samoa really in its native element again."

In more industrialised countries, the fall in national income has not been so severe nor its consequences so picturesque; but standards of living have been cut as purchasing power has fallen and wages have suffered among other forms of remuneration. There seems to have been a definite tendency in many, though not all, countries during 1932 for wages and salaries to form a smaller proportion of the total income distributed. For those countries where statistics are available to show wages as a percentage of the net value of output in manufacturing industries, this tendency is very clear so far as the distribution of income from those industries is concerned.

Wages (W.) and Wages and Salaries (W.S.) as Percentages of the Net Value of Industrial Production.

Year	Australia [1]	Canada [2]		New Zealand [3]	Finland [4]	Hungary [5]	Latvia [6]	Norway [7]	
	W.S.	W.S.	W.	W.S.	W.	W.S.	W.	W.S.	W.
1929 (1929-30)	54.2	40.7	31.3	50.4	36.7	36 0	40.8	47.5	38.2
1930 (1930-31)	52.8	41.8	31.3	50.8	36.2	36.2	41.9	49.0	39.1
1931 (1931-32)	50.4	42.4	29.7	49.6	33.1	35.7	44.5	49.3	37.2
1932 (1932-33)	49.9	43.2	29.2	47.2	30.6	34.8	40.7	47.9	37.1

The estimates of national income that are available for some larger countries show conflicting tendencies. In all the countries for which statistics are available there appears to have been a distinct tendency for wages to absorb a greater proportion of the national income distributed in recent years, though in 1932 there was on the whole a contrary tendency in the United States and still more in Germany.

[1] *Quarterly Summary of Australian Statistics*, March 1933.
[2] *Advance Report on the Manufacturing Industries, 1932.*
[3] *Monthly Abstracts of Statistics*, January 1934.
[4] *Teollisuustilastoa, Industristatistik*, 1932.
[5] *Revue Hongroise de Statistique, 1933.*
[6] *Annuaire Statistique, 1932.*
[7] *Norges Industri, 1932.*

The Percentage of National Income Paid as Wages and Salaries.

Year	France [1]	Germany [2]	United Kingdom [3]		United States [4]
	Wages and salaries	Wages and salaries	Wages	Wages and salaries	Wages and salaries
1929	47.1	56.6	39.8	62.4	65.2
1930	50.3	56.4	38.9	61.4	64.5
1931	51.3	57.9	41.4	65.7	64.8
1932	52.2	56.4	...	67.0	64.5

Such approximate calculations as these, however, are not adequate to determine the changes in the distribution of real income that actually took place during the depression in different countries. It would be necessary to take into account not only direct monetary payments such as wages, but also indirect contributions to the standard of living such as the services provided by Governments. It would also be necessary to consider the movements of relative prices affecting the cost of living at different income-levels.

Another very important factor is the effect of the depression upon the provision of capital and upon ownership generally. Thus, it has been argued in respect of the figures for the United States quoted in the preceding table that they refer to income distributed, not to income produced. In the calculations from which these figures were drawn, dividend and interest payments from reserves were included. If the same material is recalculated to show the labour share, not of the total income distributed, but of the total income produced, the percentages would be very different — 63.6 per cent in 1929, 69.6 per cent in 1930, 75.1 per cent in 1931, 82.5 per cent in 1932, and 77.9 per cent in 1933.[5]

The only generalisation that can safely be made is that, despite the severity of the depression, the standard rates of nominal, and still more of real, wages have been remarkably well maintained; and that, in most countries, this, together with the extension of social services, has preserved for the

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[1] *Revue d'Economie Politique*, juin 1934.
[2] *Wirtschaft und Statistik*, Nr. 22, 1933.
[3] CLARK: "The National Income", *Economic Journal*, June 1933.
[4] Department of Commerce, *National Income, 1929-1932*.
[5] Cf. *Monthly Bulletin of National City Bank*, New York, April 1934, and the *National Conference Board Bulletin*, May 10th, 1934.

wage-earning population more stable living standards than in previous depressions. It is probable even that an increasing share of the reduced national incomes was earmarked for this purpose, at least until the low point of the depression in 1932 forced both a reduction of social services and, in some countries, a break in wage rates, together with a maximum degree of unemployment.

The recent movements in nominal wage rates are summarised in the following table.

Index Numbers of Nominal Wages in Various Countries.

(Base: 1929 = 100.)

Country	1931				1932				1933				1934
	III	VI	IX	XII	III	VI	IX	XII	III	VI	IX	XII	III
Australia [1]	93	91	88	87	86	86	82	81	81	82	81	81	...
Czechoslovakia [2]	103	103	103	103	103	103	103	103	102	102	102	102	102
Denmark [3]	102	102	102	103	102	102	102	103	101	102	102	104	...
France [4]	.	.	108	.	.	.	104	.	.	.	104	.	.
Germany [5]	97	96	95	84	84	81	80	80	79	79	79	79	...
Italy [6]	90	92	89	88	85	87	86	85	83	85	84	84	83*b*
Japan [7]	94	92	92	91	90	89	89	88	87	86	86	84	84*b*
New Zealand [8]	100	89	89	89	87	86	84	83	83	82	82	82	...
Poland [9]	95	94	93	91	88	87	84	83	81	81	77	78*a*	75*ab*
United Kingdom [10]	99	98	97	97	96	96	96	96	95	95	95	95	95
United States:													
Industry [11]	98	96	95	91	88	85	81	79	78	77	90	93	96
Agriculture [12]	74	71	66	58	56	51	49	44	43	46	52	50	50

[1] Men: weekly rates. Mines, industries, public service, commerce, etc.; for end of month (Commonwealth Bureau of Statistics).

[2] Men and women: hourly minimum rates. Industries, average of month (Statistical Office of the Czechoslovak Republic).

[3] Men and women: hourly earnings. Industries, public service, commerce, etc.; average for the quarter ending with the given month (Department of Statistics).

[4] Men: hourly rates. Industries, etc., figures for Paris only, October of each year (Statistique generale de la France).

[5] Men and women: hourly rates. Mines, industries, public services; first of following month (Statistisches Reichsamt).

[6] Men and women: hourly earnings. Mines, industries, public services, etc.; average of the month (Central Institute of Statistics).

[7] Men and women: daily rates. Industries; end of the month (Bank of Japan).

[8] Men: weekly minimum rates. Agriculture, mines, industries, public services, commerce, etc.; average for the quarter ending with the given month (Census and Statistics Office).

[9] Men and women: daily rates. Mines, industries; end of the month (Central Office of Statistics).

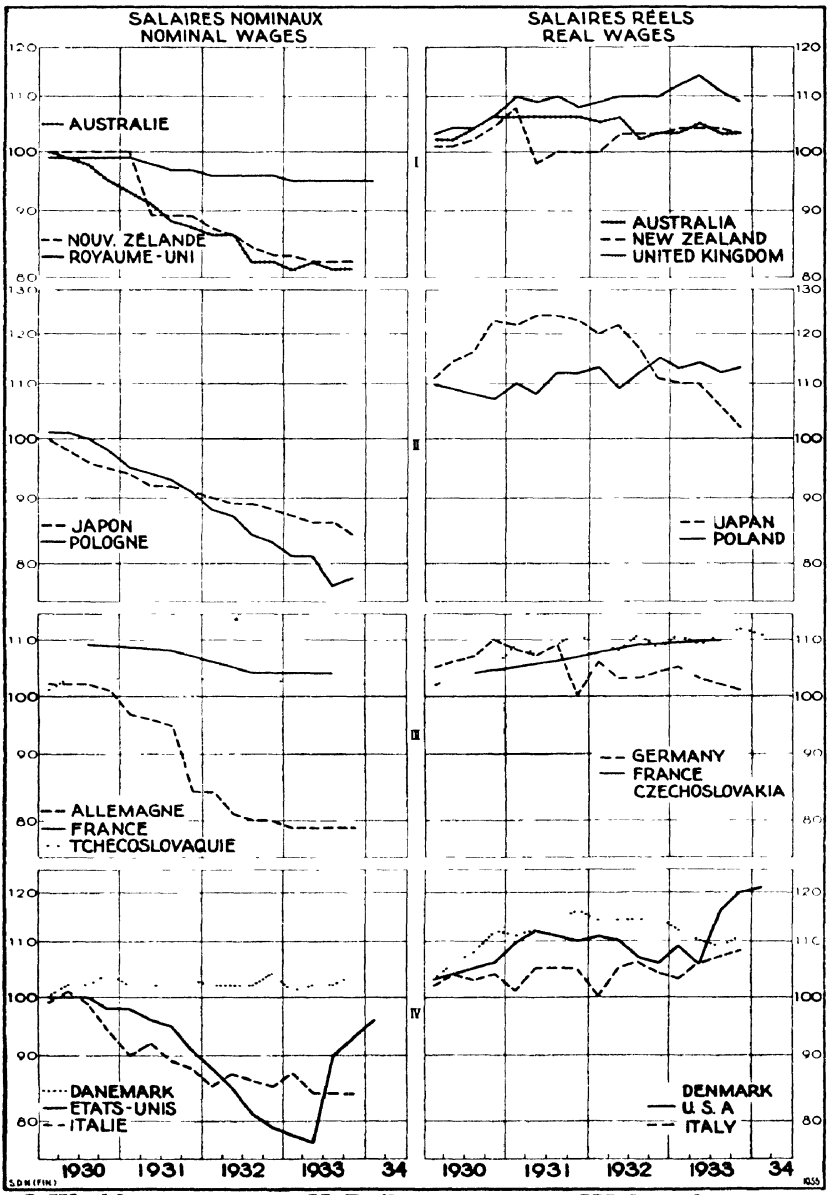
[10] Men and women: weekly rates. Agriculture, mines, industries, public services; average for the quarter ending with the given month (Ministry of Labour).

[11] Men and women: hourly earnings. Various industries; first week of the given month (National Industrial Conference Board).

[12] Men: daily rates. Agriculture; first day of the following month (United States Department of Agriculture).

(*a*) Provisional figures.
(*b*) Figures for February 1934.

Index Numbers of Nominal and Real Wages, 1930-1934.
(Base: 1929 = 100.)
Logarithmic scale.



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

Index Numbers of Real Wages in Various Countries.[1]

(Base: 1929 = 100.)

Country	1931				1932				1933				1934
	III	VI	IX	XII	III	VI	IX	XII	III	VI	IX	XII	III
Australia	106	106	106	106	105	106	102	103	103	105	103	103	
Czechoslovakia	109	107	109	111	109	108	111	108	111	109	111	112	111
Denmark	111	112	114	116	114	114	114	114	112	110	109	111	
France	...	...	106	...	...	...	109	...	...	...	110	...	
Germany	108	107	109	100	106	103	103	104	105	103	102	101	
Italy	101	105	105	105	100	105	106	104	104	107	107	106	106*b*
Japan	122	124	124	123	120	122	117	111	110	110	106	102	103*b*
New Zealand	108	98	100	100	100	103	103	103	104	104	104	103	
Poland	110	108	112	112	113	109	112	115	113	114	112	113*a*	111*ab*
United Kingdom	110	109	110	108	109	110	110	110	112	114	111	109	111
United States:													
Industry	110	112	111	110	111	110	107	106	109	106	116	120	121
Agriculture	83	83	77	70	70	65	64	59	61	63	65	65	

The relative advantage from a declining cost of living accruing in most countries to those more fortunate groups of workers who have retained full employment at standard rates is amply demonstrated by the movement of real wages disclosed above. It will be noticed that in none of the countries cited, even during the worst years of the depression, did the index numbers of real wages for industrial workers, with one exception in the second quarter of 1931, fall below the 1929 levels, while, in most, substantial advances were recorded. Even where, as in Japan, the cost of living rose substantially in 1933 as a result of currency depreciation; or, as in New Zealand, where wage rates were cut in 1931; or, as in Germany, where a cut in wage rates at the end of 1931 was followed in 1933 by a rising cost of living, the index numbers at the end of 1933 stood above the 1929 base-level. The figure for agricultural real wages in the United States, however, is a striking exception to this general movement.

This raises the important question as to how far the average movements represented by these index numbers disguise

[1] The index numbers of nominal wage rates used in the preceding table corrected by the official indices of the cost of living.

(*a*) Provisional figures.
(*b*) Figures for February 1934.

conflicting movements of wage rates in particular industries. If more detailed statistics are consulted,[1] it is clear that in many other countries besides the United States agricultural wage rates have fallen further than industrial wage rates. Moreover, wage rates in particularly depressed industries, such as mining in the United States, have fallen almost as low as agricultural wages. Official German statistics recently published show that, during 1933, nominal wage rates in the producers' goods, or investment, industries fell and that this fall was most marked in the building trades, while nominal rates in the consumers' goods industries fell only slightly.[2]

The summary tables which follow show the wide discrepancies of wage movements in different industries in several countries. Sheltered industries or those in which trade unions are highly organised have suffered least, while building and investment industries in general have suffered most.

Many other factors apart from nominal hourly or weekly wage rates affect actual earnings. The classification of workers into skilled or unskilled groups may be altered by a relaxation of trade-union rules concerning demarcation of occupations; the scale of contributions deducted from wages for various purposes, the degree to which work is spread by means of short-time arrangements, the loss of premiums over the minimum rates, and of other privileges, may all operate to bring about an effective decline in living standards without much nominal alteration in wage rates. A fall in earnings is therefore quite consistent with increasing employment and production. During the latter years of the depression, earnings have fallen heavily in general, and most heavily in the investment goods industries in most countries. In those industries, unemployment has been very severe and earnings have fallen more than wage rates. This phenomenon is not new, but has developed in the investment goods industries during all recent depressions.

In much the same way there appears to have been a considerable reduction of earnings in countries like Germany and Italy, where great efforts have been put forth to overcome the depression and particularly to make some headway against unemployment. As the German Minister for Propaganda said in his

[1] Cf. International Labour Organisation's *Year-Book*, 1934, Appendix II, Table II, "Wages by Industries"; and *International Labour Review*, May 1934, page 701.

[2] *Nominal Wage Rates in Germany during 1933.* (In RPf. per hour.)

	January 1st, 1933	January 1st 1934
Producers' goods industries	84.2	82.8
(Building industries)	85.5	81.1
Consumers' goods industries	73.3	73.1

Wirtschaft und Statistik, 2. Februarheft, 1934.

Wage Reductions by Industrial Groups.[1]

(Percentage reduction from 1929 to the latest available date.)

I. *Average Hourly Wage Rates.*

Australia.

(VI. 1929-VI. 1933)

Mining	M. 12
Food	W. 14
Printing	M. 15
Food	M. 18
Building	M. 18
Metals	M. 21
Agriculture	M. 22
Clothing	M. 22 / W. 24
Rail and tram transport	M. 24

Belgium and Luxemburg.[2]

(XII. 1929-X. 1933)

Electricity	6
Printing	11
Food	13
Glassworks	16
Engineering	16
Textiles	18
Foundry	20
Chemicals	24
Mining	28

Canada.

(1929-1933)

Coal mining	M. 4
Printing	M. 9
Metals	M. 9
Railways	M. 10
Building	M. 20
Agriculture	M. 48

France.

(X. 1930-X. 1933)

Agriculture	2
Printing	M. 2
Food	M. 5
Metals	M. 5
Clothing	M. 7
Mining	M. 8
Textiles	M. 10

Germany.

(VI. 1929-I. 1934)

Textiles	16
Clothing	W. 17
Mining	M. 18
Metals	M. 18
Food	18
Printing	18
Railways	M. 19
Chemicals	19
Clothing	M. 23
Wood	M. 30
Building	M. 35

United Kingdom.[3]

(XII. 1929-XII. 1933)

Printing	M. 0
Metals	M. 0
Rail, tram and road transport	M. 3
Agriculture	4
Clothing	4
Food	4
Wood	7
Building	9
Shipping	10

Note. — M = Adult men; W = Adult women.

[1] International Labour Organisation's *Year-Book* 1933, Appendix II.

[2] National Bank, *Bulletin d'Information et de Documentation*, 25 février 1934.

[3] Weekly rates.

Wage Reductions by Industrial Groups.

(Percentage reduction from 1929 to the latest available date.)

I. *Average Hourly Wage Rates.*

United States.

(V. 1929-V. 1933)

Printing	M. 4
Chauffeurs	M. 7
Building	M. 11
Bakers	M. 18
Agriculture (cash)	M. 52

II. *Average Hourly Earnings.*

Italy.

(VII. 1929-VII. 1933)

Chemical	6
Food	8
Building	9
Printing	10
Metals	12
Textiles, Clothing	18
Mining	18

Japan.

(1929-1933)

Printing and paper	7
Metals	8
Food	10
Chemical	15
Wood	25
Clothing	25
Textiles	28

Poland.

(1929-1932)

Mining	2
Metals	15
Textiles	20
Clothing	20
Paper and printing	21
Food	23
Wood	25
Building	25
Chemical	26

United Kingdom.

(1929-1933)

Mining	1
Railways	6
Metals	9

United States.

(IV-VI. 1929-XII. 1933)

Textiles	+1
Food	0
Clothing	2
Paper and printing	4
Chemical	7
Metal	7

official broadcast of April 12th, 1934, "In these months of industrial revival, it has been necessary for the workers to accept wage-levels below those which should correspond to the high level of national culture."[1]

There seems no doubt, however, that nominal labour income in the aggregate, in Germany as elsewhere, began to rise again in 1933. The following table is of some interest as showing the movements in Germany, the United Kingdom and the United States. The index numbers are not comparable horizontally, since they represent different things in each country. There has been a slight rise in Germany and a much larger rise in the United States. Statistics for the United Kingdom are not available for 1933, but the steady reduction of unemployment in that year indicates that earned incomes must have risen.

Earned Incomes in Germany, United Kingdom and United States.

(Base: Quarterly average 1929 = 100.)

Quarter	Germany[1]	United Kingdom[2]	United States[3]
	Incomes of workers, employees and officials, pensions excluded. Unadjusted for seasonal movements	Wages and salaries under £250. Adjusted for seasonal movements.	Pay-rolls of wage-earners and employees. Unadjusted for seasonal movements.
1930: I	93	98	82
II	94	96	88
III	94	95	76
IV	87	94	70
1931: I	77	91	58
II	79	91	64
III	76	89	55
IV	69	91	47
1932: I	57	89	49
II	59	88	43
III	59	87	38
IV	58	89	39
1933: I	54	88	36
II	58	..	42
III	61	..	51
IV	61	..	51
1934: I	61	..	54

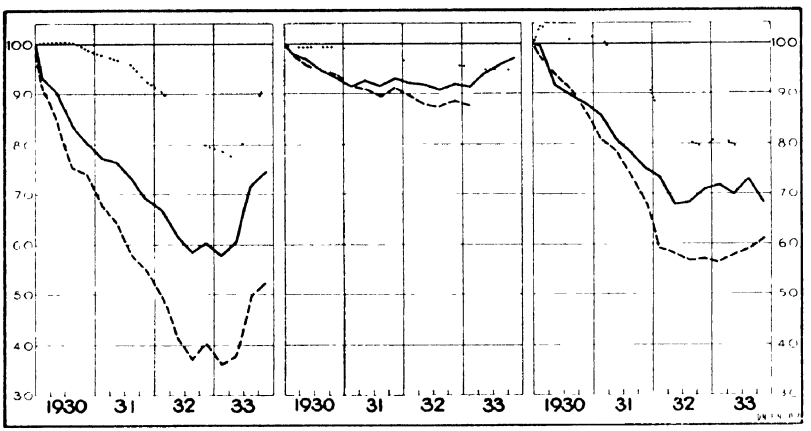
[1] *Frankfurter Zeitung*, April 14th, 1934.
[2] *Wochenbericht des Instituts fur Konjunkturforschung*, April 11th, 1934.
[3] CLARK: "The National Income", *Economic Journal*, 1933.
[4] *National Industrial Conference Board Bulletin*, February 20th, 1934.

Employment, Wage Rates and Pay-rolls.

(Base: Average 1929 = 100.)

——— Employment · · · · · Wage Rates ---------- Pay-rolls (Wages and salaries)

United States | Great Britain and Northern Ireland | Germany



REDUCED UNEMPLOYMENT.

In respect of employment, as in respect of earnings, there was a definite improvement registered in 1933. For the first time, a weighted international index of unemployment is now available. This index, compiled by the International Labour Office, is based upon the national statistics of sixteen of the principal industrial countries.[1] It will be seen from the table and diagram reproduced below that the absolute peak of unemployment was reached in January 1933; but, if allowance is made for seasonal factors, the trend of unemployment has been downward since the end of 1932. The extent of the decline is as yet small. At its worst about the middle of 1932, the volume of unemployment was almost three times as great as the average in 1929. The improvement since that time has reduced the index substantially; but it still remains nearly two and a-half times as great as the 1929 average.

[1] *International Labour Review*, April 1934, pages 557 to 571, July 1934. The countries included are: *Series based on Percentages:* Australia, Austria, Belgium, United Kingdom, Canada, Czechoslovakia, Denmark, Japan, Netherlands, Norway, Poland, Sweden, Switzerland, United States. *Series based on Absolute Numbers:* Germany, Italy.
These countries are weighted according to the industrial population of each country, and the international index is calculated as the geometric mean of the national indices.

International Index Numbers of Unemployment, 1929 to March 1934.

(Base: 1929 = 100.)

Month	(*a*) Unadjusted series						(*b*) Seasonally adjusted series				
	1929	1930	1931	1932	1933	1934	1929	1930	1931	1932	1933
January	128	147	233	287	304	249	89	118	195	256	277
February	131	153	235	289	303	238	89	125	200	261	274
March	103	146	228	281	291	222	89	131	206	266	270
April	86	141	214	275	278	...	90	138	211	269	267
May	75	138	203	272	268	...	92	146	217	273	265
June	70	138	202	269	255	...	95	154	224	276	263
July	72	148	208	277	246	...	97	162	230	279	260 [1]
August	73	155	215	274	241	...	99	169	234	280	255 [1]
September . . .	74	157	221	269	231	...	100	175	237	280	248 [1]
October	85	164	227	266	228	...	103	180	241	280	...
November . . .	98	183	243	275	233	...	107	185	245	279	...
December . . .	124	209	268	289	248	...	112	190	251	278	...
Index . .	100	168	241	297	279	...	...	...	...	...	...

[1] Provisional figures.

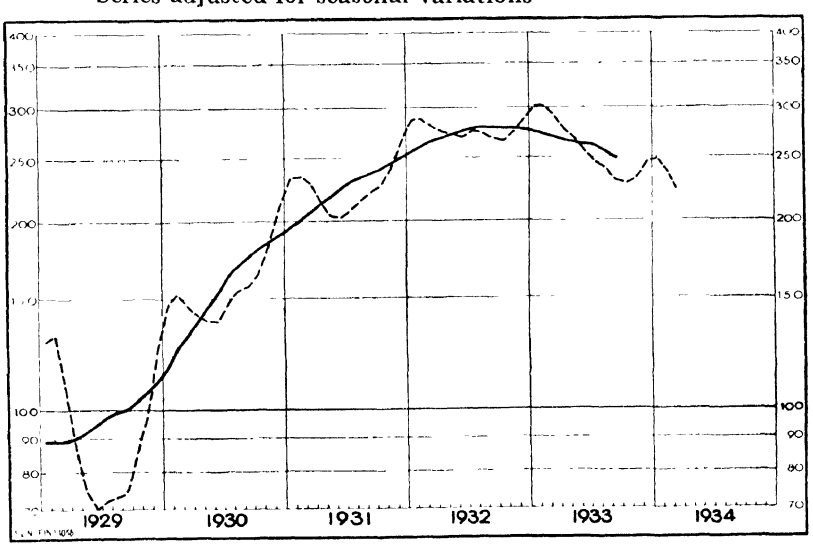
International Index Numbers of Unemployment (Monthly Figures), 1929-1933.

(Base: 1929 = 100.)

Logarithmic scale.

---------- Original series

———— Series adjusted for seasonal variations



The impression gained from this international index number is, on the whole, borne out by the national estimates of the numbers unemployed in various countries. The following table shows the general tendency towards improvement.

National Unemployment Statistics at the End of March in Each of the Years 1929 to 1934. [1]

(000's.)

Country	1929	1930	1931	1932	1933	1934
Australia	39	63	114	120	109	92
Austria	225	239	304	417	456	403
Belgium [2]	28	42	207	350	383	391 (Jan.)
Canada	12	23	32	77	80	88
Czechoslovakia	50	88	340	634	878	790
Danzig	18	20	27	36	38	22
Denmark	66	49	70	145	166	114
Estonia	4	4	3	8	15	6
Finland	3	10	11	18	19	14
France	9	14	72	347	350	379
Germany	2,484	3,041	4,744	6,034	5,599	2,798 [5]
Hungary	14	43	55	71	69	61
Irish Free State	19	23	25	31 [3]	83	101
Italy	293	385	707	1,053	1,082	1,057 [5]
Japan	.	352	397	474	424	382 (Jan.)
Latvia	9	6	9	23	13	10
Netherlands	.	.	.	253	342	333
New Zealand	3	3	38	45	51	44
Norway	24	23	29	38	42	42
Poland	177	289	373	360	280	388
Roumania	10	13	48	55	44	28 (Feb.)
Saar	9	9	18	45	42	37
Sweden	44	42	73	99	121	98
Switzerland [2]	9	21	61	103	113	91
United Kingdom [2]	1,204	1,694	2,666	2,660	2,821	2,225
United States [4]	.	3,543	7,098	10,739	13,689	10,877
Yugoslavia	12	10	12	23	23	21

Considerable caution is necessary in making use of this table, since the definition of unemployment varies a good deal in the different countries. In some, relief workers are included; in others, workers engaged on public works or in labour camps are regarded as employed. The absolute extent of unemployment

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[1] League of Nations *Monthly Bulletin of Statistics* and *International Labour Review*
[2] Partial and intermittent employment included.
[3] New series from June 1932.
[4] American Federation of Labour estimates, 1930-1934.
[5] Modified series.

is probably under-estimated in most cases, but, in countries where urban workers may take refuge for a time with relatives in the country, the under-estimation is more serious than in more industrialised communities. In those countries also, where considerable numbers of workers have been employed in various forms of exceptional activity financed by public expenditure, the reduction of unemployment appears to be greater than the recovery in employment has actually been. This is a fact to be borne in mind when estimating the improvement in the unemployment situation as a whole. It should be remembered that, in countries which normally employ a large number of foreign workers, the depression has led to many of these workers returning to their countries of origin with the result that the unemployment is to some extent transferred from one country to another.

While international comparisons of the absolute figures recorded in the preceding table are not possible, the different trends in the various countries are significant. Apart from Germany, where special measures have been taken by the State to relieve the employment market, the greatest improvement has been in the group of countries now connected with the sterling standard, including, not only the United Kingdom and the British Dominions (with the exception of Canada), but also European countries such as Denmark and Finland. On the contrary, the position in most of the gold-standard countries was less promising and was actually a good deal worse at the end of March 1934 in Belgium, France and Poland.

Statistics of employment are available for a certain number of countries. In most cases, they are based on returns from employers and indicate the changes in the number of employed workers in a selected number of mainly industrial establishments. The indexes are representative in character and for a variety of reasons they are valuable mainly for short period comparisons. They do not, of course, give any information as to the absolute extent of employment in any country at any given date. Only in the few cases where they are based on returns of employed members of compulsory sickness or unemployment insurance schemes do the figures give a fairly reliable picture of fluctuations in the absolute extent of employment.

Index Numbers of Employment.[1]

(Base: 1929 = 100.)

Country	Kind of Statistics	1930	1931	1932	1933	1933	1934
		Yearly average				March	March
Canada	Employers' returns	95	85	73	71	64	77
Czechoslovakia	Social insurance	98	92	83	75	69	69
Estonia	Employers' returns	96	88	83	84	83	95
France [2]	Labour inspectors' returns	100	93	81	79	78	77
Germany	Sickness insurance	92	81	70	73	68	82
Hungary	Social insurance	94	89	82	81	79	82
Italy	Employers' returns	93	81	71	71	71	71
Japan	Employers' returns	90	82	82	90	87	95 [3]
Latvia	Sickness insurance	105	99	83	88	84	93 [4]
Netherlands	Unemployment insurance	98	91	79	78	77	78
Poland	Employers' returns	87	74	63	63	60	65 [4]
Sweden	Federation of industries	100	91	86	85	84	89
Switzerland	Employers' returns	97	89	76	73	73	73
Union of South Africa	Employers' returns	98	94	87	91	88	99 [3]
United Kingdom	Unemployment insurance	96	92	92	95	92	99
United States	Employers' returns	87	74	62	66	56	76

If account is taken of the unemployment position in individual industries in different countries for which such statistics are available, the evidence of gradual improvement is strengthened; but there is evidence also of some irregularity in that improvement. Thus, in Belgium, the building and mining groups were in a worse position at the beginning of 1934; in the Netherlands, and also in Sweden, building and printing trades were worse, while, in Sweden, the food industries also had increased unemployment.

[1] *International Labour Review*, June 1934.
[2] Number employed in same period 1930 = 100.
[3] February.
[4] Provisional figure.

Statistics of Unemployment by Groups of Industry. [1]

(Percentage of unemployed workers at the end of March in successive years.)

Country	Year	Building	Engineering	Mining	Textiles	Printing	Food
Australia	1930	17.5	16.7	8.7	.	3.8	9.3
	1931	30.4	27.7	32.4	.	12.6	17.3
	1932	37.9	31.1	33.5	.	15.4	17.1
	1933	38.7	30.2	29.1	.	15.8	16 6
Belgium	1930	2.6	1.2	0.1	1.7	1.1	0.8
	1931	25.1	10.6	0.5	7.7	4.0	4.1
	1932	30.7	18.6	4.0	20.5	11.2	7.6
	1933	27.9	21.6[2]	4.5	17.6	12.8	9.7
	1934	31.5	19.7[2]	6.7	15.6	11.1	8.7
Canada	1930	30.5	16.3	11.8	2.2	3.7	.
	1931	45.7	16.1	12.4	4.4	6.8	.
	1932	62.3	...	9.9	15.8	12.1	.
	1933	71.0	70.1	17.5	19.8	15.9	.
	1934	69.6	...	14.4	7.6	12.0	.
Germany [3] . .	1930	53.1	15.9	4.5	12.9	13.3	14.1
	1931	73.9	29.3	13.4	21.6	22.2	24.1
	1932	88.7	43.6	18.8	30.7	35.0	31.9
	1933	87.5	50.0[2]	19.1	31.1	37.3	27.9
	1934 [4]	23.5	20.9[2]	15.1	9.7	24.6	12.7
Netherlands . .	1930	13.7	6.2	0.4	9.2	2.8	5.3
	1931	29.9	23.7	0.4	21.7	4.5	12.6
	1932	41.6	40.6	36.6	27.3	10.9	17.5
	1933	42.3	43.9	35.9	38.0	15.8	22.2
	1934 Febr.	46.3	38.3	50.0	32.2	16.0	19.2
Sweden	1930	27.7	7.6	13.9	3.7	4.9	10.4
	1931	40.8	17.0	21.5	3.8	5.0	11.7
	1932	47.6	26.0	39.6	5.1	8.9	14.8
	1933	55.6	27.3	37.4	9.8	11.5	17.9
	1934	53.8	20.3	40.4	5.1	11.3	19.5
United Kingdom.	1930	16.0	13.7	14.3	25.5	6.0	10.3
	1931	22.5	26.6	27.4	36.5	10.1	13.2
	1932	29.0	27.2	26.9	23.4	11.2	12.5
	1933	27.2	28.6	31.2	26.0	11.1	13.4
	1934	20.3	18.2	25.5	21.1	9.1	11.8

[1] League of Nations *Statistical Year-Book*, 1933-34, and International Labour Organisation *Year-Book*, 1933.
[2] Including iron and steel.
[3] Wholly unemployed only.
[4] Returns less complete than before.

Unemployment relief remained a pressing and difficult problem in most countries, and its cost was burdensome on the public finances.[1] Those countries which in 1933 were forced to continue a policy of deflation in order to safeguard or restore budgetary equilibrium carried through some reduction of benefits and tightened regulations for unemployment relief as for other forms of social expenditure. On the other hand, it is significant that the Australian budget in September 1933 provided for some restoration of the previous cuts in the social services and the budget for the United Kingdom delivered in April 1934 also provided for the restoration of unemployment benefits, as from July 1st, to the levels at which they stood before the economies imposed in the latter part of 1931. The new methods of administration, however, and notably the Means Test, were not interfered with by the changes announced in the budget. But a new Act passed in June 1934 has introduced far-reaching reforms in the system, and in particular has set up a nationally organised assistance scheme to supplement the insurance scheme.

The Workers' Standard of Living.

Even a cursory glance through the pages of the International Labour Organisation's *Year-Book* for 1933 is sufficient to indicate the steady progress, even under depression conditions of the movement towards legislative regulation of labour conditions. In the following section of this chapter, attention is directed to some significant aspects of this progress. The purpose of the present section is to illustrate the way in which standards of labour legislation have, on the whole, survived the impact of the severest depression ever known, and have even been advanced in important respects in many countries. A century ago, the movement for labour legislation, supported at that time mainly by humanitarian arguments, was just winning recognition in the country which led the way to modern industrial development. It was, indeed, exactly a century ago, in 1834, that the appointment of the first factory inspectors

[1] The cost of unemployment relief in 1933 was not known for many countries at the time of writing (April 1934); but the following estimates for the year 1932 and 1933 were given in the report of the Director of the International Labour Office to the International Labour Conference, 1934, or have been communicated since then by the International Labour Office:

Belgium: 1,000 million francs in 1932.
Germany: 3,000 million RM. in 1932.
United Kingdom: £120 million in 1932 and £107 million in 1933.
Switzerland: 65 million francs in 1932 and 74 million francs in 1933.
Czechoslovakia: 560 million crowns in 1932.
U.S.A.: $500 million in 1932 and over $800 million in 1933.

in the United Kingdom made such legislation practically effective. In 1934, as the world appears to be emerging slowly and painfully from prolonged depression, not only has the body of labour legislation in most countries been preserved practically intact, but, in many important respects, considerable advances have been registered and at least a beginning has been made in the regulation of labour conditions in a great many countries where industrial development is yet in its infancy. It is not possible in the brief space available here to give a complete summary of the manifold aspects of national legislation in respect of hours, working conditions, industrial safety and health, night-work, wage regulation and social insurance of various kinds, to say nothing of the development of international co-operation in these matters. All that is attempted is a brief account of certain salient developments in 1933. For fuller details reference should be made to the International Labour Organisation's *Year-Book*, previously cited.

Even in countries with advanced and well-enforced legislation, however, prolonged depression has often created conditions where the workers' standard of living has been lowered without legislative or administrative change. Trade unions have been weakened both by the pressure of unemployment and by the greater burden of union fees.[1] Their bargaining power has been reduced and trade practices have necessarily been accepted which facilitated the employers' tasks of reorganisation and cost reduction. Such developments are not susceptible of statistical measurement, but may, in the aggregate, exercise an important influence in certain industries or areas. Nevertheless, the main body of legislation remains intact and, in more fortunately situated industries, there has even been some advance.

It is significant that private initiative has run ahead of legislative enactment in many respects and notably in the movement towards a reduction of hours. Public opinion is obviously behind the maintenance of improved standards of living and working conditions. Moreover, this public opinion no longer rests on purely humanitarian and ethical grounds; but is supported by a considerable body of economic reasoning. This is, indeed, the explanation of the initiative taken by large employers in reducing hours and increasing wages. Though such initiative is for the most part confined to a few relatively prosperous industries, the reason given for it is that it is "good business".

[1] Trade-union membership, on the other hand, has not declined except in few countries. The latest available statistics are given in the International Labour Organisation's *Year-Book*, 1933, pages 118 to 126.

Most of the legislation passed in 1933 regarding hours of work provided for the recognition and consolidation of existing conditions and for the levelling up of backward industries, rather than for any great advance or innovation. As was pointed out in the preceding SURVEY, it was closely connected with the desire to limit overtime and to spread work. Particularly in Germany and in the United States of America there was a strong tendency to move towards the establishment of a forty-hour or shorter working week. In the United Kingdom, several large firms voluntarily reduced working hours without reducing daily earnings. In Italy, a new Act promulgated on March 16th, 1933, was based upon the principle of the eight-hour day. In the United States, legislation providing for a thirty-hour week made considerable progress in the early part of 1933; but the inauguration of industrial codes under the National Recovery Act caused the withdrawal of this legislation. Under the codes, there was a general tendency towards a shortening of hours. These are merely illustrative cases. A brief recapitulation of the various national and international measures taken in respect of hours of work either generally or in particular industries occupies over fifty pages of the International Labour Organisation's *Year-Book* and in nearly every case the tendency is towards reduction of hours and stricter regulation.

Other subjects of labour regulation — weekly rests, holidays, the closing of shops, industrial medicine and physiology, the control of industrial diseases and dangerous processes, industrial hygiene and preventive medical services, safety devices and protection against accidents, the protection of women, children and young persons — made steady progress in many different countries. It is evident that such measures have come to stay, and that public intervention to enforce the maintenance and improvement of decent working conditions is to be regarded as a normal political development in most modern countries.

Negative regulation of this kind has in recent years been supplemented in many countries by more positive measures, such as direct or indirect public regulation of wage-rates, unemployment relief and social insurance. Such measures, designed to secure and maintain a minimum standard of living for the wage-earners, have emerged from the depression, weakened somewhat in application, but without substantial damage in principle. In regard to social insurance, in particular, the Director of the International Labour Office reported early in 1934 [1] that, " in spite of any difficulties of the moment, there

[1] Report of the Director, Geneva 1934, page 36.

is no weakening in the belief in social insurance as the most effective method of raising the general standard of health and civilisation in a community. Nor is there any reason to suppose that, as better times return, the systems which have been weakened owing to the financial exigencies of the crisis will not be restored to their former efficiency. Indeed, it may reasonably be hoped that, during the coming year (1934), the period of restrictions and compressions will have been brought to an end and that a new phase of consolidation and extension will take its place."

The reasons given for this optimistic statement are both the somewhat improved position of existing insurance schemes in 1933 and the widespread extension of social insurance legislation during that year. It is obvious that the general economic position of individual countries has a double relation to the financial welfare of existing insurance schemes and social services generally. A certain measure of recovery not only brings smaller demands upon, and greater payments to, contributory insurance schemes; but the relief of budgetary strain relieves Governments from the necessity of severe economy at the expense of the social services generally. The situation of the social services during 1933 therefore depended largely upon the measure of economic recovery in the particular countries concerned. For the most part, the improvement which took place in the latter part of 1933 was small. During the year as a whole, as in the three preceding years, the International Labour Organisation's *Year-Book* "again has to record in some countries restrictions on the rights of the insured persons, sometimes of a far-reaching nature, the depletion of funds, and serious financial difficulties . . . To balance these, however, there has also been substantial progress in insurance legislation, and, in several countries, signs of dawning improvement, chiefly visible in the form of increased membership and, in some cases, larger sums collected in contributions."

There was, during 1933, a great deal of legislation dealing with various forms of social and unemployment insurance in many countries and the processes of extension and consolidation continued during 1934. In many cases, restrictions of benefit and reductions of rates continued to be necessary, though, in certain countries, such as Australia and the United Kingdom, returning prosperity enabled the authorities to restore some of the cuts made during the depression. The actual rates paid at the moment are, however, less significant than the general maintenance, consolidation and extension of the principle. Workmen's compensation and accident insurance, invalidity, sickness, old-age and widows' pensions and the

general tendency to extend the principle of insurance against ill-health, unemployment and other industrial and social risks show no signs of having been seriously checked by the depression. This is a significant social development, not only in respect of the maintenance of an assured minimum standard of living for the working population, but also as regards social organisation. Not only has the status of many professions, and particularly the medical profession, tended to change, but the forms of administration, particularly of the contributory insurance schemes, involve constructive co-operation between the State, workers' and employers' organisations in ways which are far removed from either individualism or State socialism.

Unemployment insurance already extends to well over forty million workers in sixteen countries, [1] while there has been much discussion of the subject in many other countries including Sweden and the United States of America, and temporary schemes of assistance to the unemployed based upon contributions by workers and employers, subsidised by the State, have been operating in a great number of countries during the depression. The existing funds have been seriously strained and, even though rates have been reduced and large numbers of workers have by prolonged unemployment lost their right to benefits, many funds have accumulated debts to the State. The principle of insurance against unemployment, however, remains intact and shows signs of being extended rather than the reverse.

[1] Cf. International Labour Organisation's *Year-Book*, 1933, page 240.

Compulsory Insurance Schemes.

		Workers Covered
Germany	May 1929	17,920,000
Australia (Queensland)	May-July 1933	175,000
Austria	1931	969,000
Bulgaria	1931	137,000
Irish Free State	1931-32	314,000
Italy	1931	4,500,000
Poland	July 1933	954,000
Switzerland (13 cantons)	End August 1933	325,000
United Kingdom of Great Britain and Northern Ireland	July 1933	12,808,000

Voluntary Insurance Schemes.

Belgium	July 1933	1,038,000
Denmark	August 1933	337,000
Finland	1932	15,000
France	End of 1931	192,000
Norway	July 1933	50,000
Netherlands	August 1933	521,000
Switzerland (11 cantons)	End August 1933	195,000
Czechoslovakia	July 1933	1,500,000

The figure for Germany at the end of August 1933 was 12,503,000, the difference being made up to some extent of unemployed workers who had lost their right to benefit. The figure for compulsory insurance in thirteen Swiss cantons includes persons compulsorily insured in some of the other cantons, in which the cantonal system is voluntary, but compulsory insurance exists in certain urban communes.

The Extension of Labour Codes.

It is inevitable that such a prolonged depression as that through which the world has just passed, with all the losses and sacrifices it occasioned both to workers and to employers, should cause a great deal of questioning and criticism of existing economic institutions. Labour organisation and relations have not escaped and there has been a considerable amount, not only of criticism, but of actual legislative change in these respects. The particular conditions and recent history of different countries have influenced these developments greatly, so that while, on the one hand, there are many examples of the enactment of labour legislation following traditional lines, there are also, on the other hand, important new departures of great significance. The total effect, however, has been a marked departure from *laissez-faire* individualism, even where such departure is merely in the direction of regulatory and controlling legislation.

In this section, an attempt is made to indicate the main lines of the various developments, which vary from more effective control of native labour in colonial dependencies to the more or less complete remodelling of labour relations in highly developed industrial countries. The introduction of industrial codes in the United States of America, the enactment of the new German law for the organisation of national labour, the promulgation of the Labour Charter of the Italian Corporative State, and the new labour system in Soviet Russia are great spectacular developments of profound importance, but the persistent extension of more effective labour regulation in backward industrial areas is also a matter of great significance.

The movement for the suppression of slavery has not altogether exhausted its importance even in the second quarter of the twentieth century; but, from an economic point of view, both slavery and the somewhat more advanced system of forced labour are of diminishing interest. There was some progress during 1933 in the application of the international Forced Labour Convention, particularly in various British colonial territories. The regulation of contract labour also made some progress, but it is more significant that recent years have witnessed a considerable extension of legislation governing the conditions of employment of free labour, particularly by placing restrictions upon the employment of women and children in colonial territories. The depression has been extremely severe in many of these territories, especially in those which had been encouraged to depend upon the cultivation

of export crops to the detriment of the more primitive but stable native economy. The impact of the depression has caused some reversion to the old usages in the manner described in the first section of this chapter, but it has been difficult in many areas suddenly to reverse the processes of industrialisation. Unemployment has been a difficult problem in many such areas and the need for regulating labour conditions has become more obvious. The imperialist States have done something to combat colonial depression by establishing closer economic relations with the mother-countries, and, in some instances, by extensive public works programmes. The survey of these various developments contained in the section of the International Labour Organisation's *Year-Book* dealing with Native Labour reveals, not only the far-flung effects of the depression, but the extent to which the awakened public conscience of the colonial powers has led them to accept responsibility for the regulation and amelioration of labour and living conditions in their possessions.

There was a noticeable development of labour legislation also in countries which, while independent sovereign States at more advanced levels of economic and social organisation than those generally obtaining in colonial territories, have not yet attained a high level of industrial activity. It is significant, for example, that, of the eighty-seven ratifications of International Labour Conventions registered by the International Labour Office in 1933, no fewer than seventy-six were by South American States. These ratifications were accompanied by a considerable amount of national legislation. "The questions of hours of work and the weekly rest, holidays with pay and the weekly half-holiday in industry, commerce and agriculture — taken together or separately — have been the subject of several decrees in the Argentine, Brazil, Panama, Peru and Uruguay." Administrative progress was made also in these and other South-American countries and, in December 1933, the Pan-American Conference at Montevideo paid special attention to the urgency of labour and social problems.

It is possible that this rapid development in South America has been influenced in some degree by the important legislative and administrative steps taken by the United States of America in the field of labour relations and social welfare. Space does not permit a description of these much-discussed features of the American recovery programme. The intervention of the Federal Government in unemployment relief and organisation, and the vast programme of public works and conservation activities, while essentially emergency measures, betoken a new approach

to the labour problem, in which the powers and responsibilities of the Federal Government are greatly extended. Moreover, the increased recognition, and the rapid growth in numbers and influence, of organised trade unionism, together with the labour provisions of the industrial codes, constitute a departure from precedent so great as almost to be revolutionary. It is probable that never before, in any country, has so great an advance in labour legislation been achieved at one stroke, and, whatever the difficulties of immediate application and of readjustment after the immediate crisis has passed, it is hardly conceivable that such a great experiment can fail to have lasting effects.

It would be tedious to recapitulate in detail the widespread national legislation which continued throughout the depression to bring labour conditions under public regulation and control. Possibly the marked tendency towards industrial development, in pursuance of protective policies aiming at a greater degree of national self-sufficiency in hitherto backward industrial areas, together with the distressing social conditions created by the depression, has given to these problems an immediate urgency which they did not have before. But, as in wages and unemployment policy, it is evident that the movement to establish and defend minimum standards of living for the working population is both powerful and widespread, extending even to countries where such legislation would hardly have been practicable a few years ago. There remain vast differences, not only in the standards laid down by existing legislation, but also in the efficiency with which such legislation is administered. It would be idle to pretend that the enforcement of minimum standards is as efficient in China as in the United Kingdom, or that the minimum standards enforced are as high in Poland or Japan as in the United States, [1] but the steady progress towards bringing labour conditions under control and towards international collaboration in the enactment and enforcement of such control is a modern development of the greatest significance.

Attention should be drawn also to the new developments that have taken place in those countries which have experienced social revolutions in recent years. In the U.S.S.R., where economic activity has been almost completely nationalised and centralised under the control of a dictatorship, which, in theory at least, is a dictatorship of the working proletariat, it is obvious that the functions of trade unionism must have

[1] Cf. International Labour Conference, Geneva, 1934: Report of the Director, Appendix I, giving statistical comparisons at various dates, in national currencies and in Swiss francs, of earnings and wage rates in different industries in several countries.

undergone a complete revolution. Unemployment cannot appear in a State where every worker is obliged to accept work wherever it is offered, and collective bargaining has no place in a system where not only production, but wages, prices and every other factor of economic organisation are governed, in principle, by a prearranged plan of co-ordinated national action. The trade unions become part of the State machinery and their functions consist no longer in defending the interests of the workers, but in the better enforcement of discipline and the encouragement of output. [1] In the same way, the unions tend to take over, not only the control of labour efficiency and working conditions, but the adaptation of wage policy and social insurance to the needs of production. [2] Moreover, the unprecedented extension of the powers of the State and particularly the provision of a wide range of social services — including music, holiday facilities, hospital treatment, etc. — creates an entirely different situation, difficult to compare with the conditions existing in other countries.

Almost equally far-reaching, but very different in conception and purpose, the reorganisation of labour relations in Italy and Germany presents the world with situations which are difficult if not impossible to evaluate with reference to the criteria rendered familiar by decades of evolution under free enterprise. Freedom of association, collective bargaining, the right to strike and similar trade union objectives have become impossible, while the pressure for improved standards of life and regulated working conditions, together with the conduct of social services, must now be conducted within the framework of new institutions resting upon the triple cooperation of workers, employers and the State.

In Italy, the Labour Charter promulgated on April 21st, 1927, is one of the corner-stones of the constitution of the Fascist Corporative State. Following the Anti-strike Law of April 3rd, 1926, the Charter defines the place and duties of trade syndicates, the whole purport of the law being to associate the workers with the employers' associations in the conduct of

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[1] Cf. the resolution passed by the Communist Party Congress in 1930:

"The trade unions should, on the one hand, seek to encourage good workers, and, on the other, proceed with the organisation of disciplinary courts composed of the best shock workers and serving as a basis of operations against all workers who infringe the discipline of labour and prevent effective socialist emulation. One of the most important tasks of the unions is to explain to the masses that the workers are not working for capitalists but for their own State and for the welfare of their own class. Realisation of this will release vast forces that will aid industrial development."

[2] Cf. "The Recent Evolution of Trade Unionism in the U.S.S.R."; *International Labour Review*, February 1931.

the great corporations which are to govern general labour conditions for the industries as a whole. The basis of organisation is national industry, not individual enterprise; collective bargaining takes a new form, strikes are outlawed and the trade syndicates are associated directly with the administration of the social services. It is made perfectly clear that private enterprise is regarded as "the most useful and efficient instrument for furthering the interests of the nation", but, at the same time, the social responsibilities both of labour and of management are explicitly laid down. On November 13th-14th, 1933, Signor Mussolini announced a further step by the institution of the corporations envisaged in the Labour Charter. These corporations, later established by the Law of January 18th, 1934, which consolidates and extends previous legislation and practice, are given the task, not only of regulating production, prices and wages within the industry concerned, but of regulating the relations between industries. The passing of this law "marks the irreversible step from economic liberalism to the corporative system". [1]

In Germany, a new Law for the Organisation of National Labour was promulgated on January 20th, 1934, to come into force on May 1st, 1934. [2] The former trade unions had been dissolved on May 2nd, 1933, and a new organisation, the German Labour Front, was inaugurated at the same time, the principles of which were later formulated as follows:

> "The German Labour Front is the organisation of all persons engaged in labour without distinction of economic or social position. In it, the worker and the employer are ranged side by side, instead of being separated by organisations for the defence of particular economic or social classes and interests. ... The Labour Front is not the place where the material questions of the daily life of labour are decided. ... The true object of the Labour Front is the education of all labouring Germans in the spirit of the National-Socialist State."

In pursuance of these principles, the existing employers' associations were also dissolved. As a transitional measure, labour trustees (*Treuhänder der Arbeit*) were appointed in May 1933 to be responsible for the maintenance of industrial peace, and these trustees were vested with the power to terminate, revise or prolong collective agreements by their unilateral

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[1] *Industrial and Labour Information*, Vol. XLIX, No. 7, February 12th, 1934.
[2] *International Labour Review*, Vol. XXIX, No. 4, April 1934.

decisions, which were to be binding. The new law consolidates and extends this principle of leadership in the interests of the State. In each industrial enterprise, the owner or some designated person is to be regarded as the leader (*Führer*) and the remaining personnel as his followers (*Gefolgschaft*), all together forming the works community (*Betriebsgemeinschaft*). The terms "employer" and "employee" are no longer used. In principle, the leader is solely responsible for making decisions on all social questions affecting the undertaking, and his followers are bound loyally to follow him in these decisions. The works community as a whole is required to work together "for the benefit of the nation and the State in general" and "to subserve the common good", so that a public duty and responsibility is imposed on all undertakings. Each establishment which employs at least twenty workers is to have a "confidential council" under the presidency of the leader, "to strengthen mutual confidence within the works community". A list of candidates for this confidential council is to be selected by the leader, in consultation with the chairman of the National-Socialist cell, and the staff is to decide for or against the list by ballot. In the event of disagreement, the council will be appointed by the labour trustee.

With these changes of administration, much of the former machinery for the protection of the workers against dismissal is preserved and the leader's powers in respect of either individual or collective dismissal are definitely limited, the final decision resting with the labour trustee, who has large powers of a general character in the territory over which he has control. The principle of leadership is further extended by the appointment of leaders for great groups of industry.

Collective wage-agreements are replaced by "establishment rules" approved by the labour trustee and backed by the authority of the State. The regulation of the conditions of employment is to be based, within the general principles laid down for the industry and the area as a whole, upon the basis of the individual undertaking.

Control of the leaders and their followers is to be exercised ultimately by a series of social honour courts, which are set up in order that the labour trustees may appeal either by way of the courts of first instance or finally to the Federal honour court in order to deal with "gross breaches of the social duties based on the works community, as offences against social honour". Such courts will deal with cases where the leader of an establishment or any person in a position of supervision abuses his authority by maliciously exploiting the labour of his followers or wounding their sense of honour, where a follower

endangers industrial peace by maliciously provoking other followers, where a confidential man interferes unduly in the conduct of the establishment or maliciously disturbs the community spirit in the undertaking, where a member of the works community repeatedly makes frivolous and unjustifiable complaints to the labour trustee or obstinately disobeys his instructions, and where a member of the confidential council reveals without authority any confidential information or technical or business secrets which have become known to him in the performance of his duties.

The law, which applies to industrial enterprises generally but not to the public services or to navigation, came into force only on May 1st, 1934. In the statements accompanying its promulgation, it was emphasised that general principles were laid down, but that rigid and detailed provisions had been avoided, so as to leave room for flexibility in working out the principles. There has obviously not been time to discover exactly how these principles will be worked out in practice.

Chapter VI

WORLD TRADE IN 1933

The Decline slows down.

The total value of world trade, measured in gold currencies, has declined without interruption for over four years. This decline has been due both to heavily falling prices and, until 1933, to a substantial reduction in the quantum of goods traded. The value of world trade for the first quarter of 1934 was again lower than in the corresponding quarter of 1933. In no single month since the beginning of 1930 was the total (gold) value of world trade equal to what it had been in the corresponding month of the preceding year. Measured in sterling, the decline was equally regular, though not as great, until in the latter part of 1933 there was some tendency again towards increase. The rate of decline, even when measured in gold currencies, was, however, distinctly less in 1933 than in previous years, and the continued fall in gold value since the middle of 1933 was due mainly to the further depreciation of the principal paper currencies, rather than to a continuing reduction in quantum. During the year 1933, there was a substantial fall of prices, and the slight reduction in total value therefore indicates that there has been an increase in the quantum during the first quarter of 1934 as compared with the first quarter of 1933. There was, indeed, a slight increase in the quantum of world trade during the second half of 1933. Trade was increasing in certain areas and in certain commodities, notably some important raw materials.

The relevant statistics are shown in the table below. They refer to the trade of some 160 countries, representing practically the whole of world trade, and therefore differ slightly from the earlier calculations given in previous numbers of the *Survey*.

The Value of World Trade, 1929-1933.

U.S. gold dollars at 1929 parity (000,000's).

Year	Imports	Exports	Total
1929.	35,601	33,040	68,641
1930.	29,087	26,495	55,582
1931.	20,818	18,908	39,726
1932.	13,996	12,902	26,898
1933.	12,485	11,694	24,179

If these figures are expressed as percentages of the gold value of world trade in 1929, the extent of the fall becomes clear.

Index Numbers of the Value of World Trade, 1929-1933.

(Base: 1929 = 100.)

Year	Imports	Exports	Total
1929.	100	100	100
1930.	82	80	81
1931.	59	57	58
1932.	39	39	39
1933.	35	35	35

The extent to which the decline in the value of world trade was caused by falling gold prices or by a reduction in quantum is shown by the next table and the accompanying diagram. The estimates there given can only be approximate, and there is some reason to believe that, for the period as a whole, they over-estimate the fall in gold prices and under-estimate the fall in quantum.

Quarterly Indices of Gold Prices, Quantum and Gold Value of World Trade, 1929-1934.

(Base: Average 1929 = 100.)

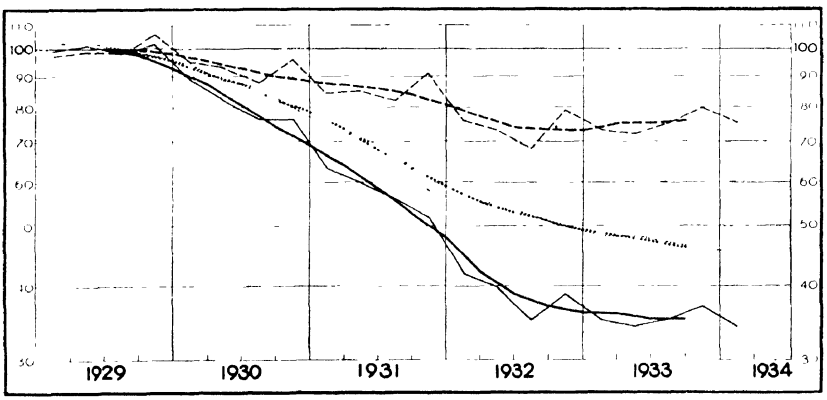
Year	Quarter	Quantum	Gold Prices	Gold Value
1929.	I	97	102	99
	II	99	102	101
	III	98	100	98
	IV	106	97	102
1930.	I	95	94	89
	II	93	89	82
	III	88	86	76
	IV	96	80	76
1931.	I	84	74	63
	II	85	71	60
	III	82	68	56
	IV	91	58	52
1932.	I	76	55	42
	II	73	55	40
	III	68	52	35
	IV	79	50	39
1933.	I	73	48	35
	II	72	48	34
	III	75	47	35
	IV	80	46	37
1934.	I	75	45	34

Movement of World Trade, 1929-1934: Quarterly Indices of Gold Prices, Quantum and Gold Value of World Trade.

(Base: Average 1929 = 100.)

Logarithmic scale.

	Adjusted for seasonal variations	Unadjusted
Value	———	
Quantum	– – – – –	----------
Prices	.....	..



Certain features of this table and diagram call for brief comment. In the first place, the importance of the fall in the average price-level measured in gold currencies, particularly after the third quarter of 1931, when the United Kingdom abandoned the gold standard, is very clear. In the last quarter of 1931, prices fell more sharply than at any time during the depression. The falling tendency of prices after the United States abandoned the gold standard was much slighter, partly because trade restrictions had by that time produced their greatest effect, partly because it was accompanied by a rising tendency of prices within the United States.

The second point which may be noted is the distinct seasonal movement in the quantum of goods traded, which rises substantially in the fourth quarter of every year. If this seasonal movement is eliminated, it will be seen that the quantum index had ceased to fall, but had not risen much in 1933. The sharpest fall in that index was during 1932, when the new

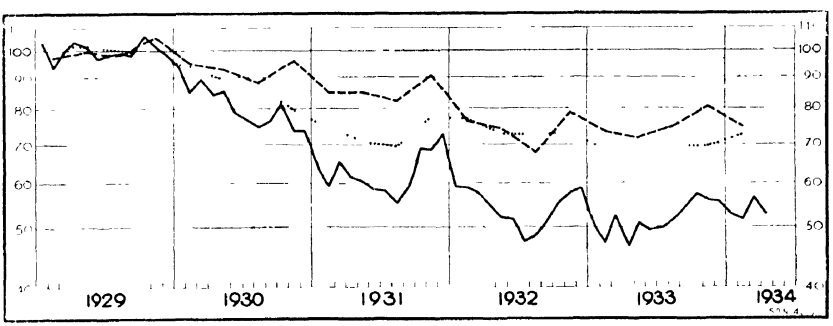
quantitative restrictions were impose dafter the depreciation of sterling. The seasonal movement of the quantum index in 1933, prices being relatively stable, was sufficient to bring the value of trade in the last quarter above the level for the earlier quarters, though it remained below the value for the last quarter of 1932. When seasonal influences are eliminated, the trend of gold values was till slightly downward, but the trend of the quantum was slightly upward.

The Movement of World Trade: Quarterly Indices of Sterling Prices, Quantum and Sterling Value of World Trade.

(Base: Average 1929 = 100.)

Logarithmic scale.

Sterling Value ————
Quantum ----------
Sterling Prices



If the value of world trade is measured in sterling, the estimates do not diverge from those of the gold value of world trade until the last quarter of 1931, when the United Kingdom abandoned the gold standard. After the third quarter of 1931, sterling prices were relatively stable, while gold prices fell sharply. Since, however, the quantum of trade decreased, the total value of world trade measured in sterling declined continuously until 1933. In 1933, there was a very slight upward tendency when seasonal influences are eliminated. Measured in sterling, the value of world trade in 1933 was slightly more than half (52 per cent) of its 1929 value. Measured in gold, it was just over a third (35 per cent). But the most important fact to remember is the reduction in the quantum of trade by approximately 25 per cent from the 1929 level.

When this fall in the quantum of trade is examined more closely, it is clear that there has been a marked difference in the movement of different classes of commodities. The greatest fall has been in manufactured articles, while the quantum of foodstuffs exchanged fell less than that of raw materials or of manufactured articles. The quantum of foodstuffs, however, continued to fall in 1933, while the quantum of raw materials rose substantially and that of manufactured articles also rose slightly. The table below shows these movements clearly.

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
1929.	100	100	100	100	100	100
1932.	91	51.5	80	45.5	58	64
1933.	83.5	45.5	86.5	41.5	59	56

These calculations offer material for reflection both upon the effects of protective policies and also upon the changing composition of world trade. The quantum of foodstuffs continues to fall as agricultural protection is extended in the chief importing countries, while the substantial increase in the quantum of raw materials has not yet been reflected in a corresponding increase in the quantum of manufactured articles. It is too soon yet to tell how far the increased trade in raw materials is in preparation for an anticipated increase in the exchange of manufactured goods and how far it consists mainly of a replenishment of stocks; but it is clear that, unless trade restrictions are modified so as to allow of an expansion in the exchange of manufactures, the increased trade in raw materials will be limited.

The changed situation created by the recent increase of agricultural protection is even clearer when the trade in particular commodities is considered. The following table, for example, shows the shrinkage of wheat imports into countries that before the depression were large importers, but which have recently taken measures to encourage local production.

Imports of Wheat in Certain European Countries.

Metric tons (000's).

Country	Average 1924-1928	1932	1933
Czechoslovakia	576	358	294
France	1,247	1,350	188
Germany	1,999	537	58
Italy	2,241	885	325
Poland	174	— 68[1]	— 19[1]
Sweden	226	171	53

The harvest of 1933 was, of course, exceptionally good in Europe; but the reduction of imports is very striking. The demand of these six countries fell in 1933 to about one-seventh of what it had been in 1924-1928, the reduction amounting to almost 215 million bushels.

In the same way, both the beet-sugar producers of Central Europe and the cane-sugar exporters in surplus producing areas like Cuba and the Netherlands Indies have been severely affected by the protective measures taken to support local production in some of the importing countries, such as the United States, the United Kingdom, Canada, India, China and Egypt.

The export of butter and cheese and of frozen meat increased greatly in the first years of the depression. This was especially the case with exports of butter from Australia and New Zealand to the United Kingdom. The total quantity exported increased from 131,000 tons in 1929 to 230,000 tons in 1933. In 1933, however, the United Kingdom imposed quotas on dairy produce from foreign countries and, while no quota has been imposed on these commodities from the Dominions, there has been considerable discussion of such a possibility. Australian and New Zealand exports of frozen meat also increased by 40 per cent in this period. Quotas were imposed on British imports from foreign countries, but not on imports from the Dominions. In part, the increased supply of these foodstuffs on the British market has been the result of the closing of alternative markets, notably on the continent of Europe; but in large part it was caused by the effort of the producing countries, aided in most cases by currency depreciation, to expand their exports. The remarkable increase of exports from the Dominions was due in part also to the preference resulting from the Ottawa agreements.

[1] Net export.

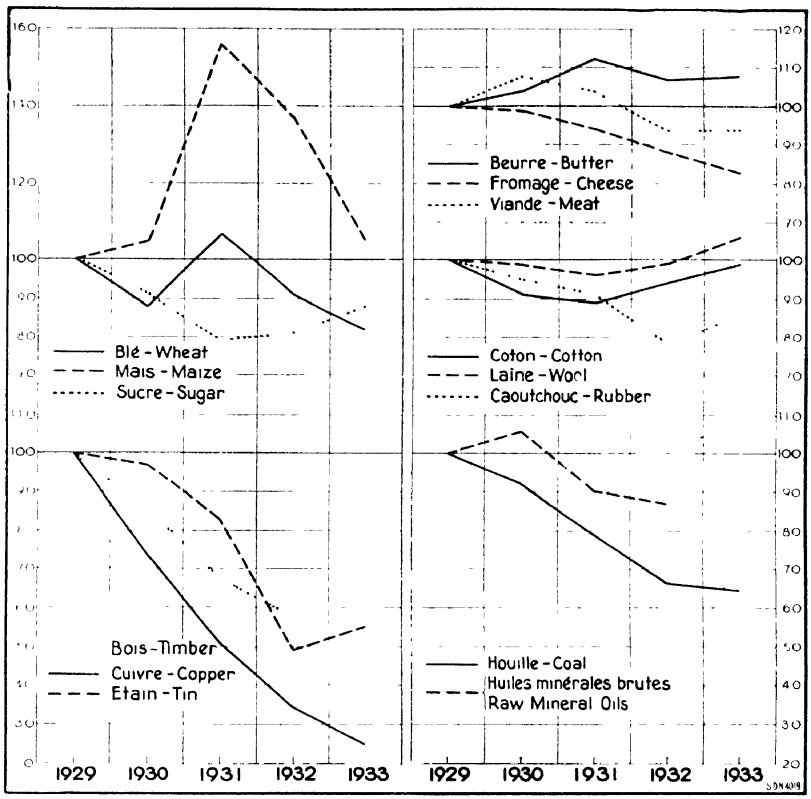
Cotton imports into the principal consuming countries have, for the most part, remained unrestricted. There was less demand from the United Kingdom and from most of the European countries, but an increased demand from Japan, India and China, so that total exports remained at a high level. Not only has industrial protection increased the demand for cotton in regions where manufacturing is developing; but in India, Egypt and China, cotton production for export was stimulated again in 1933 by the rise in cotton prices. The transference of agricultural production from cotton to alternative crops like wheat and sugar and then back again to cotton has been a disturbing factor in the markets.

During 1933, also, the exports of both wool and rubber rose by about 10 per cent in quantum at the same time as prices advanced substantially. The export of other raw-material commodities — tin, copper and mineral oils — also rose. Timber exports in 1933 rose by 20 per cent.

So many factors enter into the changing composition of international trade that it is difficult to draw more than very tentative conclusions from these recent developments. It seems clear, however, that, setting on one side the complications caused by regional or preferential agreements, the greatly increased tendency towards protection of national markets has caused the greatest decrease in the exchange of manufactured articles and is now causing a progressive decrease in the exchange of foodstuffs for manufactures. That part of international trade which shows the most definite signs of recovery, both in quantum and in prices, is the export of raw materials which are either mainly confined to, or most advantageously produced in, special regions. There has not yet been time for the increasing prosperity of raw-material-producing countries to be reflected in greater imports of manufactured articles, the first gains from their exports being utilised to improve their reserves of gold and foreign currencies. The increased tariff protection extended to manufacturing industries and the currency depreciation in many of these countries, combined with the increasing restrictions imposed on their exports of foodstuffs, operate as a check to increased imports from the industrial countries. The specialised interchange of manufactured goods between the industrial countries has suffered a great deal also by reason of the efforts made to balance trade bilaterally. If these tendencies continue, not only will the volume of international trade be affected, but its pattern will be greatly changed.

Index Numbers of the Volume of World Exports of Certain Foodstuffs, Raw Materials and Refined Mineral Products.

(Base: 1929 = 100.)



The Distribution of World Trade.

The measurements of world trade given in the preceding section necessarily adopt some universal standard of value — gold or sterling — as a common measure into which the various national currencies may be converted.

From the national point of view, the value of imports and exports in particular countries must, however, be expressed in terms of the national currency. It is useful, therefore, to give

here, not only a hypothetical calculation in some unit which can be used as a common denominator for all currencies, but also the actual measurement in francs, dollars, sterling, marks or other currencies which circulate in the countries in question.

It was shown in the first chapter of this *Survey* that, measured in national currencies, the values of imports and exports moved very differently in various countries. Attention was directed in that chapter to the bearing of this uneven development upon the prospect of maintaining international economic and financial equilibrium. The same problem is here examined from a somewhat different angle — that of changes in the distribution of world trade. In order to present clearly the facts upon which the analysis rests, it is necessary first to examine the developments during 1933 in some of the major trading countries and groups of countries. Fuller information concerning these developments may be found in the *Review of World Trade 1933*.

There is a double distinction to be drawn, on the one hand, between countries which are mainly industrial and those which are mainly agricultural in their organisation, and, on the other hand, between those which have clung to the gold standard and those in which that standard has been abandoned. No such distinctions can be quite clear-cut, and other important influences on trade development, such as bilateral treaty bargaining, must be considered, as well as a great number of particular circumstances in each individual case. During 1933, however, countries with depreciated currencies, and particularly those whose chief reliance was upon raw-material exports, seem to have enjoyed the greatest trade expansion (measured in national currencies), while those industrial countries which remained on the gold standard found the value of their trade, and particularly of their exports, more restricted. A glance at the table on page 46 will show the general validity of this statement.

The following table, which shows the increase or decrease of the value (in national currencies) of imports and exports in 1933 compared with 1932, presents the situation even more clearly. Those countries, such as Japan and certain countries in North and South America, which experienced an abrupt exchange depreciation during 1932 and 1933, and those which, like Switzerland, changed the method of presenting their trade statistics in this period, are omitted from the table.

Percentage Changes in the Value of Imports and Exports of Certain Countries, measured in National Currencies, 1932-33.

Country	Imports	Exports
South Africa	+ 52	+ 37
Australia	+ 4	+ 18
New Zealand	+ 4	+ 15
British Malaya	— 7	+ 15
Finland	+ 14	14
Sweden	— 6	+ 14
Egypt	— 2	+ 11
Yugoslavia	+ 1	+ 11
Palestine	+ 43	+ 8
India	— 14	+ 7
Algeria	+ 11	— 5
United Kingdom	— 4	— 1
Portugal	+ 33	— 1
Norway	— 4	— 2
Belgium	— 8	— 5
France	— 5	— 6
Spain	— 14	— 9
Netherlands Indies	— 14	— 10
Poland	— 4	— 11
Italy	— 10	— 13
Netherlands	— 7	— 14
Germany	— 10	— 14
Lithuania	— 15	— 15
Roumania	— 3	— 16
Czechoslovakia	— 23	— 20
Irish Free State	— 15	— 26

The terms of trade turned in favour of some agricultural exporting countries during 1933, as may be seen from the diagram of import and export prices in Chapter IV. Export prices in those countries increased, while import prices continued to fall. This more favourable movement was reflected first in their export values and, after a lag, in increased purchasing power and greater imports. This is one of the recognised signs of recovery from depression, caused largely by greater demand for, and therefore higher prices of, raw materials. Wool and timber, in particular, have risen substantially. Foodstuffs show a tendency, as always, to lag behind, and countries such as Denmark and New Zealand are greatly affected by this fact, though Denmark has a large export of bacon and New Zealand of wool, both of which commodities increased sharply in price during 1933.

Certain important developments in the great industrial trading countries must also be pointed out. The five most important industrial countries show a distinct tendency for the quantum of imports, particularly of raw materials, to increase.

Germany is a partial exception, since the quantum of total imports declined slightly in 1933, though raw-material imports increased considerably — wool by 10 per cent, cotton by 11 per cent, rubber by 20 per cent, pulpwood by over 100 per cent, and iron ore by 32 per cent. In the summary table below, statistics are given for the United Kingdom, France, Germany, Italy, Japan and the United States.

Quantum of Imports and Exports in Certain Industrial Countries.

(Base: 1929 = 100.)

	Imports				Exports			
	1930	1931	1932	1933	1930	1931	1932	1933
United Kingdom	98	101	88	90	82	63	63	64
France	108	107	89	93	89	76	59	60
Germany . . .	89	74	70	69	95	86	59	56
Italy	93	80	72	73	95	99	77	79
Japan	86	95	98	(114)	84	84	94	(110)
United States .	85	76	61	67	83	68	53	53

It is of some interest to note that the increased import of raw materials into these industrial countries was not reflected during 1933 in corresponding increases in the quantum of exports. This phenomenon, which is common to all the industrial countries considered with the exception of Japan, may be due in part to a replenishment of stocks; but it reflects also the greater development of the home as distinct from the export markets. It is a natural accompaniment of the restriction of foreign lending. In part, also, it is due to the increased effectiveness of protective policies. Thus, in 1933 compared with 1932, the retained imports of raw cotton into the United Kingdom increased by 12 per cent, while the exports of cotton manufactures fell by 4 per cent; the corresponding figures for silk being 19 per cent and a fall of 13 per cent. Imports of raw wool, however, increased only by $2^1/_2$ per cent, while exports of woollen goods increased by 13 per cent.

The increased importation of raw materials into the United States was even more striking, the quantity of raw wool imported during 1933 increasing by 216 per cent, that of tin by 80 per cent, of hides and skins by 79 per cent and of flax-seed by 75 per cent. By far the greater part of this increase took place in the second half of the year, and, if the figures for that half-year are compared with the last six months of 1932, the

increases are very considerable indeed. The greater part of the imports appear to have been fabricated for the domestic market; but in the latter part of the year there were increased sales of such manufactured articles as motor-cars, iron manufactures and lubricating oils. For the year as a whole the quantum of exports remained at the low level of 1932.

The increased German imports of raw materials has already been referred to. In this case, the contrast between increased imports of raw materials and decreased exports of manufactured goods is particularly striking. [1]

In France, also, the quantum of raw materials for industry rose in 1933 by over 16 per cent, while that of foodstuffs and manufactured articles was lower than in 1932 by 9 per cent and 8 per cent respectively. There was a small increase in the export quantum, mainly because of larger sales by the iron and steel and engineering industries, including the motor-car industry, whose exports rose by 38 per cent.

[1] For detailed figures, see *Review of World Trade, 1933.*

Exports and Imports of Manufactured Articles.

(Recorded values, in million gold dollars.)

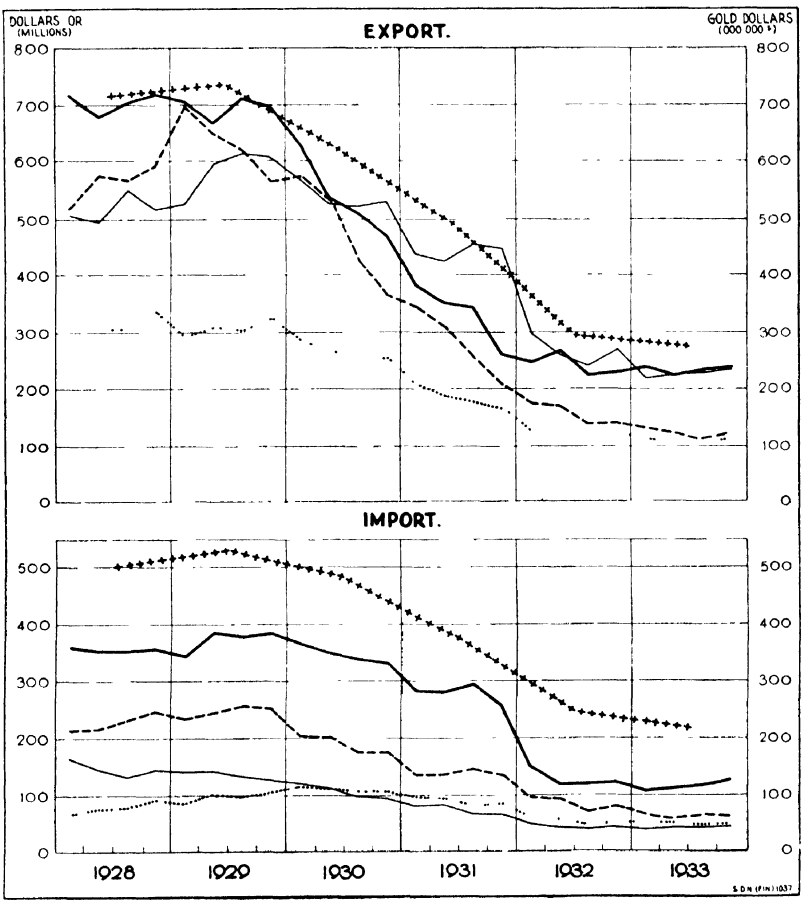
Quarterly movement:

——— United Kingdom. ——— Germany.

– – – – United States of America. ——— France.

Annual movement (one-fourth of the annual figures).

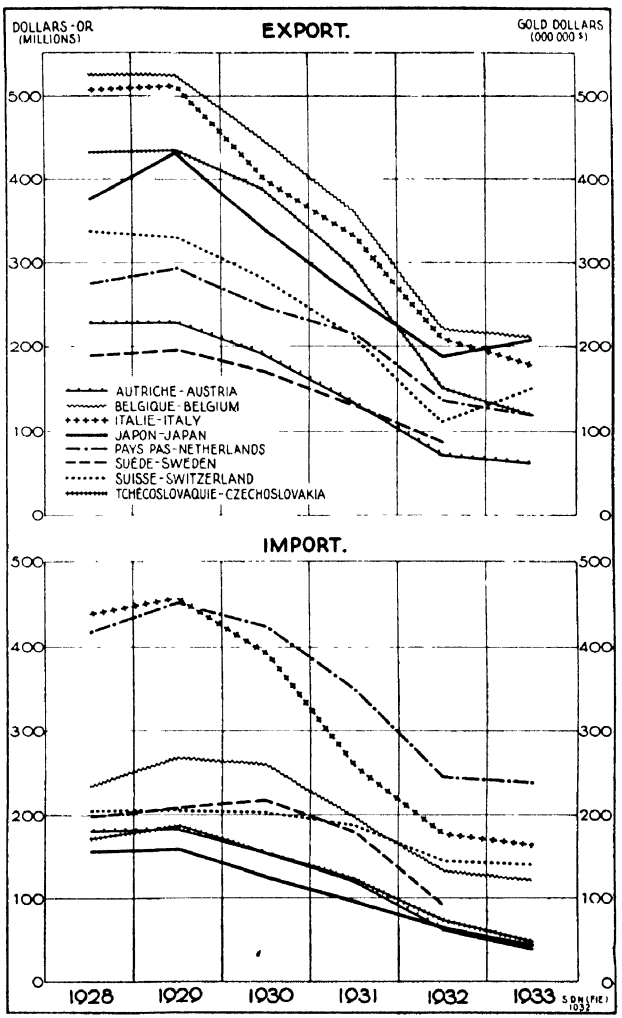
+++++ Total of eight other industrial countries (Austria, Belgium, Czechoslovakia, Italy, Japan, the Netherlands, Sweden and Switzerland).



Note. — As complete information with reference to the division of the trade of the countries concerned into groups of the international (Brussels) classification is not available, figures for the trade in manufactured articles according to the respective national classifications had to be employed for the United Kingdom, the United States, France, Italy, Japan and Switzerland. Although these data are not strictly comparable, either *inter se* or with figures according to the international classification, owing largely to a different classification of certain semi-manufactured products, the diagram is adequate to show the trend of the trade in manufactured articles of the countries concerned.

Exports and Imports of Manufactured Articles, by Austria, Belgium, Czechoslovakia, Italy, Japan, the Netherlands, Sweden and Switzerland.

(Recorded values, in million gold dollars.)
(Annual movement.)



Note. — The figures employed for Italy, Japan and Switzerland are according to the respective national classifications, and those for the other countries according to the international (Brussels) classification (*cf.* note to the graph on the preceding page). Figures for Sweden were only available up to 1932.

Only in Japan among the great industrial countries was there a marked development of the export market in 1933. [1]

While the bulk of this increased quantity of exports has been absorbed by neighbouring markets, such as Manchuria, India and the Netherlands Indies, competition from Japanese goods has been felt over a very wide area.

The smaller industrial countries participated in the tendency towards trade revival, but competition for export markets was extremely keen; and, though there was a fairly general tendency for the quantum of exports to increase somewhat — *e.g.*, in Austria, Switzerland, Belgium, Sweden, Netherlands, as well as in the bigger industrial countries — prices fell substantially as a result of the keen competition. Czechoslovakia devalued her currency early in 1934 largely because of the difficulties of her exporters in keeping their share of the reduced trade available.

The distribution of world trade is rendered extremely difficult of measurement now that currencies fluctuate so continuously and so widely. Measured in gold values, the continental distribution may be summarised in the table below:

Continental Distribution of World Trade.

U.S. (former) gold dollars (000,000's).

Region	Imports			Exports		
	1929 Value	1932 Value	1933 Value	1929 Value	1932 Value	1933 Value
Africa	1.707	805	777	1.490	858	820
North America	5.676	1.748	1.421	6.429	2.096	1.731
Latin America	2.907	751	761	7.270	2.618	2.475
Asia (excluding U.S.S.R.)	4.806	1.944	1.752	5.013	1.819	1.740
Europe (excluding U.S.S.R.)	19.282	8.107	7.339	15.575	6.248	5.657
U.S.S.R.	453	360	182	482	290	261
Oceania	970	278	253	881	395	417

The most remarkable change disclosed by this table is the fact that the continent of Asia was, in 1933, both a better market for imports and a greater exporter than North America. Europe retained its predominance, and there was little sign, except perhaps in Africa, where the South African gold production created a specially favourable situation, of any great

[1] Cf. *Review of World Trade, 1933.*

reversal of the pressure upon the new developing countries. Australia and New Zealand increased their percentage share of exports, but remained cramped in their import purchases. There is always a lag in this respect, and it is probable that, with higher raw-material prices and increased purchasing power, the trade returns for 1934 will show an expansion in that region. Meantime, it is clear that the depression since 1929 has severely checked the international specialisation which rendered possible the rapid development of the newer countries. The older creditor countries, by the very fact of ceasing to export capital, have been able to gain a greater share of world trade; but it is a greater share of a very much smaller total. At the same time, the industrial development of relatively backward countries has continued, most notably in Japan. As Japanese industries develop, raw materials are drawn from Australia and New Zealand as well as from India, China and other Asiatic countries, so that, despite Europe's increased share in the shrunken world trade of the depression years, new trade connections have been built up in the Pacific.

All the evidence of the statistics for 1933 supports the belief that international trade has been greatly affected by the strong movement towards national isolation. The tendency towards regulated trade, correlated with national planning of production, has taken a direction which has destroyed a great deal of triangular trade. While there were some recent indications that limited triangular agreements may salvage a part of the trade so lost, this was a promise in the early part of 1934 rather than a development of 1933. The movement towards national self-sufficiency and an effort to balance the trade of each country with every other, rather than with the rest of the world, was strongly reinforced in that year.

Japan was practically the only important trading country whose exports expanded considerably in 1933, and it is significant that this expansion of Japanese exports was met by efforts at their limitation by agreement, as well as by higher tariffs and quota restrictions. Not only India, but the United Kingdom and the Netherlands Indies and a great number of other countries initiated negotiations for this purpose during 1933 and the early part of 1934. In order to control the expansion of exports, the Japanese Government, on May 1st, 1934, put into operation a new "Law concerning the Adjustment of Trade and Safeguarding of Commerce", by which power was taken to vary import duties and also to prohibit or restrict exports as the Tariff Investigation Committee should recommend.

There were, apart from the pressure of exports caused by the intensified industrial development of Japan, two main lines along which some expansion of trade took place during 1933. The first was the exchange of raw materials from the agricultural exporting countries for the manufactured products of industrial countries. This exchange remains limited, however, both by the growing tendency towards industrial protection in the former and by the even more marked increase of agricultural protection in the latter group of countries. The counterpart of agrarian development in industrial Europe is industrial development in the agricultural countries.

The second line of expansion has been the encouragement of trade within areas of political co-operation. The efforts made to bring about closer economic collaboration between the countries of the Little Entente, and between Italy, Austria and Hungary are examples of this trend; but more important have been the efforts to expand imperial trade, for example, within the British and French Empires. The extent to which this development has been carried is revealed in the tables given below.

Percentage Distribution of the Trade of the United Kingdom.

	Imports (General)			Exports (Domestic Produce)		
	1931	1932	1933	1931	1932	1933
British countries	29	35	37	44	45	44
Other countries:						
In Europe.	42	34	33	34	33	33
Outside Europe	29	31	30	22	22	23

Percentage Distribution of Trade of France.

	Imports			Exports		
	1931	1932	1933	1931	1932	1933
French colonies	13	18	21	22	28	29
Other countries	87	82	79	78	72	71

The Network of Trade Restrictions.

As evidence accumulates of recovery from the lowest depths of the depression, it is widely recognised that the maintenance of trade restrictions at their present levels threatens to impose limits to the restoration of both production and trade. At the same time, the very expectation of recovery takes away some of the apprehension which was responsible in the worst depression years for the more extreme efforts to safeguard national production and standards of living. It is true that some part of the national recoveries most in evidence has been realised at the expense of other communities, "sometimes by deliberate reduction of imports, sometimes by the disregard of contractual obligations, and nearly always by the erection of barriers to restrict the free movement of goods and capital across the frontiers".[1] On the other hand, it may be argued, paradoxically, that "as world conditions stand to-day, it may well turn out that the shortest, though hardest, route back to the healthy and stimulating financial and economic internationalism which existed almost unnoticed in so widespread a degree before the war will be found to pass first through an area of nationalism, in which each country endeavours to liquidate the past by its own efforts and strives for national reconstruction by isolated endeavour".[2] The history of commercial policy in the year 1933, consisting as it does almost entirely of a series of withdrawals from international economic co-operation, indicates that, whether the foregoing paradox be true or not, the national route to recovery is the one that has been followed. Whether recovery sought in this way will lead eventually to the possibility of relaxing trade barriers as prosperity is communicated from one area to another, or whether its very limitations will force resort to greater international economic co-operation, are questions to which no answer is attempted here. It is necessary, however, to summarise the recent development and present position of trade restrictions.

The evidence presented to the Monetary and Economic Conference when it met in the middle of 1933 showed that tariffs had been almost universally increased, particularly on agricultural products, while the fall in prices further acted as a protective measure by increasing the effectiveness of existing specific duties. Currency depreciation also had a protective

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[1] Bank for International Settlements: Fourth Annual Report, Basle, May 14th, 1934, page 6.

[2] *Ibid.*, page 5.

effect in many countries. To these tariff increases had been added a wide range of even more effective quantitative import restrictions, and a baffling variety of monetary and financial measures which also restricted commodity trade. After the failure of the Conference to devise a means of escape from this complicated network of trade restrictions, commercial policy became still more definitely nationalist, and, as it developed towards negotiated regulation of bilateral trade, the quantitative restrictions tended to become, not merely emergency measures, but definitely accepted means of supplementing tariffs.

It would be merely tedious to catalogue the long list of unilateral tariff changes, impositions and alterations of quotas, amendments of licensing systems, and the almost equally long list of bilateral trade agreements. The tariff truce was denounced by most of its signatories in the months immediately following the Conference, and the succession of unilateral and bilateral tariff and quota decisions which followed were mainly in the direction of increased restrictions. There were some notable exceptions: tariff reductions in pursuance of the Ottawa agreements by some of the British dominions, a liberalising of the import quota systems of some European countries in return for increased export facilities, and the relaxation of exchange controls in other countries, notably in Austria and in South America. The general tendency, however, was towards concentration upon bilateral negotiations aiming at a closer balancing of trade between each pair of countries and utilising the whole armoury of tariff duties and quotas, supplemented in some cases by exchange clearings and even by private commercial arrangements, as instruments of negotiation. In this way, regulated trade gradually began to supplement and support national planning and stimulation of domestic industries.

The series of treaties by which the United Kingdom attempted to supplement the Ottawa agreements offer an illustration of the new methods. Treaties were negotiated during 1933 with Denmark, the Argentine, Norway, Iceland, Sweden, Latvia, Estonia and Finland, and in the first months of 1934 with the U.S.S.R., while two important notes were exchanged with Germany in April and May and negotiations were in progress with France and several other countries at the time of writing (May 1934). [1] All of these treaties followed much the same lines. Tariff and quota facilities for British goods, supplemented by undertakings to purchase definite quantities of particular

[1] A new treaty with France was initialled on June 16th, 1934.

products, were reciprocated by agreed import quotas and the promise of stability of duties and quotas. The Argentine treaty was supplemented also by a financial agreement by which, in effect, a long-term loan raised in the United Kingdom was used to liquidate frozen short-term debts due to British nationals. This agreement was followed by similar arrangements with Argentine creditors in other countries.

The use of quotas as a method of trade bargaining is probably most developed in France. It was contended that France had lost her "tariff liberty" by consolidating 72 per cent of her tariff in commercial treaties which could not be altered without delay and the risk of controversy. When exchange depreciation became widespread in the latter part of 1931, it was to quotas rather than tariff changes that the French Government turned as an emergency method of protection for local industries. [1] Quotas were applied to a widening range of imports, and in the trade negotiations with other countries the allocation of these quotas has been freely used.

In August 1933, it was decided to reduce existing quotas as from October 1st to one-fourth of their previous amount and to use the remaining three-fourths as bargaining counters. Difficulties arose in connection with existing treaties, notably that with Germany, and the application of the new quotas was postponed until January 1st, 1934. The application of this method of bargaining to Franco-British trade led, however, to reprisals in February 1934, which were followed by negotiations for a new agreement. In other cases, negotiations were more immediately successful, but the success of the method was strongly criticised in France as well as elsewhere. [2]

Another aspect of the trade restrictions is well illustrated by the difficulties which arose in the second quarter of 1934 over the transfer of debt service from Germany. The transfer resources of the Reichsbank had been steadily dwindling, and by the end of May the reserves of gold and foreign exchange fell to 4.5 per cent of the liabilities. In order to restrict imports, drastic limitations were placed upon the allotment of foreign currencies for import purposes. For May, these allotments were 25 per cent of the average amounts allotted in 1930 and 1931, when German imports had already shrunk by one-half. For June, the allotments were reduced to 10 per cent; but an exception was made for certain raw materials, such as wool,

[1] Cf. Ethel B. DIETRICH, "French Import Quotas", *American Economic Review*, December 1933.
[2] Cf. *Bulletin commercial*, Brussels, February 5th, 1934.

cotton, bast-fibre, skins, hides and some base metals, the control of which was placed under a special board charged with the distribution of raw materials to German industries.

Still another element in recent trade policy is illustrated by the methods evolved in Germany, by which scrip representing non transferred interest and amortisation payments on foreign debt have been utilised to facilitate exports.

When the scrip system was introduced on July 1st, 1933, the initiative in its application was left to the creditors who had received scrip in exchange for part of the interest service due to them. If they could make an arrangement by which some German exporter was enabled to secure "additional exports", the exporter, after producing detailed evidence that the transaction could not otherwise be carried through, was granted permission by the Reichsbank to use a certain proportion of the foreign exchange received (which otherwise he would have had to convert into RM. at par) to buy scrip at a discount, or German bonds at the depreciated foreign price. He then sold the scrip at its face value in blocked marks or the bonds to the debtor at a premium over their foreign value. The profit made in this way compensated him for the price reduction necessary to conclude the transaction. Strict measures were organised to prevent the system degenerating into uncontrolled price-cutting and dumping, and, in practice, it has been estimated that a margin of about 15 per cent of the price was allowed on the average. Each transaction was considered on its merits and no general principle was established. During the five months July-November 1933, it was estimated that the additional exports thus facilitated amounted to about RM. 400 million, out of a total of RM. 2,059 million. Despite the introduction of this system, however, the total value of German exports steadily fell, and the exchange delivered to the Reichsbank fell even more.

Under the original system, the foreign creditor had a voice in determining the discount at which he should sell the scrip, but by a Decree (59/33) issued by the Ministry of National Economy late in 1933, the initiative in this respect is transferred to the Reichsbank. The German exporter now buys scrip from the Golddiskontbank at a price fixed from time to time by the bank, selling these scrip for blocked marks to the Konversionskasse. [1]

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[1] Dr. Franz BARGEN, "Umbau des Zusatzexportverfahrens", *Wirtschaftsdienst*, April 20th, 1934.

HEUSER, "The German Method of Combined Debt Liquidation and Export Stimulation", *Review of Economic Studies*, June 1934.

Fantastic examples occur from time to time of the curious transactions rendered possible by the complicated network of export bounties, quotas and import duties. Thus one calculation which obtained wide publicity early in 1934 concerned a transaction by which, utilising the Italian export bounty, and the special preferential transport rates between Italy and Austria, a merchant was said to have made a profitable sale of wheat at a negative price, paying his customer to accept the wheat so that he might have the documents with which to collect the export premium. Whether such a transaction actually occurred or not, the calculation illustrates the degree to which prices have been interfered with by Government action in neighbouring markets.

The chief attempts to escape from the paralysis of international trade imposed by this growing network of restrictions took the form in 1933 of regional agreements, not so much concerning tariff duties as concerning preferential quotas and supplementary facilities, such as favourable transport arrangements and the relaxation of administrative formalities. A notable example was the tripartite agreement negotiated in March and definitely signed in May 1934 by Italy, Austria and Hungary. In the early months of 1934, also, the Economic Council of the Little Entente — Czechoslovakia, Roumania and Yugoslavia - explored methods of increasing trade among themselves. In May, a Baltic Conference was attended by representatives of Estonia, Latvia and Lithuania. The conference appointed a permanent committee to investigate methods of increasing trade between the countries concerned, with special reference to the problems raised by the restrictions on trade resulting from monetary policy. All of these attempts at regional trade agreements, however, were still in their formative stages and, at the time of writing, in May 1934, it was impossible to estimate their practical importance. The developments that followed the signing of an agreement between Chile and the Argentine on June 3rd, 1933, are, however, of some interest. This agreement provided for special preferential treatment of imports from the two countries concerned; but the regional character of this undertaking was broadened when the Anglo-Argentine agreements of May 1st and September 26th, 1933, were ratified on November 7th, 1933, and gave the United Kingdom similar privileges in the Argentine market. Subsequently, these privileges were extended both by Argentine and by Chile in a series of agreements negotiated with countries with which they had commercial treaties including the most-favoured-nation clause.

Some relaxation of foreign exchange controls proved possible, notably in Austria, where, in May 1934, the currency was provisionally revalued at 22 per cent below the former gold parity. Some relief to trade proved possible also by means of exchange clearing agreements; but for the most part these agreements aimed at bilateral balancing of the accounts due between each pair of countries and thus tended to eliminate triangular trade. A new possibility was opened up, however, by the suggested agreement by which it was proposed to transfer from Greece to Roumania certain clearing balances in respect of trade with Germany, in return for Roumanian concessions to Greek imports. The possibility of a similar arrangement between Greece and Yugoslavia in respect of Greek balances both with Germany and with Austria was also being explored in May 1934.

All such special arrangements, however, not only demand a particular combination of circumstances, but require prolonged and difficult negotiations. The tendency for Governments to regulate trade and, in regulating it, to negotiate particular bargains with other Governments, is at best a cumbrous and unsatisfactory substitute for the restless ingenuity by which, in former times, the private trader, unhampered by minute regulations and controls, sought out profitable opportunities for the exchange of commodities in world markets.

The way in which financial controls and commodity trade restrictions have diminished triangular trade is indicated by calculations which appear in the *Review of World Trade, 1933*. These calculations cover the bulk of the trade of twenty-two countries, which between them account for about three-fourths of the total of world trade. They divide the total trade — exports plus imports — of these countries into three divisions. The first division may roughly be called bilateral or offsetting trade and consists of the value of trade which is offset between each pair of countries considered. The second division consists of trade balances necessary to offset invisible items of export and import, while the third division represents triangular trade. The words "bilateral" and "triangular" are used in a narrow sense, taking account of merchandise trade only and disregarding invisible items in the international accounts of the countries concerned.

The result of these calculations for the total trade of all the countries considered may be summarised in the following table:[1]

[1] Cf. *Review of World Trade, 1933.*

	Bilateral Trade		Balance of Total Trade		Triangular Trade	
	1929	1933	1929	1933	1929	1933
Value of trade in gold dollars (000,000's)	33,803	11,236	4,551	2,203	8,615	2,233
Index numbers (1929=100) .	100	33	100	48	100	26

It will be clear from this summary table that the greatest restrictions have fallen upon triangular trade, and the least upon that portion of the trade which is earmarked for the payment of invisible services, mainly debt payments. The incidence of these restrictions falls with uneven force upon different countries. Those whose prosperity in the past has been largely dependent upon *entrepôt* trade or the fabrication of manufactures for markets other than the sources of raw materials, or the sale of a specialised product in a particular market different from their import markets, are particularly hard hit. Since these categories in fact include a great number of important trading countries, a very great part of international trade having in fact been triangular in the past, it is obvious that the attempt to build up balanced bilateral trade must mean a great shrinkage in world trade as a whole.

The Crisis in Shipping.

The provision of shipping services is a highly developed and complex industry, any summary discussion of which is likely to be inadequate. There is such variety in the services demanded that aggregate or average figures, particularly when they refer to a great number of countries, are often of little practical significance. Shipping, on the whole, is a fiercely competitive industry, at least on its margins of activity. There may be agreements concerning passenger and freight rates among the great express-liner companies, Governments may reserve certain classes of traffic to ships registered under their flags, subsidies, concealed or overt, interfere with the normal play of supply and demand; but it still remains true that competition for freight, especially that which can be handled either by tramp steamers or by liners, or even by sailing ships, is very keen. When competition is so keen, the services provided and the remuneration asked for them, as well as the business organisation of the shipping industry itself, vary in many ways. Not only is there rivalry between liners and tramps, but different kinds and classes of vessels in each group compete, and freight rates are

combined in a variety of ways both with complementary and competing forms of transport, such as railway systems, and also with the rates for back-freight. Summary statistics, therefore, can give only the broadest general outline of circumstances that are continuously changing. For any particular country or branch of the shipping industry, they need to be supplemented by more detailed studies.

The elements of the shipping crisis, however, may be simply stated. They are a large surplus capacity and a greatly diminished volume of world trade. On both sides of the supply and demand equation, Government subsidies have distorted the play of competition and rapid technical progress in shipbuilding has aggravated the problem of surplus capacity. The problems of the shipping industry, in fact, typify and symbolise the nature of the depression. Being essentially international in character, shipping has been hit directly and severely by the restrictions imposed upon international trade. The plight of the shipping companies has reacted upon shipbuilding, which offers perhaps the extreme case of depression in the heavy industries producing capital goods. State assistance in many countries complicates the problems of readjustment by the ordinary competitive processes, and there is a strong tendency for such assistance to increase in amount and variety.

The crude statistics of registered tonnage show clearly that the problem of surplus capacity is a legacy from the immediate post-war years, rather than from the years of relative prosperity from 1925 to 1929. In 1914, the total steam and motor tonnage registered was 45.4 million tons. In 1923, it was 62.3 million tons. By far the larger part of this increase (11.4 million tons in a total increase of 16.9 million tons) represented the expansion of the United States mercantile tonnage; but war losses were more than made good in all the great shipping countries with the exception of Germany. After 1924, the world's shipping continued to expand until 1932 and 1933, when heavy scrapping and a virtual cessation of new launchings caused a slight decline. [1]

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[1] The statistics of tonnage launched, lost and scrapped during recent years are:

Year	Launched	Lost	Scrapped	Net Gain (+) or Loss (—)
		(Million gross tons)		
1928	2.7	0.5	0.7	+1.5
1929	2.8	0.5	0.9	+1.4
1930	2.9	0.4	0.8	+1.7
1931	1.6	0.3	1.0	+0.3
1932	0.7	0.4	1.3	—1.0
1933	0.5	0.3	2.0	—1.8

The statistical position is set out in the following table:

Total Gross Tonnage of Merchant Vessels, 1924-1934: Vessels of 100 Tons or more at June 30th of Each Calendar Year.

(000,000's omitted.)

Country	1924	1929	1930	1931	1932	1933	1934
United Kingdom and Irish Free State	19.1	20.2	20.4	20.3	19.7	18.7	17.7
United States	16.0	14.4	13.9	13.5	13.4	13.3	13.0
Japan [1]	3.8	4.2	4.3	4.3	4.3	4.3	4.1
Norway	2.5	3.2	3.7	4.1	4.2	4.1	4.0
Germany	3.0	4.1	4.2	4.2	4.2	3.9	3.7
France	3.5	3.4	3.5	3.6	3.3	3.5	3.3
Italy	2.8	3.3	3.3	3.3	3.4	3.2	2.9
Netherlands	2.6	2.9	3.1	3.1	3.0	2.8	2.6
Sweden	1.3	1.5	1.6	1.7	1.7	1.7	1.6
Greece	0.8	1.3	1.4	1.4	1.5	1.4	1.5
Canada	1.2	1.3	1.3	1.4	1.5	1.4	1.4
Spain	1.2	1.2	1.2	1.2	1.3	1.2	1.2
Denmark	1.0	1.1	1.1	1.1	1.2	1.2	1.1
Other countries	5.2	6.0	6.6	6.9	7.0	7.2	7.5
World	64.0	68.1	69.6	70 1	69.7	67.9	65.6

There has been a marked technical development, not only in the substitution of oil-driven for coal-burning steamers and in the increasing use of motor-ships, [2] but also in increased speed and the better utilisation of cargo space, so that the carrying capacity of shipping has increased more than the gain in aggregate tonnage would indicate. The comparative costs of oil and coal as fuel for some years greatly stimulated the use of the former, but there has recently been a marked reaction to

[1] The table does not include Japanese sailing vessels.
[2] The increasing use of motor-ships is illustrated by the statistics of traffic through the Panama and Kiel Canals.

Panama Canal Traffic: Percentage of Total Tonnage.

	1929	1931	1932	1933
Motor-ships	19.3	28.4	32.1	34.0
Steam vessels	80.2	71.1	66.3	60.0
of which:				
Oil-burning	(64.0)	(72.8)	(76.1)	(70.6)
Coal-burning	(34.7)	(25.6)	(22.1)	(27.2)
Oil- or coal-burning	(1.3)	(1.6)	(1.8)	(2.2)
Miscellaneous	0.5	0.5	1.6	6.0

Kiel Canal Traffic: Percentage of Total Tonnage.

	1929-30	1932-33
Motor-ships	2	5
Steam vessels	90	83
Sailing vessels	5	10
Others	3	2

the use of coal. The following short table is sufficient to indicate this development:

	1925	1929	1930	1931	1932	1933
Steam coal (Welsh, best Admiralty), shillings per ton .	22 8	20.1	20.0	19.5	19.5	19.5
Sterling index (1929=100) .	113	100	99	97	97	97
Fuel oil (average price of fuel oil imported into United Kingdom), £ per 1,000 gallons	1.39	0.90	0.95	0.78	0.77	0.71
Sterling index (1929=100) .	155	100	105	87	86	83

The use of motor-ships has, however, been unevenly distributed. In 1924 the world tonnage of motor-ships was 2 millions and in 1933 this figure had risen to 10.2 millions; but the following table shows that, both in respect of motor-ships and in respect of ships less than 20 years old, the fleets of the principal shipping countries differed very considerably. The composition of the British and American fleets, both of which contain a large proportion of new ships, but a relatively small proportion of motor-vessels, indicates that shipowners are not altogether convinced that motor-vessels are, in fact, more advantageous.

The Proportion of Motor-Ships and New Vessels in World Shipping, 1933.

Country	Motor-ships (% of Total Tonnage)	Ships less than 20 Years old (% of Total Tonnage)
United States:		
Sea	6.1	86.8
Lakes	1.0	25.5
Netherlands	26.0	86.3
United Kingdom and Irish Free State .	14.0	81.1
Norway	43.0	79.6
Germany	17.2	78.5
Denmark	39.5	74.8
France	6.6	73.1
Japan	14.3	70.8
Italy	19.3	64.6
British Dominions	7.9	62.8
Spain	17.9	61.2
Sweden	33.3	58.1
Greece	0.4	26.3
Other countries	4.7	45.1
World	15.0	72.0

During the course of the depression the tonnage laid up increased very greatly, but, as the following table shows, the proportion varied greatly from country to country. The table is arranged in order of the percentage of tonnage laid up at the low point of the depression in June 1932.

Tonnage laid up, 1929-1933: Percentages of Total Tonnage.

Country	31. XII. 1929	30. VI. 1932	31. XII. 1933
Belgium	2.6	34.8	27.6
Greece	6.9	34.7	9.2
Germany	0.2	30.5	13.4
Netherlands	0.1	27.3	12.2
France	2.7	25.9	25.3
United States	14.0	25.5	21.3
Italy	6.0	25.4	13.6
Spain	1.9	20.1	28.2
Denmark	.	19.5	6.2
Norway	0.4	19.2	11.0
United Kingdom and Irish Free State	2.9	17.6	10.5
Australia	13.3	17.4	7.8[1]
Canada	.	9.4	7.1[1]
Sweden	0.2	8.9	9.6
Japan	2.2	5.3	4.2
World	5.2	20.9	13.9[1]

It is evident that these figures do not tell the whole story of shipping developments in 1933. Sales, transfers of registry to other flags and scrapping, as well as increased employment, may account for a decrease in the laid-up tonnage of particular countries. Currency depreciation evidently played a large rôle in the improvement shown in many countries during 1933. Thus, the decrease of tonnage laid up in Greece, Germany, Denmark, Norway, the United Kingdom and Australia is in marked contrast with the situation in Belgium and France. But, as the figures for the United States and the Netherlands indicate, many other factors, notably wages and other running costs, must be taken into consideration. There is much scattered evidence that, while wage reductions have not played such a large rôle, the lower prices of foodstuffs and economies in operation, supplemented in some countries by changes in ownership which have reduced overhead costs, have given advantages to particular countries. Where ownership has passed into the

[1] Provisional figures.

hands of operating owners, ships have continued in use, even though producing low returns.

The most interesting figures of the table, however, are those which show a decrease in the world tonnage of shipping laid up from 21 millions in 1932 to 14 millions in 1933. The diminution of new launchings and the increased tonnage scrapped account for perhaps 2 millions of this decrease; but it is evident that tonnage amounting to almost 5 millions was recommissioned in 1933.

The demand for shipping is not capable of precise measurements, but the indices of shipping activity given in the following table, calculated on the basis of the gross tonnage of the ships cleared in the ports of 42 countries, representing 83.3 per cent of the world's trade, may serve to indicate the changes that have taken place in recent years. [1] Two series have been added below the table to show the changes in the tonnage of active tonnage (gross tonnage of merchant vessels registered, less tonnage laid up) and in the quantum of world trade.

Shipping Clearances, Active Tonnage of the World's Merchant Marine and Quantum of World Trade. [2]

(Base: Average 1925-1929 = 100.)

Tonnage cleared	1929	1930	1931	1932	1933
Europe	112.5	113.0	103.5	94.5	98.5
North America	106.0	105.5	97.0	87.5	86.0
Latin America	112.5	105.5	98.0	89.0	89.5
Africa	112.5	114.0	108.0	107.0	113.0
Asia	113.0	113.5	102.5	98.5	103.0
Oceania	101.5	101.0	101.0	104.0	109.0
Total	111.5	110.5	101.5	94.0	97.0
Active tonnage of the world's Merchant Marine	106.0	105.0	98.0	91.5	92.5
Quantum of world trade	110.0	102.5	94.5	81.5	82.5

This table measures, however, only the tonnage of shipping cleared, and not the actual cargo capacity used. [3]

[1] Cf. *World Production and Prices, 1925-1933*, for more detailed explanation of this table.

[2] Where statistics for the whole period covering all ships (in cargo and ballast) were available, they were used; in a few countries, figures for 1933 had to be estimated on the basis of partial information available for that year. A similar index has been compiled by the Swedish Board of Trade

[3] A rough indication of the extent to which the utilisation of cargo space has diminished is given by a comparison of the weight of cargo carried with the registered tonnage passing through the Panama and Suez Canals. The following table gives these indices as percentages of the corresponding figures for 1929.

	1930	1931	1932	1933
Suez Canal	87	82	81	85
Panama Canal	92	83	77	81

The distribution of shipping activity among the continents is of some interest as giving a rough indication of the volume as distinct from the value of trade. The substantial increase shown for Australia and New Zealand reflects the increased exportation of foodstuffs and raw materials from those countries. [1] During 1933, shipping activity continued to diminish in the United States and the Argentine, and also in Spain, the Irish Free State and China, but all other countries showed an increase in shipping activity.

The greatest decline in shipping activity, in fact, has been caused by the falling off of passenger traffic [2] and by the greatly reduced interchange of manufactured goods which is revealed by the trade statistics. [3]

In view of the large surplus capacity available and of the reduced demand for shipping services, it is natural to find that freight rates have fallen considerably. The extent of this fall is revealed in the next table.

Index Numbers of Ocean Freight Rates, [4]
March 1929 to March 1934.

(Base: March 1929 = 100.)

Country	Index	1930	1931	1932	1933	1934
United Kingdom	Economist . . .	74	79	76	70	70
	Chamber of Shipping . .	69	74	77	67	69
Denmark . . .	Statistical Dept.	80	76	79	90	85
Germany . . .	Statistisches Reichsamt . .	85	79	67	60	54
Sweden	Svenska Handelsbanken .	75	76	77	73	72

[1] For studies of the movements of different classes of freight and their relative importance, cf. *Vierteljahrshefte zur Statistik des Deutschen Reichs, Ergänzungsheft zu Heft 1 1928,* and J. TINBERGEN, "Scheepsbouw en conjunctuurverloop", *De Nederlandsche Conjunktuur,* March 1931, March 1933 and March 1934.

[2] The transatlantic passengers booked by members of the North Atlantic Shipping Conference fell from 1,246,200 in 1929 to 756,500 in 1932 and 572,000 in 1933.

[3] The Panama Canal returns show that the shipments of agricultural commodities were increasing while industrial raw materials and manufactured goods fell heavily in the depression years. See Annual Report of the Governor, 1933, pages 15 and 16.
The Kiel Canal statistics corroborate this evidence also. See *Vierteljahrsheft zur Statistik des Deutschen Reichs, Zweites Heft,* 1933.

[4] The indices for the United Kingdom and Denmark are calculated upon the quotations for world routes, and those for Germany and Sweden upon routes to and from the respective countries.

World gross shipping income, which was estimated for 1928 at $2,300 million to $2,400 million, [1] has inevitably fallen very heavily, but estimates for the world as a whole in 1933 are not yet available. National estimates for a number of countries may, however, be used to illustrate the magnitude of the fall in shipping incomes.

General estimates compiled for calculations of the balances of payments for a number of countries are summarised in the next table:

Shipping Earnings in Foreign Traffic. [2]

(National currencies (000,000's).)

Country	Unit	1929	1930	1931	1932	1933
Gross Receipts:						
Japan . . .	Yen	222	182	156	169	...
Norway . . .	Krone	432	412	364	378	430
Germany . .	RM.	986	873	680	500	...
France . . .	Franc	3,100	2,700	2,400	2,000	...
Sweden . . .	Krona	297	270	239	239	233
Denmark . .	Krone	215	185	153	152	179
Net Receipts (after deduction of expenditure in foreign ports):						
Netherlands .	Guilder	196	155	125	86	...
Greece . . .	£ (gold) 000's	955	872	1,205	904	...
Finland . . .	Markka	250	240	260	300	...

Complete statistics, which include earnings in coastwise traffic, are available for the United States up to the end of 1932. The report on national income prepared by the United States Department of Commerce in collaboration with the National Bureau of Economic Research gives the following table:

[1] Cf. *Memorandum on International Trade and Balances of Payments 1927-1929*, Geneva, 1930. Earnings in coastwise traffic excluded.

[2] League of Nations: *Balance of Payments 1931 and 1932*, Geneva 1933. In the majority of cases, only the net income on account of chartered ships is included in the figures. As, further, passenger money is treated differently in the statistics of the various countries, the figures only show the approximate trend of shipping income in foreign traffic.

Income paid out and produced, Water Transportation, 1929 to 1932.

($ 000,000's.)

	1929	1930	1931	1932
Income paid out	589	529	438	338
Income produced	599	507	411	294
Business savings or losses	10	— 23	— 28	— 44
Dividends	28.6	30.2	19.7	5.9
Interest	6.1	7.0	11.3	10.9
Salaries	92.6	84.6	74.4	63.3
Wages	448.7	393.8	319.8	245.2

For the United Kingdom, a sample estimate based upon the published reports of a limited number of companies can be used as a rough guide. These figures are shown in the following table:

Net Shipping Profits (after Payment of Debenture Interest, etc.) of Certain Companies.

Year ending June 30th	Number of Companies	Actual Year's Profit (+) or Loss (—) (£000's)	Preceding Year's Profit (+) or Loss (—) (£000's)
1931	42	+ 3,640	+ 5,295
1932	41	— 347	+ 4,410
1933	39	— 834	— 457
1934	33	+ 1,543	+ 566

Other illustrations could be given indicating the worldwide fall in shipping companies' profits. Thus, in the United States, the earnings of all shipping companies, which, in 1929, were $29 million, were converted, in 1932, to losses amounting to $38 million. In Japan, the earnings of eight large companies represented 6.6 per cent of their paid-up capital in the half-year ended December 31st, 1929, but, in the last half-year of 1930, the losses of these companies were equal to 22.3 per cent of their paid-up capital. German shipping companies also lost heavily, as the following figures show:

Earnings of German Shipping Companies as a Percentage of Owned Capital.

Year ending June 30th	Number of Companies	Actual Year	Preceding Year
1930	26	6.3	6.3
1931	26	2.1	6.2
1932	26	— 56.4	2.1
1933	14	— 16.3	— 27.5

It was inevitable that losses of income should be reflected in a considerable shrinkage of shipbuilding. The total tonnage (of ships above 100 tons) under construction in the world at the end of 1929 was 2,990,000 tons, but, four years later, at the end of 1933, the comparable figure was 757,000 tons. The distribution of this new construction is of some interest and is summarised in the table below:

Merchant Vessels under Construction at the End of Each Year 1929 to 1933. [1]

Country	1929		1930		1931		1932		1933	
	Steam	Motor	Steam	Motor	Steam	Motor	Steam	Motor	Steam	Motor
United Kingdom	788	766	464	440	310	90	204	21	219	112
Japan	18	166	—	86	25	29	3	60	11	96
France	91	77	128	44	105	59	82	20	76	15
Sweden	11	87	10	135	6	90	1	57	1.5	63
Netherlands	40	192	7	153	—	67	—	39	0.4	40
Spain	3	36	—	59	—	55	2	31	7	29
Denmark	9	96	4	103	5	47	5	16	3	22
Germany	167	86	41	177	2	102	3	77	1	22
Italy	15	63	103	76	101	77	2	57	—	11
United States	128	43	187	43	204	3	58	0.5	10	0.5
Other countries	60	24	40	15	13	11	11	13	7	7
Total	1,330	1,636	984	1,333	771	630	371	392	336	418

There has been a considerable amount of discussion during the depression concerning Government subsidies and State policy in general. As far as ocean-going, as distinct from coastwise, shipping is concerned, there does not appear to have been any reversion to earlier policies of flag-discrimination, but the reservation of coastwise traffic to national shipping, for example in the United States and Australia, remains an important form of discrimination. The only important discrimination in regard to ocean transport is the United States legislation requiring exports financed by public credit to be transported by American ships. The most-discussed form of Government aid to ocean-going shipping is the payment of subsidies, which have been estimated as follows:

[1] League of Nations: *Statistical Year-Book 1933-34*, Geneva, 1934.

Shipping Subsidies in Certain Countries. [1]

(National currencies (000,000's).)

Country	Currency	Subsidies to Regular Shipping Lines		Subsidies to Tramp Shipping (since 1931)	Special Grants to assist Scrapping (since 1931)
		1913	1933		
France	Franc	51.2	353.7[2]	150.0	—
Germany	RM.	7.1	20.0[3]		12.0
Italy	Lira	19.2	263.2	48.8[4]	[5]
Japan	Yen	11.5	12.3	—	11.0
Norway	Krone	2.0	6.0	—	—
United Kingdom	£	0.48	0.35[6]	—	—
United States	$	1.1	23.1	—	—

Subsidies in one form or another are paid in many other countries also, and their effect has been to increase the shipping services available in those countries. Efforts to discuss the possibility of international agreement concerning subsidies failed at the Monetary and Economic Conference. The British Chamber of Shipping set up a committee in the first half of 1933 to work out an international scheme for reducing surplus tonnage, but no agreement was reached. Subsequently, the Chamber drew the attention of the British Government to a scheme for subsidising tramp steamers, but considerable divergence of opinion developed in the shipping industry and no action was taken. On December 13th, 1933, the President of the Board of Trade had stated in the House of Commons the readiness of the Government to consider granting assistance, if the shipping industries could devise a workable scheme. In March 1934, the Chamber of Shipping adopted a cautious resolution urging a renewed effort to stimulate world trade and suggesting, *inter alia*, that subsidies should, "where necessary, be met by subsidies". In the same month, the Danish, Swedish, Norwegian and Netherlands Governments informed the United Kingdom that they were ready to co-operate in an effort to find remedies for the precarious state of international shipping, but no action had been taken up to the time of writing (June 1934).

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[1] Svenska Handelsbanken, *Index*, July 1934.

[2] Since 1925, special subsidies have been paid to domestic tankers (12 million francs in 1930).

[3] Grant of 20 million RM. made in 1933, payable at the rate of 3 Rpfg. per gross ton per day at sea and up to 20 per cent of the wages of personnel on board.

[4] 1932.

[5] Since 1931, the Government contributed towards the scrapping of 200,000 gross tons annually (25 lire per gross ton in 1931-32 and 22 lire in 1933).

[6] 1924.

Certain groups of owners of tramp ships have, however, combined in recent months in an attempt to improve freight rates. The owners of "free" tank ships (as distinct from the oil companies which have their own tankers) have adopted the "Schierwater plan", by which a certain proportion of their freight earnings are pooled to provide a fund out of which indemnities are paid to the owners of tonnage laid up. The adherence, on April 25th, 1934, of the Norwegian companies, which own a considerable proportion of the world's tonnage in this class of ship, enabled the plan to be launched on a practical basis.

The Northern Wood Shipping Corporation, a combination of shipowners engaged in shipping timber from the Baltic countries, was formed early in 1934, but, at the time of writing, support for this combination remained dependent upon the prospect of securing co-operation from the United Kingdom and the Netherlands. The position was somewhat complicated by the stipulation in the last commercial treaty between the United Kingdom and the U.S.S.R. requiring that freight paid on goods exported to the United Kingdom in British ships may be reckoned as part of the British exports to Russia, which must be maintained in agreed proportions to Russian exports to the United Kingdom. Such an agreement, contained in a trade treaty, opens up the possibility of shipping services being included generally in any development of "planned trade".

Chapter VII.

SOME PROBLEMS OF PUBLIC FINANCE.

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The Complexity of Public Accounts.

There is hardly any aspect of economic organisation where brief, accurate and up-to-date estimates of the situation at any moment, even in particular countries, are more difficult than in the field of public finance. Any simple statement on this problem must begin with many reservations and explanations. It is not possible, without serious danger of misleading omissions and wrong inferences, to summarise the complicated accounts of any important country in a few pages. Comparisons between countries are still more dangerous and none are attempted here.

No modern State is a simple economic unit, and the accounts of any State must be considered in the light of its peculiar history, political constitution, economic resources and organisation. A total public debt which may present a troublesome problem for China with perhaps four hundred and fifty million inhabitants may be much more tolerable for New Zealand with a million and a half. The proportions of expenditure upon debt service, the social services, education and armaments in different countries depend, not only upon the economic, social and political situation of each country, but also upon the nature of its constitution. The distribution of total expenditure upon these objects by the Central Government, by the States in federal countries and by regional and local authorities varies a great deal. Tax systems vary considerably also. Indeed, there is no possibility of making international comparisons which would not be misleading, without such detailed descriptions of the particular circumstances of every country as would require much greater space than can be given here.

Apart from these general differences of national structure, however, the complicated and peculiar nature of the public accounts in every country demands the greatest circumspection.

The statistics which are the subject of most popular discussion usually refer to receipts and expenditure in the main budget. These statistics, viewed merely as totals of receipts and expenditure, need to be carefully interpreted, as the manner of their presentation varies greatly. The period of time to which they refer is usually a year, but the custom of different countries varies as to the principles followed in accounting for revenue received or expenditure made in that period, or brought forward from one period to another. In the stress of recent years, some States have anticipated revenues for several years ahead and have been able to discount part of their future income for the purposes of present expenditure.

Very few countries make out what in private businesses would correspond to a balance-sheet and capital accounts, so there is considerable difficulty in distinguishing in any one year between current and capital expenses. The financial statement usually considered is primarily based upon the Treasury receipts and outgoings, though an accurate estimate of the situation of the national Treasury demands detailed investigation concerning the practice regarding previous surpluses or deficits, loan receipts and capital expenditure. Even the totals of receipts and expenditure, therefore, need careful definition and interpretation in each particular case.

Moreover, important financial transactions in almost every State are accounted for in special funds, and the operations of these funds are reflected in very different ways in the accounts of the general budget, according to the national practice. Thus, State undertakings — such, for example, as the railways, post office, or Government monopolies — may be included in whole or in part, either by taking their gross or their net results into the financial statement, or may be treated as quite independent of the other public accounts. The practice in this respect varies greatly, not only from country to country, but from time to time. In the most recent years of depression, when State activity has penetrated into new aspects of the economic organisation, a multiplicity of such new accounts, often the accounts of quasi-independent institutions, has made public finance a more complex study than ever before. Since the quasi-independent institutions conduct important financial transactions with the banks and the investing as well as the trading public, the ultimate responsibility for which falls upon the State, estimation of the public liabilities cannot be very accurate at any moment.

The importance of the "special funds" in recent years has been greatly increased by the strong tendency to draw a distinction between ordinary and extraordinary budgets. The latter

deal with receipts and expenditure presumed to be different in character — usually because they are in the nature of capital, or in other ways exceptional transactions — from the current administrative receipts and expenditures. The practice of distinguishing two budgets in this way was by no means unknown before the depression, but was tending to disappear until the emphasis laid in many countries recently upon the necessity for Government expenditure to make headway against the depression caused a widespread revival of the practice. There are cases, indeed, such as that of the United States of America, where the emergency budget is of greater magnitude than the ordinary budget, and many cases in which severe economy in the ordinary budget is practised simultaneously with greatly increased expenditure for extraordinary purposes.

If attention is directed, not to the totals of Government income and expenditure, but to an analysis of the sources of revenue and the types of expenditure, pitfalls are multiplied. Not only do definitions of the same terms vary a great deal, but in the methods of accounting that are used, as in the national tax-systems and controls over expenditure, economic categories overlap departmental distinctions. Any realistic study, therefore, must go further than a reproduction of the official summaries and grouping of receipts and expenditures. Thus the money used for social services in any country may be derived from the general tax fund, from special taxes, contributions or assessments, and may be spent, either by the central or by local Governments, under different departmental headings. It is, then, necessary to go back to the detailed accounts to separate and re-group particular items. This cannot be satisfactorily accomplished unless the official classifications distinguish between expenditures for the purposes under consideration, and even then a satisfactory analysis usually involves a knowledge, not only of the accounting system, but of the governing legislation in the country in question, so that studies of this character inevitably become studies of the administrative system, if not of the whole economic and financial situation.

Since any simple, summary statements must be misleading, and accuracy is to be obtained only by investigations that are laborious and necessarily complex in their presentation, the present chapter, like those in preceding volumes of the *Survey*, renounces any attempt either to present complete estimates of any national financial situation or to institute international comparisons. The former is essentially a task for national experts, the latter is virtually impossible under present conditions. What can be done, however, is to direct attention to certain great problems of public finance which are of common

interest to many countries and to illustrate these problems by particularly important developments in particular cases.

The problems chosen for this purpose are necessarily the subject of political debate, which is controversial because it affects so directly and intimately the economic interests of important sections of the population. It is hardly an exaggeration, indeed, to state that the distributive struggle which has been so greatly intensified by the fall in national incomes during the depression centres in the conflicts of interests out of which public financial policy emerges. Not only the incidence of taxation, but the direction of public expenditure and the policy followed in regard to public borrowing are important factors in the distribution of wealth both directly and because of their influence upon such important economic forces as the rates of wages and interest. No small part of the real income of almost all classes of citizens in modern States is made up by public services — protection, security, justice, education, the public utilities and a host of other services rendered. The distribution of the cost of these activities and the degree to which different classes of the community enjoy or must, in times of economy, forego the benefit of the services rendered varies greatly in different countries, but is an important and lively subject of controversy in all. In the discussion which follows, no view is taken and no judgment passed; but an effort is made to record the main facts and give typical illustrations of those recent developments which seem to be of general interest. The next section deals with the shifting bases of taxation, after which there is a discussion of certain important types of expenditure, attention being specially directed to the public expenditures now being made in certain countries with the primary object of stimulating recovery from the depression. There is, finally, a brief statement of the debt situation in different countries.

Raising the Public Revenue.

One of the marked characteristics of the depression years has been the comparative rigidity of public expenditure, despite the great shrinkage of national incomes in most countries. There are certain directions, indeed, in which greatly increased expenditure has been necessary in most countries. The depression has brought greater need for public relief of one kind and another. In the last year or two, also, the strong pressure for Government action to stimulate recovery has in many countries increased expenditure, in some cases very greatly. There have, therefore, been heavy demands upon Government

Treasuries at a time when national income was low and taxation difficult.

In considering the expedients to which the public authorities have turned in order to collect the resources with which to meet these demands, it is obvious that taxation and borrowing are only part of the story. The present section is devoted primarily to the former, and Government borrowing is treated in a later section. It is necessary, however, to draw attention to other sources of Government funds which latterly have tended to become more important as the activities of States have extended into new fields.

Fees for services, either voluntary or compulsory, fines, and certain types of assessment for benefits conferred by State expenditure have always formed part of the receipts of Governments. In more remote times they have often been among the most important receipts; indeed, fees, fines and levies were largely used in default of effective taxation. The tendency has long been towards a diminution of such charges both absolutely and relatively to total receipts. Levies in kind or in cash were almost universally abandoned, fines became less remunerative to the State, and fees also showed a strong tendency towards becoming merely nominal administrative charges. This evolution naturally varied a good deal in different countries and in regard to different services. There have always been some services rendered by Governments for which the fees charged usually covered at least the costs of administration, if they did not yield some profit. The general tendency, however, defended on the ground of equity, was to meet from the general tax fund a larger proportion of the cost even of services rendered to particular individuals.

It was natural that, during a period of acute financial stringency such as the depression years, a greater effort should have been made in many instances to cover the cost of such services by charging more adequate fees. This was particularly true when new services were introduced, even when their introduction was necessary for regulation and control of private activities rather than to render service to individuals. The costs of the controls have often been met by special charges, or by new forms of taxation earmarked for special purposes and so designed that their incidence was upon the persons benefited or the activities regulated. Thus, road construction rendered necessary by the increasing use of motor-cars has partly been financed by special taxes on registration, or on petrol. The use of fees in this way shades into taxation, from which it cannot always be clearly distinguished. There have also been increases in the scales, and in certain cases more rigorous collection, of old fees,

as well as increased scales of private contributions to such services as employment insurance. While the increased receipts gained in this way have probably not been of great aggregate importance in most countries, there has been a tendency for administrative formalities and charges to multiply.

Another, and far more important, source of revenue, or of losses, is to be found in the receipts from Government undertakings of various kinds. The multiplicity and variety of such undertakings forbids any generalisation concerning the trend of net receipts from this source during recent years. Each undertaking needs to be considered separately. Some public utility services have in most countries come to be regarded as regular functions of Government, to be discharged freely for all citizens and paid for from the general tax fund. The charges made for other services are inadequate to meet the full cost, so that heavy subsidies are necessary from taxation. On the other hand, there are widely used services, such as those provided by post offices in most countries, which usually yield a net profit, and many of the State monopolies are so conducted as to yield such substantial profits that the charges made by them include in reality a special tax on the particular form of consumption affected.

Owing to recent developments, much greater importance now attaches to the net financial results of Government economic enterprises in many countries. Where great schemes of public works, subsidies to private enterprise, or State enterprises have been undertaken to combat the effects of the depression, the net receipts or losses which will become available to set against the operating and capital charges of such undertakings will form an important, but as yet problematical, item in future budgets. For the most part, expenditure for these purposes has been made from loans, and operating expenses are not yet effectively at their maximum. Interest and amortisation and working expenses, however, are definite commitments, while receipts have yet to be determined.

There is one present aspect of the receipts derived from public enterprises which is perhaps worth noting. In several countries it is the older enterprises undertaken by regional and local authorities which have been hardest hit up till now. The great new schemes have mostly been financed by the Central Governments. The older services, such as tramways, are largely in the hands of local authorities and have often contributed to the embarrassment of their finances. While many other factors enter into the situation, the heavy interest burdens resulting from past capital commitments are a material factor in the financial difficulties of local and regional authorities in many countries. In the United States and Germany, to cite only

two examples, these authorities have been placed by the depression in an even worse situation than the Central Governments.

When one turns to the receipts from taxation, the most remarkable fact that emerges from a survey of the principal countries is the comparative absence during the depression of new departures from established methods of taxation. There are many examples of new taxes or revivals of old taxes, and there has been a considerable shifting of the proportions of total taxation yielded by the principal taxes; but there are very few radical innovations or inventions. The Swedish Government has imposed new heavy death duties, the receipts from which are to be set off against the capital cost of the public works programme; but there are few other instances of bold new ideas of taxation. No important and elastic new source of revenue appears to have been unearthed, and most of the new taxes are in the nature of turnover or consumption duties imposed on a variety of transactions, or direct imposts, such as the unemployment levy in New Zealand, which recall the simple, direct methods of the poll-tax.

It is evident, also, that, in the financial strain of the depression, Governments have sought revenue where they could find it, placing more stress on the yield than on the equity of different methods of taxation. The limits of exemption from taxes on income and property have been lowered, regressive taxes such as those on consumption and turnover have been more widely used, and the raising of Customs duties has affected necessaries at least as much as luxuries. While it would require extended investigation in every country to warrant the statement that taxation has become less equitable, the many important instances of the use of the methods cited above leads to a presumption that this is the case in most countries.

An attempt is made in the tables which follow to summarise the shifts in the main sources of taxation that have occurred in certain countries. While the compilation of these tables has involved laborious investigation of the different national budgets, the summary results so presented are subject to reserva tions and particular interpretations in the case of every country which it would be tedious to give in detail here. For convenience of presentation, the countries are divided into three groups: those in which there has been a marked shift from taxation on incomes and property to taxes on consumption, those in which the shift is in the reverse direction, and those in which little change has been made. The only legitimate comparison, however, is in regard to the direction of change. The proportions of taxation derived from the various sources depend so much upon the political and economic circumstances of each

country that international comparisons in this respect are not possible. Moreover, the ultimate incidence of different methods of taxation requires more detailed analysis.

The fact should be stressed that, in order to provide comparisons with the latest possible period, it has been necessary to compare estimates for the latest date with closed accounts for the earlier period. No reliance therefore can be placed upon the absolute amount of change, and the figures are given only to indicate the direction and the main reasons for the change in each case

The Principal Sources of Taxation as Percentages of Total Taxation in Countries where there has been a Marked Shift from Taxes on Income and Property to Taxes on Consumption in the Financial Years 1929-1934.

Country	Taxes on Income and Property		Taxes on Transactions, including Death Duties		Customs Receipts		Taxes on Consumption and Turnover, including Net Yield of Monopolies	
	1929	1934	1929	1934	1929	1934	1929	1934
Australia [1] . . .	22.7	20.3	3.8	2.3	52.4	39.7	21.1	37.7
Austria [2]	27.7	21.2	9.4	8.3	20.6	18.6	42.3	51.9
Belgium [3]	33.9	31.5	41.1	32.8	13.1	17.7	11.9	18.0
Bulgaria [4]	21.0	16.2	17.8	15.7	30.2	19.7	31.0	48.4
Denmark [4] . . .	28.7	25.4	10.8	9.7	26.4	23.6	34.1	41.3
Finland [3 5] . . .	23.4	21.2	9.9	8.8	57.2	57.3	9.5	12.7
France [6]	31.7	28.6	17.6	15.4	9.4	12.2	41.8	43.8
Germany [7] . . .	27.8	15.7	5.7	5.1	18.3	21.8	48.2	57.4
Japan [8]	33.3	30.0	4.5	4.8	13.2	13.6	49.0	51.6
New Zealand [8] . .	25.8	19.7	17.5	16.7	45.9	38.9	10.8	24.7
Netherlands [9] . .	35.3	23.8	18.7	12.9	11.9	22.2	34.1	41.1
Norway [10]	29.2	24.1	5.3	4.8	35.0	35.5	30.5	35.6
Sweden [1]	26.7	22.5	10.4	8.6	26.9	19.3	36.0	49.6
Switzerland [3 11] .	11.3	5.9	16.2	13.2	72.5	75.4	—	5.5
United Kingdom [4]	45.4	40.7	16.1	15.1	18.3	27.5	20.2	16.7
United States [10 12]	65.7	33.2	3.8	6.9	16.9	12.2	13.6	47.7
Yugoslavia [8] . . .	28.3	23.0	14.3	14.4	19.3	12.5	38.1	50.1

[1] Closed accounts, 1928-29, and estimates, 1933-34.
[2] Closed accounts, 1929, and estimates, 1934.
[3] Closed accounts, 1929, and estimates, 1934.
[4] Closed accounts, 1929-30, and estimates, 1934-35.
[5] Figures on basis of assessments.
[6] Provisional accounts, 1929, and estimates, 1934. The percentages are based upon figures representing the yield of taxation during the twelve months of each calendar year, excluding the taxes assigned to the amortisation fund.
[7] Closed accounts, 1929-30, and estimates, 1933-34. Including only a small portion of the receipts of the "Lander".
[8] Closed accounts, 1929-30, and estimates, 1933-34.
[9] Closed accounts, 1929, and estimates, 1933.
[10] Closed accounts, 1928-29, and estimates, 1934-35.
[11] Taxes on income and property represent only the new war tax and half the military tax, other taxes on income and property being levied by the cantons and not included here.
[12] Figures on the basis of warrants issued.

The interesting fact which emerges from this table is the increasing reliance upon turnover and consumption taxes. In every case but that of the United Kingdom, a fall in the proportion of taxes on income and property is compensated by a marked increase of turnover and consumption taxes. In the United Kingdom, however, both the proportions of these taxes and of the consumption taxes have fallen relatively to the receipts from Customs duties. In Belgium, France, the Netherlands, and Switzerland, also, Customs receipts have increased in relative importance. The regularity of the change in all of these countries, with the exception of the cases mentioned above, and of the disturbance caused in Switzerland by the prepayment of some income taxes which swelled receipts from this source in 1930, is very remarkable. As income and property tax receipts fell from about 1931, when the swollen incomes of the good years gave place to the shrunken earnings in the depression, the gap was filled by resort to turnover and consumption taxes. It would, of course, require further analysis in each case to discover how far the shrinkage of receipts was caused by the fall in incomes or, at a later stage, by reductions of the rates in some countries; but it is evident that a measure of economic recovery is likely to increase the yield of these taxes. To this extent the shift may prove temporary. In the United States, indeed, the estimates for 1934-35 anticipate a substantial reversal of the trend. As the new income-tax rates and reduced exemptions introduced by the Revenue Act of June 2nd, 1932, become effective, this reversal is likely to become more pronounced, and, if such taxes as those imposed on the processing of farm products prove to be temporary, the final result may well be a relative increase in the receipts derived from taxation of incomes. It would, therefore, be premature to regard the movement disclosed in the preceding table as necessarily indicating anything more than a temporary consequence of depression conditions.

In the next table, it will be seen that there has been an opposite tendency in some countries. Estonia, India, Italy, Poland and Portugal are excluded from these tables, since the proportions of the various forms of taxation have changed very little in those countries during recent years. There has, however, been a tendency for turnover taxes to increase in Estonia, Italy and Poland, the increased receipts from this source being used to offset a decline in Customs revenue.

The Principal Sources of Taxation as Percentages of Total Taxation in Countries where there has been a Marked Shift to Taxes upon Income and Property in the Financial Years 1929-1934.

Country	Taxes on Income and Property		Taxes on Transactions, including Death Duties		Customs Receipts		Taxes on Consumption and Turnover, including Net Yield of Monopolies	
	1929	1934	1929	1934	1929	1934	1929	1934
Argentine [1]	2.3	13.5	8.9	16.7	69.3	48.0	19.5	21.8
Canada [2]	18.4	24.6	1.5	1.3	47.6	27.8	32.5	46.3
Chile [1]	21.0	26.1	5.7	26.1	67.2	38.4	6.1	9.2
Colombia [1 3]	5.8	8.0	4.3	12.5	79.1	65.7	10.8	13.8
Hungary [4]	27.6	37.8	13.9	14.7	15.0	5.2	43.5	42 3
South Africa [5] . . .	37.3	55.0	8.6	6.4	44.5	32.2	9.6	6.4
Spain [6]	28.7	30.7	17.9	18.4	18.8	12.8	34.6	38.1
Venezuela [4]	21.7	27.8	7.4	7.1	54.8	41.2	16.1	23.9

It is obvious that the determining factor in the shift in these cases has been a heavy fall in the proportion of total taxation received from Customs duties. In every case but those of Hungary and South Africa, the proportion of receipts from consumption taxes has increased; but the fall in Customs receipts was too great to be fully compensated in this way, and resort was had to more direct forms of taxation.

The percentages contained in the preceding tables are in most cases based upon smaller total receipts from taxation in recent years, and it is useful, therefore, to examine the actual amounts received from the main sources of taxation. The following tables give such calculations for a number of countries in respect of Customs duties and of taxes on property and income.

The most remarkable feature of the next table is the extent to which Customs receipts have been maintained in most countries. If the estimates for the latest years are disregarded as not comparable with the actual or provisional results of preceding years, it will be seen that, despite declining trade, Customs receipts have actually increased in Belgium, France, Switzerland, Germany, the United Kingdom, and, until 1931, in Italy.

There are heavy decreases, however, in most of the agricultural exporting countries — in North and South America,

[1] Closed accounts, 1929, and estimates, 1934.
[2] Closed accounts, 1929-30 and 1932-33.
[3] Figures represent assessments.
[4] Closed accounts, 1928-29, and estimates 1933-34.
[5] Closed accounts, 1929-30, and estimates, 1934-35.
[6] Provisional accounts, 1929, and estimates, 1934.

The Yield of Customs Duties, 1929-1934.

National currencies (000,000's).

PrR = Provisional Results, E = Estimates, RE = Revised Estimates, DrE = Draft Estimates.

Country	Currency	1929 or 1929-30	1930 or 1930-31	1931 or 1931-32	1932 or 1932-33	1933 or 1933-34	1934 or 1934-35
Argentine	Peso	426	352	313	286	E 275	E 264
Australia	£A.	30.2	18.2	18.6	21.3	E 20.5	...
Austria	Schilling	286	260	273	230	PrR 180	E 232
Belgium	Franc	1,319	1,336	1,303	1,556	PrR 1,496	E 1,548
Bulgaria	Lev	1,407	853	961	PrR 922	E 894	E 658
Canada	$C.	179	131	104	70	...	...
Chile	Peso	709	541	227	150	382	DrE 252
Czechoslovakia	Kč.	1,457	1,273	1,362	913	E 830	E 663
Denmark	Krone	102	108	105	83	PrR 98	E 99
Estonia	Kroon	21.1	20.0	18.1	13.4	E 13	E 12.9
Finland	Markka	1,337	1,406	1,132	1,021	PrR 1,243	E 1,251
France	Franc	PrR 4,425	PrR 4,342	PrR 6,059	PrR 5,451	E 5,106	E 5,098
Germany	Reichsmark	1,095	1,083	1,147	1,106	E 1,140	...
Hungary	Pengö	97	80	50	35	E 33	...
India	Rupee	513	468	464	RE 523	E 512	...
Italy	Lira	2,554	3,110	2,738	PrR 2,411	E 2,678	E 2,370
Japan	Yen	136	105	114	E 129	E 114	...
Netherlands	Gulden	72	71	67	E 65	E 102	...
New Zealand	£N.Z.	8.9	7.6	5.9	6.3	E 6.3	...
Norway	Krone	110	103	103	99	E 99	DrE 103
Poland	Złoty	395	258	157	PrR 108	E 135	E 125
Portugal	Escudo	PrR 680	PrR 664	PrR 672	PrR 658	E 641	...
South Africa	£S.A.	9.3	7.4	7.7	8.3	E 8	E 9
Spain	Peseta	PrR 664	PrR 580	PrR 497	PrR 527	PrR 480	E 487
Sweden	Krona	154	148	137	117	E 117	...
Switzerland	Franc	287	306	315	322	307	E 283
United Kingdom	£	120	121	136	167	179	E 184
United States	$	583	377	328	250	E 399	DrE 466
Yugoslavia	Dinar	1,530	1,480	1,054	PrR 695	E 780	...

Yield of Taxes on Income and Property.

National Currencies (000,000's).

PrR = Provisional Results, E = Estimates, RE = Revised Estimates, DrE = Draft Estimates.

Country	Currency	1929 or 1929-30	1930 or 1930-31	1931 or 1931-32	1932 or 1932-33	1933 or 1933-34	1934 or 1934-35
Argentine	Peso	14.1	14.4	14.8	68.1	E 73	E 74
Australia	£A.	14	16.4	15.6	12.5	E 10.5	...
Austria	Schilling	385	373	342	321	PrR 276	E 263
Belgium	Franc	3,418	2,618	2,459	2,219	E 2,715	E 2,760
Bulgaria	Lev	979	948	675	PrR 596	E 491	E 539
Canada	$C.	69	71	61	62	...	...
Chile	Peso	221	229	313	103	151	DrE 173
Czechoslovakia	Kč.	2,032	1,893	1,771	2,067	E 1,728	E 1,807
Denmark	Krone	111	113	136	140	E 98	E 107
Estonia	Kroon	6.6	6.4	6.5	5.7	E 4.8	E 5.1
Finland	Markka	547	608	496	440	E 402	E 462
France	Franc	PrR14,871	PrR14,593	PrR13,642	PrR10,092	PrR11,485	E 11,945
Germany	Reichsmark	1,663	1,777	1,634	1,102	E 817	...
Hungary	Pengö	224	220	252	226	E 242	...
India	Rupee	171	163	178	RE 178	E 184	...
Italy	Lira	5,192	5,004	4,896	PrR 4,027	E 4,113	E 4,511
Japan	Yen	345	344	265	E 241	E 250	...
Netherlands	Gulden	214	207	174	E 158	E 109	...
New Zealand	£N.Z.	5	5.2	5	4.1	E 3.2	...
Norway	Krone	84	80	77	71	E 76	PrE 70
Poland	Złoty	903	806	664	PrR 583	E 582	E 595
Portugal	Escudo	PrR 506	PrR 460	PrR 489	PrR 489	PrR 457	...
South Africa	£S.A.	7.8	8.3	7	7.2	E 14.5	E 15.4
Spain	Peseta	PrR 1,013	PrR 1,057	PrR 1,052	PrR 1,070	E 1,166	...
Sweden	Krona	155	169	166	152	E 136	...
Switzerland	Franc	45	141	32	27	15	E 22
United Kingdom	£	297	328	367	315	284	E 271
United States	$	2,410	1,860	1,057	747	E 864	DrE 1,265
Yugoslavia	Dinar	2,247	1,951	1,471	E 1,363	E 1,438	...

the British Dominions, Bulgaria, Denmark, Estonia, Finland, Hungary, Yugoslavia — and in other countries where industry is of more importance, as in Austria, Czechoslovakia, Japan, Norway, Poland, Sweden and the United States.

In most agricultural countries of Central and Eastern Europe, the heavy decreases in Customs receipts during the last few years are due mainly to the falling prices of agricultural products. These falling prices threatened the balance of trade and consequently the national currency. The rapid decrease of the available foreign exchange in the hands of the Central Banks led to more severe foreign exchange controls and reduced imports. These measures caused a heavy decline in Customs receipts, despite the increase of tariffs on various import goods not of primary necessity.

The most recent estimates, on the whole, indicate somewhat more optimistic anticipations. Receipts from Customs have already risen in New Zealand and Australia (despite a downward revision of the tariff) and the estimates are higher for some other countries, notably the United States; but reduced estimates elsewhere indicate that many other countries do not anticipate any great revival of international trade in the near future.

The yield from taxes on income and property is also summarised in the preceding table.

The most substantial increases of receipts from this source of taxation have been in countries where the tax rates have been increased, as in the Argentine, Czechoslovakia, Denmark and India. With these few exceptions, receipts have fallen heavily. On the other hand, there are only three countries — Austria, Norway and the United Kingdom — for which 1934 estimates are available which have not budgeted for an increase of receipts from income and property taxation, and, of these, the United Kingdom has reduced income-tax rates. The expectation of improved economic conditions appears to have been practically universal at the beginning of 1934.

The Distribution of Expenditure.

The expenditure of public funds is, in any circumstances, a complicated question to analyse. Central Governments and local and regional authorities are concerned, and there is much transference of financial resources to be carefully watched if double counting is to be avoided. Moreover, accounting systems vary, and the definition of expenditure also varies considerably as regards both the purposes for which the money is used and also the period in which the expenditure actually

Budgetary Expenditure of Central Governments, 1930-1934 [1] *(Amortisation included).*

National currencies (000,000's).

Country	Currency	1930 or 1930–31	1931 or 1931–32	1932 or 1932–33	1933 or 1933–34	1934 or 1934–35
Argentine	Peso oro	1,045.8	903.7	935.8	821.3*	795.8*
Australia	£A.	103.8	98.1	94.6	93.8*	...
Austria	Schilling	2,288.6	2,330.7	1,918.1	2,085.5	2,016.0*
Belgium	Franc	12,701.4	12,074.3	11,246.0*	11,627.2*	...
Brazil	Milreis	2,583.3	2,040.4*	2,192.8*	2,111.2*	2,355.0*
Canada	$C.	435.1	392.6	367.5	358.6*	343.6*
Chile	Peso oro	1,131.5	1,027.1	703.6	945.6*	830.5*
Colombia	Peso	61.4	52.2	46.1	40.4*	38.6*
Czechoslovakia	Kč.	9,928.4	12,260.4	10,258.1	8,632.5*	7,630.7*
Denmark	Krone	393.6	477.0	529.6	407.8*	489.4*
France	Franc	53,265.0	45,367.0	41,097.5	50,486.7*	50,162.0*
Germany	Reichsmark	8,857.0	7,414.9	6,384.7	5,927.5*	6,458.3*
Greece	Drachma	12,180.1	11,861.0	9,685.1	10,400.4*	10,582.2*
Hungary	Pengö	1,628.0	1,387.7	1,184.0	1,173.3*	1,150.7*
India	Rupee	1,361.8	1,333.9	1,249.6*	1,241.0*	...
Italy	Lira	25,702.0	25,208.0	22,855.6	23,152.8*	22,276.3*
Japan	Yen	1,557.9	1,476.9	2,012.2*	2,309.4*	...
Netherlands	Gulden	828.7	1,289.2	1,165.8*	743.5*	...
Norway	Krone	389.7	397.1	379.8	373.5*	397.0*
Poland	Złoty	2,813.9	2,467.5	2,244.1	2,458.0*	2,184.6*
Spain	Peseta	3,697.1	3,855.4	4,291.0	4,426.1	4,663.2*
Sweden	Krona	818.5	893.9	991.4	1,010.3*	...
Switzerland	Franc	426.4	426.1	414.1	482.1	430.7*
Turkey	£T.	210.1	207.8	204.2	170.5*	...
Union of South Africa	£S.A.	29.9	28.1	27.3	34.0*	34.6*
U.S.S.R.	Rouble	.	23,068.8	27,042.0*	33,230.9*	47,308.4*
United Kingdom	£	881.0	859.5	862.0	779.2	792.5*
United States	$	4,231.1	4,997.9	5,306.6	10,015.5*	4,639.1*
Venezuela	Bolivar	260.9	166.4	143.0*	141.6*	...

* Budgetary estimates.

[1] Argentine: Gross figures, except for Railways.

Australia: Gross figures, "Consolidated Revenue Fund" only, not including expenditure from "Loan Fund".

Austria: Gross figures, except for Federal Railways and Post Office Savings Bank.

Belgium: Gross figures. Excluding Telegraph and Telephones, Railways and Autonomous Amortisation Fund.

Brazil: Gross figures. Expenditure refers to commitments. Expenditure for the intermediate period January to March 1934 amounted to 527.8 million milreis (estimates).

Canada: Gross figures. "Ordinary Revenue Account" and "Capital Account" not comprising "special" expenditure or National Railways.

Chile: Gross figures, except for Railways. Not including the extraordinary budget and appropriation under special laws.

China: Figures partly net, representing payment as recorded during the financial year by the Department of Accounts of the Ministry of Finance.

Colombia: Gross figures. As from 1932 not including National Railways, which became an autonomous institution.

Czechoslovakia: Gross figures, except for fiscal monopolies and undertakings.

Denmark: Net figures. Total of current and capital accounts after deduction of depreciation, to avoid duplication.

France: Gross figures, except for public undertakings. Not including amortisation fund (deriving its receipts from the yield of the tobacco monopoly, of transfer taxes, succession duties, etc.). Figures for 1931-32 not including expenditure effected during the additional period. Estimates for 1932 cover a period of nine months.

occurs. In the tables given here, departmental accounts have been analysed for a number of countries in an endeavour to discover the amounts actually spent rather than the expenditure authorised in the periods under consideration. Wherever possible, the expenditure provided for in emergency or extraordinary budgets is included, but not all Government expenditure is traceable in these budgets. Attention is called to some illustrations of this fact, but the tables given should be read subject to this general qualification.

The tendency noted in the preceding *Survey* (1932-33) for budgetary expenditure to decrease as the depression deepened has continued in many countries in 1933-34, even though the first signs of economic recovery were becoming evident. This was not true of all countries, however, and there was a distinct tendency in many budgets towards increased total expenditure. These facts are evident in the tables.

Germany: Gross figures for administration proper with certain exceptions and not for public undertakings. Not including the "Reichsbahngesellschaft". According to the new system adopted as from 1933-34, only a small portion of the share of the "States" in taxes is included in the above figures.

Greece: Gross figures, not including Railways. Figures refer to commitments.

Hungary: Gross figures.

India: Gross figures, except for State Railways, irrigation works and Postal, Telegraph and Telephone Services. Revenue Account only, not including capital outlay not charged to Revenue or the Debt, Deposits and Advance Accounts.

Italy: Gross figures, except for tobacco, salt and quinine monopolies and undertakings. Figures refer to commitments.

Japan: Gross figures, except for monopolies and certain undertakings. General budget only, not including special accounts of Railways, special regions, etc.

Netherlands: Gross figures, except for public undertakings, for which grants for capital expenditure are included in the above figures, including Loan Redemption Fund and Road Fund after elimination of transfers.

Norway: Gross figures, except for public undertakings.

Poland: Gross figures, except for monopolies and public undertakings

Spain: Gross figures, except for tobacco and petroleum monopolies, State Railways, some mines, etc.

Sweden: Chiefly net figures.

Switzerland: Gross figures, except for undertakings. General budget only (Administration Account). Not including Federal Railways as well as the additional account called "Profit and Loss Account" (Closing Account).

Turkey: Gross figures for administration and Post, Telegraph and Telephone; net figures for monopolies and other public undertakings, and, as from 1933-34, also for Post, Telegraph and Telephone.

Union of South Africa: Gross figures "Consolidated Revenue Fund" only. Not including Railways and Harbours Fund.

U.S.S.R.: Figures refer to the joint budget comprising the budget of the Union and those of the Republics. Gross figures, except for the socialised economy. 1930 figures cover the period October 1929 to September 1930; the following cover the calendar year.

United Kingdom: Figures after deduction of appropriations-in-aid. General budget only (expenditure chargeable to revenue), not including capital expenditure authorised by various Acts.

United States: Gross figures except for Postal Service and Reconstruction Finance Corporation. Figures refer to "General Fund", "Special Funds" and "Trust Funds" on the basis of cheques issued.

Venezuela: Gross figures.

The first table, however, includes amortisation expenses, which fluctuate considerably from year to year, and needs therefore to be supplemented by the table which follows, from which amortisation expenditure has been excluded. Information is available for the following countries.

Budgetary Expenditure (Amortisation excluded).

National currencies (000,000's).

Country	Currency	1930 or 1930–31	1931 or 1931–32	1932 or 1932–33	1933 or 1933 34	1934 or 1934–35
Australia	£A.	100.3	91.4	90.7	89.7*	...
Austria	Schilling	2,213.7	2,219.0	1,852.0	2,000.5	1,921.4*
Czechoslovakia .	Kč.	983.8	11,775.6	9,818.7	8,242.4*	7,606.4*
Denmark	Krone	353.7	401.2	400.1	380.1*	457.9*
Germany	Reichsmark	8,122.8	6,733.8	5,721.0	...	...
Greece	Drachma	10,883.3	10,872.7	9,389.9	10,394.4*	...
India	Rupee	1,300.3	1,265.0	1,181.2*	1,172.1*	...
Italy	Lira	21,468.3	24,102.5	.	20,982.2*	20,989.9*
Japan	Yen	1,285.4	1,263.1	1,752.3*	1,932.5*	...
Netherlands. . .	Gulden	752.0	903.9	799.6*	680.5*	...
Norway	Krone	351.5	370.0	347.7	334.5*	356.1*
Poland	Złoty	2,715.0	2,391.0	2,180.9	2,337.2*	2,118.9*
Sweden	Krona	786.6	855.3	983.4	977.8*	...
Switzerland . .	Franc	412.7	411.5	428.2	463.0	410.1*
Union of South Africa	£S.A.	28.9	27.4	26.6	33.3*	33.9*
United Kingdom	£	814.2	827.0	835.7	771.5	792.5*
United States .	$	3,791.0	4,585.3	4,845.0	9,557.3*	4,113.4*
Venezuela . . .	Bolivar	235.6	165.2	142.0*	140.6*	...

While it is not possible to give in the space available here a complete analysis of the distribution of total expenditure, some important categories of expenditure have been analysed for a number of countries, and the results are summarised in the tables which follow. Necessarily, the statistics for the most recent financial years refer only to budgetary estimates, closed accounts being not yet available.

The annual payments on account of debt service form a considerable item of expenditure in most countries. Unfortunately, there are considerable gaps in the available information, and these render interpretation of the figures very hazardous and any attempt at discovering general tendencies almost hopeless. In many countries, for example, the amounts due for amortisation and interest have not been separated in the accounts or estimates that are available.

It is particularly difficult to interpret the movements of debt service in cases where foreign debt forms an important propor-

* Budgetary estimates.

tion of the total indebtedness. For example, the figures given for Greece in the following table show a fall in 1932-33 and a considerable rise in 1933-34 and 1934-35, though the exchange value of the drachma fell sharply in April 1932. The explanation is that the untransferred payments on account of external debt were not included in the budget for 1932-33, but were included in the following years.

Most countries which have declared transfer moratoria continue to pay the full amount of debt service into blocked accounts without transferring the full amount abroad. But there have been suspensions of amortisation and reductions or suspensions of interest payments, which have affected the payments made very considerably.

Where debt service has continued to be transferred, there are many cases where a lower exchange rate has resulted in an increasing burden of interest payments on account of external debt. These cases are to be distinguished from those where an active borrowing programme has caused an increase in the total debt and therefore a heavier burden of interest. Exchange depreciation was important in adding to the external debt service in Australia and New Zealand and many European and South-American countries whose currencies depreciated below sterling and the dollar.

The *Statistical Year-Book* for 1933-34, Table 121, shows, however, that in many countries — Bolivia, Chile, Colombia, Ecuador and Peru, Canada, the United States, Japan, Austria, Ireland, Italy and Sweden — there were substantial increases of the total amount of public debt between 1931 and 1933. The causes of such increases differed greatly, but all resulted in an increasing interest burden.

On the other hand, there are examples of definite improvement caused by many different factors. In some cases, there were large conversion operations. There is great variety in the extent to which the total of interest payments is affected — in Italy, for example, rates are lower but the total debt is higher; in the United Kingdom, the increase of the debt is small and the saving in interest payments substantial; in Australia, domestic conversions were largely supplemented by conversions on the London market; in New Zealand, conversion of the external debt was not possible to so great an extent. The depreciation of sterling, and later of the dollar, afforded substantial relief also to many debtor Governments, particularly to those whose currencies did not depreciate.

Another important category of expenditure is that upon armaments. The table on pages 240 and 241 is an abstract from the *Armaments Year-Book* of the latest available budgetary statistics.

Annual Debt Service (Interest and Amortisation Payments) of Certain Countries 1931-1934.

National Currencies (000,000's).

Country	Currency	1931-32		1932-33		1933-34		1934-35	
		Interest	Amortisation	Interest	Amortisation	Interest	Amortisation	Interest	Amortisation
Argentine	Peso	237		285		274 [1]		237 [1]	
Australia	£A.	58.1 [1]	5.2 [1]	51.7 [1]	7.7 [1]	50.4 [1]	[1]	...	...
Austria	Schilling	125	82	115	66	148 [2]	85 [2]	146 [1]	93 [1]
Belgium	Franc	2,848 [1]		2,769 [1]		2,807 [1]			
Brazil	Milreis	783 [1]		512 [1]	291 [1]	548 [1]	146 [1]		
Canada	$ C.	121.2	3.3	134 [1]	3.5 [1]	138.1 [1]	3.4 [1]	...	...
Czechoslovakia	Kč.	1,593	942	1,549	1,095	1,579 [1]	402 [1]	1,654 [1]	36 [1]
Denmark	Krone	63	76	60	129	77 [1]	27 [1]	70 [1]	31 [1]
Estonia	Kroon	8.9 [3]		2.8		3.0 [1]		3.3 [1]	
Finland	Markka	238	74	419	58	391 [1]	60 [1]	300 [1]	69 [1]
France	Franc	10,946 [1]		9,168 [1 6]		10,066 [1]		10,816 [1]	
Germany	RM.	247	681	253	664	614 [1]		573 [1]	
Greece	Drachma	1,977 [4]	991 [4]	1,279 [4]	295 [4]	3,027 [1]	6 [1]	2,960 [5]	7 [5]
Hungary	Pengö	57	40	52	6	86 [1]		...	
India	Rupee	530	69	520 [2]	68 [2]	519 [1]	69 [1]	...	
Italy	Lira	4,781	1,105	4,836 [1]	233 [1]	5,053 [1]	2,171 [1]	5,345 [5]	1,286 [5]
Netherlands	Gulden	95 [4]	385 [4]	97 [1]	366 [1]	94 [1]	63 [1]	...	...
New Zealand	£N.Z.	12.2	1.5	11.7	1.4	11.8 [1]	1.4 [1]	...	...
Norway	Krone	83	27	90	33	92 [1]	39 [1]	...	...
Poland	Złoty	167	73	120 [4]	63 [4]	209 [1]	121 [1]	114 [1]	66 [1]
South Africa	£S.A.	10.3	0.7	9.6 [1]	0.7 [1]	11.3 [1]	0.7 [1]	...	...
Spain	Peseta	882 [4]		970 [4]		887 [1]	85 [1]	902 [1]	86 [1]
Sweden	Krona	81	39	92	8	104 [1]	32 [1]	101 [5]	47 [5]
Switzerland	Franc	97	373	88	309	85	219	85 [1]	...
United Kingdom	£	298	32	308	26	213 [1]	8 [1]	...	...
United States	$	599	413	689 [4]	462 [4]	742 [1]	488 [1]	824 [1]	526 [1]
U.S.S.R.	Rouble	288	120	990 [1]		1,330 [1]		1,702 [1]	
Yugoslavia	Dinar	1.220 [1]		1,559 [1]		1,182 [1]		...	

[1] Budgetary estimates. — [2] Revised estimates. — [3] Including repayment of 4.8 milhons to Eesti Pank. — [4] Provisional results. — [5] Draft estimates. — [6] Nine months.

In reading this table, it is essential to distinguish between the closed accounts for earlier years and the estimates for the latest years; but it is significant that many of the estimates for 1934-35 show very substantial increases over those for 1933-34. For the countries which have recently been engaged in hostilities — Japan, Peru, Colombia, Bolivia and Paraguay — the budgetary expenditure shown does not include the whole cost of armaments, as special accounts were created.

It is natural, in a period of severe depression, when unemployment is great and social distress is widespread, that the powers of the State should be invoked to provide employment and relieve distress. Insurance schemes against unemployment are apt to be overstrained, and Governments have to support them. The cost of direct relief also is very great and the demoralising effect of long-continued unemployment and dependence becomes a source of anxiety. There is, therefore, a strong case for utilising such Government funds as are, or may be made, available, in the provision of useful work rather than in subsistence payments for which no tangible return can be shown. The need for relief is, however, immediate and urgent, while the employment given by undertaking large-scale public works develops slowly and does not as a rule provide for more than a fraction of the total number of unemployed. Such undertakings, moreover, are apt to be costly, whether cost is measured by the employment given, or by the ultimate net return from the completed works.

In the following calculations of public expenditure for social welfare, an attempt is made to concentrate attention particularly upon relief expenditure, to the exclusion of such items as pension payments. This is done in order to throw some light upon the extra charges thrust upon the State by the depressed economic conditions. It is extremely difficult to make such calculations with any degree of precision. Relief has been given in many ways, and in some countries increased provision for employment on public works, rather than direct relief payments, has been the main method of combating the effects of the crisis. Direct relief is dispensed through many channels, including the local authorities as well as the central Government. Expenditure is scattered through many departmental votes and the task of analysing the various items and assembling the results is so complicated that the calculations must be regarded as approximate and more useful for indicating the general trend of development than for estimating the total amounts of expenditure in any particular country.

Two aspects of public works expenditure need to be carefully distinguished in any discussion of the present situation,

Expenditure on Armaments.

National Currencies (000,000's).

PrR = Provisional Results, E = Estimates, RE = Revised Estimates, DrE = Draft Estimates.

Country	Currency	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35
Argentine	Paper peso				137	E 140	E 136
Australia	£A.	4.4	3.7	3.1	3	E 4.1	
Austria	Schilling	99	108	101	81	RE 83	E 94
Belgium	Franc	981	E 1,216	E 1,404	E 1,051	DrE 885	
Bolivia [1] [2]	Boliviano	9.2	8.7	E 9.3	E 11.4		
Brazil [1]	Paper milreis	445	489	397	E 416	E 496	
Bulgaria	Lev	1,078	1,033	PrR 988	E 982	E 916	
Canada	$C.	21.1	22.9	17.8	13.5	E 13.3	E 13.5
Chile [3]	Peso	237	225	182	152	E 210	E 227
Colombia [1] [4]	Peso	7.7	4.3	4	3.8	E 3.8	E 6
Czechoslovakia	Kč.	1,793	1,701	1,764	1,621	E 1,586	E 1,539
Denmark	Krone	49.7	45.7	45.3	38.7	E 37.9	
Egypt	£E.	2	2	1.8	E 1.8	E 1.8	
Estonia	Kroon	18.4	18.5	16.4	12.9	E 12.3	
Finland	Markka	640	664	706	E 602	E 563	E 612
France [5]	Franc	E 10,969	E 11,600	E 12,022	E 9,965 [7]	E 11,447	E 11,187
Germany [1] [6]	RM.	691	681	617	634	E 672	E 894
Greece	Drachma	2,211	PrR 2,024	PrR 1,750	PrR 1,762	E 1,773	
Hungary	Pengò	114	109	95	PrR 112	E 88	
India	Rupee	504	495	462	RE 421	E 420	
Italy	Lira	4,960	5,644	5,440	E 5,194	E 4,584	DrE 4,300
Japan [8]	Yen	495	443	455	E 697	E 852	
Latvia	Lat	40.4	38.8	32.7	27	E 27.7	
Lithuania	Litas	49.4	55.9	55.5	46.4	E 49.5	
Mexico	Peso	E 97.7	E 92.7	E 81.1	E 60.7	E 61.3	
Netherlands	Florin	E 75	E 77	E 79	E 73	E 64	DrE 63
New Zealand	£N.Z.	0.9	0.7	0.5	0.6	E 0.6	
Norway	Krone	38.1	37.5	37.2	36.7	E 36.4	DrE 37
Paraguay	Peso	75	68	E 71	E 80		

Expenditure on Armaments (continued).

National Currencies (000,000's).

PrR = Provisional Results, E = Estimates, RE = Revised Estimates, DrE = Draft Estimates.

Country	Currency	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35
Peru [1]	Sol	25	23	21	E 21	E 21	
Portugal	Escudo	PrR 415	PrR 399	PrR 395	PrR 501	E 511	
Poland	Zloty	866	778	763	PrR 768	E 829	DrE 768
Roumania	Leu	7,536	7,045	PrR 7,018	E 4,999 [10]	E 11,633	
Spain	Peseta	PrR 1,003	PrR 889	PrR 783	PrR 634	E 745	E 668
South Africa	£	1.1	0.9	0.8	0.8	E 0.9	
Sweden	Krona	138	130	125	125	E 103	DrE 111
Switzerland	Franc	84	95	92	93	E 94	E 92
Turkey	£T.	67	E 66	56	E 40	E 41	
United Kingdom	£ [9]	99.3	95.1	92.4	88.2	E 92.6	
United States	$	703	703	699	PrR 641	E 628	E 711
U.S.S.R. [1]	Rouble	1,125	1,404				
Yugoslavia	Dinar	2,309	E 2,523	E 2,596	E 2,132	E 2,000	

[1] Including certain pensions.

[2] The budget for 1933 does not contain any estimate for the War Department, for which a special extraordinary budget, which is not yet available, has been prepared.

[3] In addition to the ordinary budget, special appropriations from loans amounted, in millions of paper pesos, to 129 in 1929, 105 in 1930 and 4 in 1931.

[4] In addition, special credits amounting to 10.5 million pesos were voted in 1932 and covered by a loan. In February 1933, an advance of 5 million pesos was obtained for the same purpose from the Banco de la Republica.

[5] Excluding additional expenditure for construction and new material, to be covered by proceeds of sales of disused material and immovable property. This expenditure was estimated as follows:

	1929	1930-31	1931-32	1932	1933	1934
Francs (000,000's)	110	60	62	46	59	55

Excludes also special expenditure from the Treasury account for the defensive organisation of the frontiers.

[6] Army and Navy only, excluding expenditure on civil aviation and protection against air attacks. Excluding pensions which in 1932-33 amounted to RM. 1,238.1 million.

[7] Nine months only.

[8] Defence expenditure in the general account only. No details regarding the special accounts are available.

[9] Net expenditure.

[10] Fifteen months.

whether from the point of view of the public finances or from that of the general economic effect produced by increased public expenditure in a period of depression. The first is perhaps best described as the problem of long-range planning of public works in an effort to counterbalance fluctuations of private enterprise. In any such planning, both administrative and financial preparation are necessary. The former is perhaps easier than the latter, since it should be possible to draw up schemes of desirable but not urgently necessary public expenditure to be launched when economic activity based on private enterprise is flagging.

The accumulation of financial reserves for such expenditure, however, presents extremely difficult problems. Theoretically, it may be argued that it is desirable for Governments to proceed cautiously in periods of prosperity and more boldly in periods of depression, rather than for them to give an added stimulus to economic activity by spending freely when private industry is booming and, later, accentuate depression conditions by reducing capital expenditure. In practice, there are great difficulties both in restraining expenditure in periods of prosperity and in finding the financial resources necessary for a rapid expansion when private enterprise is contracting. Appropriations are made from year to year and it is psychologically difficult to withhold expenditure in good times, while the accumulation of reserves or financial resources in a form which can be quickly realised without disturbing the financial organisation in a time of crisis presents awkward technical problems for which no very adequate solution has yet been propounded. The general principle that Governments should go slow in their capital expenditure in good years, and accelerate their programmes during depression, appears, however, to have gained support from recent experience. If no other financial preparation can be made, a relative abstention from borrowing during the upswing and freer use of the public credit during the downswing of the business cycle, when funds accumulate and interest rates fall, appears to be a possible line of policy to follow. The feasibility of such a policy is enhanced by the growing tendency to formulate long-range schemes of national equipment in such matters as the construction of roads, harbours and public buildings.

Such planning requires careful consideration and preparation, preferably in periods of prosperity, if effective expenditure is to be launched at an early stage of depression, and is to be distinguished from emergency expenditure devised when depression has already overtaken a country. The statistical information available for recent years shows clearly that public expenditure for capital, as distinct from current administrative

purposes was rather sharply reduced in most countries as financial stringency developed during the first years of depression. The following table, which gives calculations of the total expenditure on public works in a number of countries, shows this tendency very clearly:

Expenditure on Public Works, 1928-1934.

Country	Currency	1929 or 1929-30	1930 or 1930-31	1931 or 1931-32	1932 or 1932-33	1933 or 1933-34	1934 or 1934-35
Argentine . .	Peso	.	194	96	91	84[1]	91[1]
Australia . .	£A.	5.5	2.1	1	2	...	...
Austria . . .	Schilling	207	315	166	52	95[1]	144[1]
Belgium . . .	Franc	739	906	844	637[1]	917[1]	...
Bulgaria . . .	Lev	883	952	588	...	...	...
Canada . . .	$C.	48	57	38	25	23[1]	18[1]
Czechoslovakia	Kč.	1,472	1,580	1,701	1,227	1,834[1]	1,633[1]
Denmark. . .	Krone	45	63	86	74	73[1]	56[1]
Italy	Lira	2,947	2,814	3,872	2,039[1]	2,175[1]	...
New Zealand .	£N.Z.	9	9.6	7.9	6.4	...	...
Norway . . .	Krone	46	41	42	47	52[1]	79[1]
Poland. . . .	Złoty	415	348	182	130	197[1]	192[1]
Spain	Peseta	603	478	513	850	884[1]	765[1]
Sweden . . .	Krona	68	53	89	182	257[1]	...
United Kingdom . . .	£	40	43	41	38	...	...

Even where public works expenditure was maintained in 1930 (or, in some cases, 1931) there was, in most countries, a reduction during the worst years of the depression, and in some countries this reduction was very considerable.

On the other hand, there is an obvious tendency in some cases towards a notable increase of expenditure in the later years of the depression. This tendency began earlier in Sweden (where indeed it was practically coincident with the onset of the depression, which was later in that country than in most), but it was only in 1933 and 1934 that very great use was made of expenditure on public works as a means of combating the effects of the depression and stimulating economic recovery. In the last year or two, discussions of this subject have been complicated by the strong advocacy in many quarters of increased Govern-

[1] Estimates.

ment spending, not solely as a means of providing employment and relief, but also as a method of stimulating credit expansion. Into the theoretical monetary controversy which is proceeding on this point, the present *Survey*, which is a record of facts, cannot enter. It is universally recognised that, at some time or other, Government expenditure for emergency relief and public works must be tapered down and the initiative in providing employment be transferred to private enterprise. Opinions differ as to the effectiveness of such Government expenditure in stimulating an increasing use of available credit by private enterprise, and the transference at some future date from public to private initiative is recognised as presenting delicate problems in which the confidence of investors will probably play a decisive, but at present unpredictable, rôle.

There is one aspect of public works policy, however, which must be mentioned at this point. Programmes of Government expenditure take time to develop and, if launched at a comparatively late stage of the depression, the commitments entered into may well involve expenditure which continues into the recovery stage of the cycle. Even if the main programme of construction is completed at an early stage, the growing interest charges, costs of upkeep, and, in certain public enterprises, the running costs of operation may not reach their maximum in the depression years. The added burden thus thrown on to future budgets may be considerable and, if not adequately covered by receipts from the new undertakings, by increasing general revenue as prosperity returns, or by the yield of specific new taxes such as the Swedish death duties, may cause financial strain in years to come.

It is perhaps advisable to give for certain countries rather more detailed statements of the different types of expenditure upon social welfare and public works. In the United Kingdom, expenditure upon public works, as shown in the preceding table, fell from £43 million in 1930-31 to £38 million in 1932-33, but there was a steady increase in social expenditure until the financial year 1933-34. The following table summarises the net expenditure of the central Government on these purposes in recent years:

Net Expenditure of the United Kingdom Government upon Social Welfare 1929-30 to 1934-35. [1]

£ (000,000's)

	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35 Estimates
Unemployment (grants and contributions to Funds).	14.0	29.1	43.0	72.7	. .	59 1
Grants to employment schemes . .	1.7	2.2	2.7	3.5	. . .	1.2
Housing grants . .	11.1	11.9	12.7	13.3	. . .	13.8
Other social expenditure	43.2	51.4	53.8	56.6	. . .	60.8
Public health . . .	15.5	11.0	10.6	9.0	. . .	9.3
Total	85.5	105.6	122.8	155.1	147.5	147.5

The expenditure upon social welfare and public works, which was accounted for in the general budgets of Germany, is summarised in the following table.

The figures shown are, however, incomplete, and present a very imperfect picture of the effort made in Germany in recent years to combat the effects of the depression. It is evident that, in the earlier part of the depression, there was a tendency for relief expenditure to be shifted from the local authorities to the central Government. The latest estimates anticipate a diminution of the amounts necessary for unemployment relief for several reasons. Changes are contemplated in the unemployment insurance system, and there is some transfer

[1] Cf. the following table from *The Economist* "Budget Supplement", April 14th, 1934:

Social Service Expenditure, including Sums spent from Local Rates, Parliamentary Grants, and Other Receipts such as Unemployment and Health Insurance Contributions, Rents, Fees, etc.

£ (000,000's)

	1929-30	1930-31	1931-32
Unemployment insurance	53.8	101.6	122.8
Health insurance	38.6	38.6	37.5
Pensions (exclusive of war pensions)	62.2	72.1	77.4
Housing	35.6	37.5	40.2
Poor relief	45.0	42.5	41.2
Miscellaneous (including expenditure on hospitals, etc.)	17.4	17.6	20.0
Total	252.6	309.9	339.1

Expenditure on Social Welfare and Public Works in Germany, 1929-30 to 1934-35.

Reichsmarks (000,000's).

	Closed Accounts				Estimates	
	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35
Central Government:						
I. Social welfare:						
Unemployment relief	671	1,007	1,098	938	521	265
Public relief . . .				85	204	119
Other social expenditure	636	556	573	497	538	529
Total. . . .	1,307	1,563	1,671	1,520	1,263	913
II. Housing and settlement	26	101	16	24	97	60
III. Agricultural settlement	49	71	74	39	66	—
IV. Communications . . .	176	173	148	134	125	196
V. Civil aviation	43	44	48	45	75	210
VI. S. A. and voluntary labour service . . .	—	—	—	—	—	250
Totals I-VI . .	1,601	1,952	1,957	1,762	1,626	1,629
States and Local Governments:						
I. Social welfare:						
Unemployment relief	1,424	1,841	1,994	...	...	...
Other expenditure .	1,242	1,057	890	...	...	...
Total.	2,666	2,898	2,884	...	...	...
II. Housing	1,573	1,186	608	...	...	...
III. Economy and communications	1,860	1,696	1,269	...	...	...
Totals I-III . .	6,099	5,780	4,761	...	...	...
Grand Total. .	7,700	7,732	6,718	...	...	...

from unemployment to public relief. Large numbers of unemployed have also been transferred to voluntary labour service and, in a certain measure, to S.A. service, while public works have also absorbed a good number. It was anticipated also that

a general revival of the German economic situation would be stimulated by the Reich programme of public works and employment schemes and by economic recovery in the world as a whole.

In addition to this expenditure from the general budgets, successive programmes of emergency expenditure have been put into operation by the German Governments from 1932 onwards. The approximate costs of these programmes have been estimated as RM. 1,800 million for the von Papen programme of 1932, RM. 600 million for the *Sofort* (Gereke) programme, and RM. 1,000 million for the Reinhardt programme introduced by the National-Socialist Government. Various other measures, such as those for the subsidising of house repairs and improvement, marriage subsidies and the endowment for fostering national labour activities, are also based upon an anticipation of future tax receipts. The general principle of all these schemes has been that future tax receipts are anticipated by issuing short- and medium-term bonds, which must be redeemed or consolidated in the financial years immediately ahead. The amounts of revenue already earmarked in this way are estimated to be:

Financial year	RM. (000,000's)
1933-34	143
1934-35	625
1935-36	825
1936-37	759
1937-38	754
1938-39	749

The Post Office and Railway Administrations have also launched considerable programmes of expenditure, and a road-building programme is being financed in collaboration with the Railway Administration by an anticipation of future receipts. Up to the end of 1933, it is estimated that the total expenditure on these various projects from the beginning of the financial year 1932-33 was RM. 1,450 million, of which only RM. 203 million appears in the general budget. A more approximate estimate to the end of June gives a total of over RM. 2,200 million, of which approximately RM. 1,900 million have been met by short-term Treasury borrowings.

In the preceding *Survey*, a summary table was given of the expenditure of the Swedish Government in recent years. This table may now be brought up to date by substituting the closed accounts for the voted estimates of the financial year 1932-33 and the voted estimates for the draft estimates of 1933-34, at the same time adding the draft estimates for 1934-35.

A more detailed statement may first be given, showing the purposes for which expenditure was made:

Public Expenditure on Social Welfare, Agriculture and Public Works in Sweden, 1929-30 to 1934-35.

Kroner (000,000's)

	Closed Accounts				Voted Estimates	Draft Estimates
	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35
Effective Expenditure:						
Social Administration:						
Unemployment . . .	3.8	4.6	8.3	14.0[1]	5.0	17.0
Other expenditure . .	53.7	57.0	61.7	55.9	66.5	60.2
Unforeseen expenditure, including works for struggling against unemployment.	1.3	4.6	20.8	12.9	1.0	1.0
Agriculture:						
Colonisation and improvements	4.9	6.9	7.5	8.7	6.0	5.9
Other expenditure . .	23.3	34.1	29.7	40.9	41.4	49.2
Capital Expenditure:						
Investments public undertakings	27.8	28.4	53.3	39.4	82.8	69.9
Loan funds	19.3	14.5	20.2	88.9	24.5	21.0
Advances:						
Social administration .	—	—	—	0.3	102.3	71.0
Communications . .	—	—	3.5	4.0	16.2	24.1
Agriculture	—	—	—	—	16.1	16.8
Commerce	—	—	—	—	1.5	0.9
Other	—	—	0.4	9.6	14.0	10.0
	—	—	3.9	13.9	150.1	122.8
Other capital expenditure	21.0	10.0	12.1	40.0	—	34.0
Total	68.1	52.9	89.5	182.2	257.4	247.7
Repayment of debt . . .	40.9	31.9	38.6	8.0	32.5	47.0
Grand total of capital expenditure . .	109.0	84.8	128.1	190.2	289.9	294.7

[1] At the end of the budget year, there was a credit of about 24 million kroner available for succeeding years, besides the credits in the budgets of these years.

Swedish Government Expenditure, 1929-30 to 1934-35.

Kroner (000,000's).

	Closed Accounts				Voted Estimates	Draft Estimates
	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35
Effective expenditure . .	702.1	733.7	765.8	801.2	720.4	757.0
Repayment of debt . . .	40.9	31.9	38.6	8.0	32.5	47.0
Total	743.0	765.6	804.4	809.2	752.9	804.0
Revenue receipts	778.5	782.9	736.5	740.9	758.2	810.0
Balance . . .	+35.5	+17.3	—67.9	—68.3	+5.3	+6.0
Capital outlay	68.1	52.9	89.5	182.2	257.4	247.7
Balance . . .	—32 6	—35.6	—157.4	—250.5	—252.1	—241.7
Covered by proceeds of loans	22.2	41.9	68.2	175.9	245.7	241.1
Covered by Treasury balances	10.4	—	89.2	74.6	6.4	—0.6

The most ambitious programme of emergency public works expenditure, however, was that undertaken in the United States, which may be summarised as follows:

Emergency Expenditure in the United States, including Expenditure of the Reconstruction Finance Corporation, 1932-33 to 1934-35.

$ (000,000's).

	Closed Accounts 1932-33	Estimates 1933-34	Draft Estimates 1934-35
Aid to agriculture	212.3	1,420.4	38.9
Aid to home owners, etc. . . .	84.7	319.8	—19.0
Emergency public works and unemployment relief.	366.1	2,537.3	1,214.4
Aid to financial institutions, Railways, etc.	613.9	1,911.0	--542.0
Federal Deposit Insurance Corporation	—	150.0	—
Tennessee Valley Authority . .	—	19.0	31.0
Total	1,277.0	6,357.5	723.3

Of the emergency expenditure in 1933-34 and 1934-35, it s officially estimated that approximately $2,500 million

represent loans that will be repaid to the Government and that the proceeds of repayments will be available for the reduction of public debt in 1935-36 and subsequent years.

It would be premature to attempt any estimate of the ultimate costs or economic results of these large programmes of emergency expenditure. The expenditures are still in full swing at the moment of writing, the situation of the public finances in the countries which have embarked upon these experiments is not easy to estimate and it will take time for the full results upon the economic situation to become apparent.

Public Indebtedness.]

In the *Survey* for 1932-33, the difficulties inherent in any attempt to summarise budget statements so as to show the surpluses or deficits of particular years were set out briefly, and attention was drawn to the need for careful interpretation of the accounts of any particular country. It is not necessary, therefore, to repeat this statement; but some of the principal points must be re-stated. The figures usually given refer in general only to the main budgets and not to special accounts. They do not, therefore, disclose the whole financial situation of any Government.

The definition of surpluses and deficits also needs careful consideration, since these terms may mean different things in different countries and at different times. Some of the principal difficulties of definition were set out in the *Survey* for 1932-33, but attention must be drawn particularly to variations in the practice regarding debt service including debt repayment.

In certain countries, where the closed accounts represent the cash payments of receipts and expenditure, and there are large amounts of pay orders issued and not yet paid, it is obvious that the figures based only on cash payments do not disclose the real position of the country. It is not possible in many cases to ascertain the amount of pay orders issued and not paid, or of liabilities incurred. This point may be illustrated by the information available in the budget estimates of Roumania for 1933-34. In addition to the ordinary budget, there is an extraordinary budget consisting of receipts from previous years not yet collected and arrears of expenditure on account of previous years not yet paid off. Such receipts are stated to amount to 10,495.9 million lei of which 4,744.1 million lei represent receipts not yet collected on account of 1932, the remainder being for earlier years. Arrears of expenditure not yet paid off are said to amount to 12,842.6 million lei of which 5,377.7 million lei are

on account of the year 1932 and the remainder are for previous years.

As pointed out in the previous edition of the *Survey*, the growing deficits have had to be met mainly either by raising loans, by realisation of State assets, or by withdrawal of cash balances of various special funds in the State Treasury.

In Denmark, active cash and bank balances amounting, at the end of March 1930, to 40.8 million kroner were transformed during the period up to the end of March 1933 into passive balances amounting to 72.1 million kroner. Large sums from reserves and cash balances of the Treasury and other special funds have been used to meet budgetary deficits in Sweden, Switzerland, New Zealand, Bulgaria and other countries.

An indication, though not an exact measurement, of changes in the financial situation may be obtained from the statistics which show the growth of public debt.

The totals of debt shown in the table on the following page indicate, as a rule, the nominal amount of capital outstanding. This, however, is sometimes difficult to calculate, particularly when the debt service is in the form of annuities which do not distinguish between interest and amortisation. In some cases, the figures, as indicated in the official statements, indicate the gross indebtedness, and, in other cases, the net indebtedness after deduction of sinking funds and securities withdrawn but not yet cancelled. As in the preceding tables, the statistics are not comparable internationally and are given merely to indicate the general trend of development. They cannot be used to indicate the financial situation of any particular country, except after careful examination of their exact meaning as disclosed by more detailed information.

More complete information is available, covering fifty-seven countries, in the *Statistical Year-Book of the League of Nations for 1933-34*. The statistics there given divide the debts of each country into foreign and domestic debt and the latter into funded and floating debt. The most cursory examination of these statistics will indicate the multiplicity of forces at work.

The figures given for total indebtedness include, therefore, several different kinds of debt. Strong financial countries with good credit may cover budget deficits and raise money for capital expenditure or special purposes by floating long-term loans. In recent years, the possibility of floating such loans on foreign markets has practically vanished, but domestic loans have been floated by countries whose citizens retain confidence in their Government's credit and have reserves.

Short-term loans, such as those obtained by the issue of Treasury bills, may also be used, and there is evidence that this

Public Debt in Certain Countries at the End of the Financial Years 1930-1934. [1]

National Currencies (000,000's)

Country	Currency	Month in which the financial year ends	1930	1931	1932	1933	1934
Argentine:	Peso	XII					
Total.			3,374	3,323	3,461	...	..
External			1,210	994	942	...	...
Australia:	£A.	VI					
Total.			1,101	1,156	1,188	1,205	1,212
External			574	599	602	597	594
Austria:	Schilling	XII					
Total.			2,229	2,262	2,816	3,660	...
External			2,092	2,031	2,007	2,641	...
Belgium:	Franc	XII					
Total.			52,742	52,962	55,852	56,892	...
External			26,766	25,629	26,896	26,714	...
Canada:	$C.	III					
Total.			2,545	2,610	2,832	2,996	...
External			123	519	506	652	...
Chile:	Peso	XII					
Total.			3,242	3,294	3,851	4,064	...
External			2,483	2,784	2,808	2,811	...
France:	Franc	III					
Total.			482,179	180,822	459,746	...	...
External			202,306	197,781	175,430	...	...
Germany:	RM.	III					
Total.			10,375	12,090	12,137	12,331	11,706
External			854	3,305	3,215	3,037	2,174
India:	Rupee	III					
Total.			11,365	11,699	12,136	12,124	...
External			4,882	5,181	5,064	5,071	...
Italy:	Lira	VI					
Total.			89,876	93,178	97,268	98,868	103,478
External			1,774	1,736	1,696	1,653	1,608
Japan:	Yen	III					
Total.			5,959	6,154	6,412	7,374	8,683
External			1,447	1,479	1,473	1,390	1,415
Netherlands:	Gulden	XII					
Total.			2,681	2,683	2,867	3,088	...
External			—	—	—	—	...
New Zealand:	£N.Z.	III					
Total.			267	276	282	283	
External			151	159	164	164	
Poland:	Złoty	VI					
Total.			4,079	4,427	5,041	5,055	4,175
External			3,694	3,988	4,593	4,524	3,544
South Africa:	£S.A.	III					
Total.			250	257	264	272	...
External			156	161	160	166	...
Sweden:	Krona	VI					
Total.			1,801	1,846	2,155	2,358	2,335
External			—	—	—	—	—
United Kingdom:	£	III					
Total.			7,596	7,583	7,618	7,860	...
External			1,074	1,067	1,091	1,060	...
United States:	$	VI					
Total.			16,185	16,801	19,487	22,539	27,053
External			—	—	—	—	—

[1] Foreign debt converted at par, except as noted below:

Argentine: Including railway bonds; excluding bonds held by the Treasury.

Australia: Total debt includes debt of the States taken over by the Commonwealth.

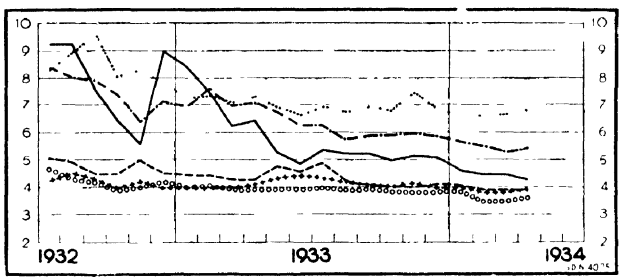
method has been considerably extended both in countries where such bills have long been familiar and by the creation of a bill market, as in Australia.

The diagrams which follow continue for the year 1933 and the first months of 1934 the similar diagrams reproduced in previous *Survey*. They show the price of long-term Government bonds in London and in national markets. The improvement noted in the *Surveys* for 1932-33, especially in the case of those countries which have access to the London market, has clearly continued.

Actual Percentage Yields of Certain Bonds or Groups of Bonds, 1932-3194.

(According to London quotations.)

———— Argentine
- - - - - - Australia
..... Brazil
-·-·-·-·-·- China
+++++ India
ooooooooooo Union of South Africa



(Continued from preceding page.)

Austria: Foreign debt includes the Republic's share of the old Austrian debt, in so far as it was settled (1931: 268 million; 1932: 266.5 million; 1933: 348.1 million, of which about 0.4 million domestic debt).

Canada: Total debt includes all liabilities shown in the balance-sheet, other than funded debt, which constitute the floating domestic debt of the country.

France: Foreign debt includes war debt, amounting on March 31st, 1932, to 170,171.1 million francs.

Germany: In the total debt is included the loan liquidation debt, which forms part of the funded domestic debt. Foreign debt shown at par, except for December 1933, for which debts in dollars, pounds sterling and Swedish Kronor are shown at rate of exchange.

Italy: Excluding war debts, the aggregate outstanding annuities of which on April 30th, 1931, were 68,476.9 million lire at par.

Japan: The total debt includes Government rice-purchase notes and Treasury bills, which constitute the floating debt of the country.

Poland: Foreign debt calculated at rate of exchange, with the exception of the *tranche* in dollars of the 7% 1927 Loan, which is shown at par.

Sweden: Including also bonds payable in foreign currencies.

United Kingdom: Total debt not including Funding Loan and Victory Bonds tendered for death duties and held by National Debt Commissioners, but not yet cancelled. Foreign debt consists of war debt, including £113.5 million due to France and Russia, which may be regarded as available to be set off against debts owed by those countries to the United Kingdom.

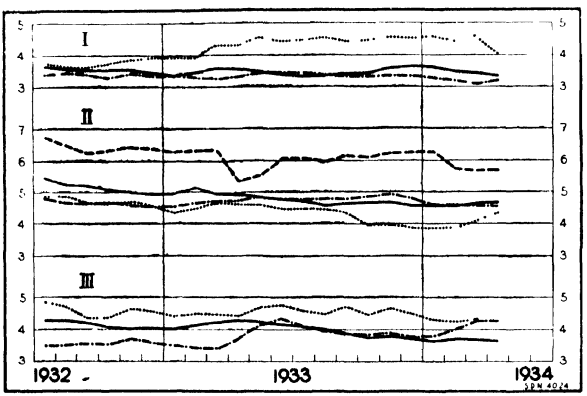
Actual Percentage Yields of Certain Bonds or Groups of Bonds, 1932-1934.

(According to domestic quotations.)

I
France
United Kingdom
United States

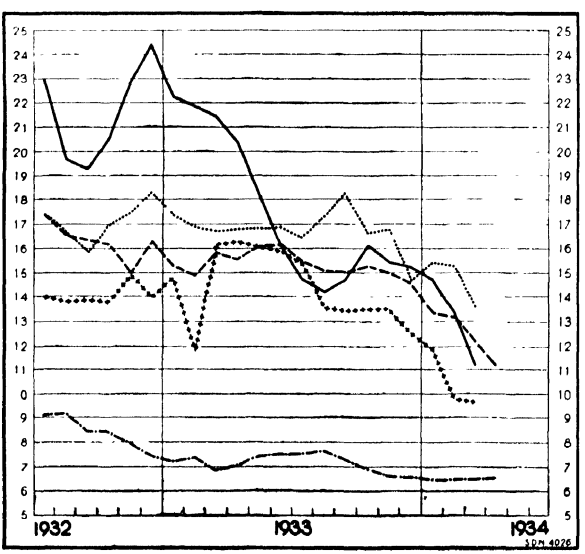
II
Czechoslovakia
Italy
Japan
Netherlands

III
Belgium
Sweden
Switzerland



Germany
Hungary
Poland

Roumania
Yugoslavia



Chapter VIII.

CREDIT AND RECOVERY.

Banking Statistics in 1933-34.

In previous editions of this Survey, summary accounts have been given of the manner in which banking credit was expanded before 1929, and of the stages of contraction through which the credit system passed during the depression. [1] A fuller account, giving an analysis of the developments in some forty countries, is now available in the volume entitled "Commercial Banks 1925-1933" published by the Economic Intelligence Service of the League of Nations in May 1934. The main purpose of this chapter is to describe banking and monetary developments during 1933 and the early part of 1934, a period described in the volume just cited as "The End of Contraction".

It is evident in every depression that credit, the medium through which the vast bulk of economic transactions are negotiated, sustains the major shock of the crisis. Private individuals and industrial enterprises find their circumstances straitened by a sharp fall in prices and seek temporary support from the banks. Necessarily, at the first impact of the crisis, the banking systems are constrained to tide their clients over a period of business contraction and this may even entail an increase in the total volume of credits granted.

In the recent depression, however, credit proved in many countries to be overstrained and it was the weakness of important banks which were no longer able to support their clients that spread financial panic from country to country during 1931. In no previous depression has credit been mobilised on such a great and co-operative scale. Not only was there mutual support between the great banks in most countries, and between

[1] Cf. *World Economic Survey 1931-32*, Chapters II and VII, and *World Economic Survey 1932-33*, Chapters VIII and IX.

them and the central banks; but international co-operation among the leading central banks of the world and the Bank for International Settlements rendered possible timely aid to the banking systems most threatened by the financial panic. It is probable that these national and international efforts prevented even worse disasters than those which actually followed; but from May 1931, when the difficulties of the Austrian Credit-Anstalt revealed the fundamental weakness in both the economic and the banking situation of a large part of Central and Eastern Europe, it became evident that re-organisation on a large scale would be necessary before healthy credit could be restored.

As one shock of this kind succeeded another, in country after country, the processes of readjustment were begun again on new bases. Three major processes, not always altogether distinct in practice, may be distinguished as working towards re-organisation and ultimately towards a strengthening of the credit systems. Industrial liquidation gave relief by winding up business enterprises which were a drain upon the commercial banks and especially upon their liquidity. The re-organisation of the banks themselves, cutting losses, getting rid of frozen assets, and often bringing in new capital, was a further development. Both of these processes, it is obvious, have depended in many cases upon the assistance of the Central Bank and the State. Particularly in cases where banking capital had been completely lost and frozen assets remained a considerable obstacle to reconstruction, banking liquidation and re-organisation was possible only by State assistance. Both of these processes of adjustment involve the writing off of past commitments and the shouldering of losses, either by the owners of industries, by shareholders in banking enterprises, or by the community as a whole. The essential result to be achieved is the freeing of the institutions which deal in credit from the deadweight of illiquid and unrealisable assets.

The third process of adjustment is more indirect. Currency depreciation, by altering the value of the monetary unit in which debts are measured, may give relief to the debtors and effect a considerable re-distribution of income, by which past losses are in part diffused over the whole community.

The table which follows summarises the changes that took place in bank advances, loans and investments during the earlier years of the depression. The most remarkable feature of the table is the widespread increase of Government loans. Some increase of investments is also disclosed; but the general tendency as the depression proceeded was obviously to curtail advances and, where possible, investments also.

Index Numbers of Bank Credits and Advances[1].

(Base: 1929 = 100.)

Country		1925	1929	1930	1931	1932
Austria	L.A.	82	100	117	.	59
	A.I.	95	100	130	.	63
Czechoslovakia	L.A.	86	100	99	83	.
	A.I.	60	100	110	112	.
Denmark	L.A.	108	100	99	98	88
	G.S.	96	100	96	77	86
	O.I.	102	100	116	104	102
France	L.A	48	100	109	88	66
	A.I.	63	100	111	121	122
Germany	L.A.	37	100	96	65	58
(Big Berlin Banks)	G.S.	7	100	127	373	440
	O.I.	59	100	91	85	97
Italy	L.A.	79	100	101	76	74
(Principal Banks)[2]	A.I.	70	100	101	65	71
Netherlands	L.A.	90	100	91	82	65
	A.I.	130	100	135	146	128
Sweden	L.A.	104	100	106	106	95
	A.I.	88	100	117	101	108
Switzerland	L.A.	73	100	103	101	101
	A.I.	74	100	116	121	121
England and Wales	L.A.	91	100	94	91	78
	G.S.	111	100	119	119	197
	O.I.	111	100	102	102	118
Canada[2]	L.A.	71	100	81	73	64
	G.S.	125	100	137	162	186
	O.I.	97	100	118	113	93
U.S.A.[3]	L.A.	86	100	101	89	69
(National Banks)	G.S.	88	100	100	119	123
	O.I.	84	100	108	111	91
Argentine	L.A.	78	100	109	99	95
	A.I.	66	100	112	125	126
Japan	L.A.	97	100	102	102	101
	A.I.	60	100	96	93	96
South Africa	L.A.	72	100	92	100	86
	G.S.	83	100	151	154	209
	O.I.	167	100	67	83	133
Australia and New Zealand[3]	L.A.	81	100	95	90	89
	A.I.	114	100	101	147	179

The liquidation of industrial and other investments during 1931 and 1932 was paralleled by the reduced profits or heavy losses shown in many banking systems in those years. The statistics given in the table below are all the more significant since they represent the total situation of all banks, strong and weak, in the countries cited. The losses of some individual

[1] L.A. = Loans and advances.
G.S. = Government securities.
O.I. = Other investments and participations.
A.I. = All investments and participations including Government securities.
[2] Loans include correspondents.
[3] Total discounts, loans and advances.

banks have been greater than the average, and account must be taken, not only of such losses, but also of the shock to confidence occasioned by them.

Yield of Banking Capital in Certain Countries, 1929-1932.

(Net profit or loss (—) as percentage of capital and reserves plus amounts brought forward.)

Country	1929	1930	1931	1932
Austria	5.4	5.0	—34.4	—136.0
Czechoslovakia	6.7	5.1	—23.6	...
Denmark	6.4	6.0	—1.9	7.7
France	9.3	8.8	—5.3	5.5
Germany	7.0	4.5	—118.1	—15.0
Italy	8.7	6.3	4.6	3.4
Netherlands	6.1	4.8	—0.5	2.1
Sweden	7.5	4.5	3.6	—17.1
Switzerland	6.8	6.5	3.6	1.6
England and Wales	8.2	7.3	7.9	6.9
U.S.A. (National Banks)	9.7	7.4	1.7	—4.9
Australia and New Zealand	6.8	5.3	3.6	2.7

It would be premature to attempt any estimate of the adequacy of the liquidation accomplished and of the relief given by Governments, as far as the banking systems are concerned. One of the difficulties of adjustment in the depression has been that the gradual approach to settlement at a new equilibrium has been disturbed more than once by a fresh breakdown of credit in one country after another. Thus, in the latter part of 1932, it began to appear probable that the worst losses had been written off in many countries; but the renewed shock to confidence caused by the American banking failures in 1933, and the strain subsequently imposed by the renewed price deflation in gold-standard countries which followed the depreciation of the dollar, created a fresh series of difficulties.

In the spring of 1934, it is impossible to do more than point to the relief given to the banking systems on the one hand, while drawing attention to the renewed strain evident in many countries on the other. Previous chapters have stressed the great efforts made by individual enterprises to find a new basis upon which to conduct profitable business. In the following section of this chapter, a summary is given of some important examples of banking re-organisation and the part played therein by the State. The succeeding section deals with the problem of monetary standards, and in the last section an attempt is made to approach the complex problems involved in the provision of capital through the credit system. Meantime it is advisable at this point to survey the statistical material, scanty

and inadequate as it is for the moment, concerning the actual development of banking operations during 1933.

Unfortunately, detailed statistics showing the movement of bank deposits of various types and the distribution of bank credits become available only after a considerable lapse of time, so that for 1933 sample indications are all that are now available. The total amount of bank clearings may, however, be used as a starting-point, since in many countries they provide some indication of the total volume of business, including financial, transactions. The annual statistics for a number of countries are summarised in the table below.

Bank Clearings in Certain Countries.

(Base: 1929 = 100.)

Country	1930	1931	1932	1933
Argentine	119.4	103.2	80.6	77.4
Australia	87.0	82.6	73.9	81.3
Austria:				
Girotransfers [1]	99.1	90.7	74.1	68.5
Belgium	94.8	74.8	60.4	52.0
United Kingdom:				
Metropolitan	97.5	78.2	69.7	70.1
Country and Provincial	90.9	84.1	84.1	84.1
Bulgaria	68.9	53.8	21.0	16.0
Canada (*a*)	78.7	68.1	55.3	63.8
Chile	82.4	53.6	64.0	87.2
Czechoslovakia	80.4	79.4	90.2	54.9
Finland	100.0	82.6	73.9	78.3
France (*b*)	103.3	91.6	72.4	81.0
Germany:				
Clearings	94.4	68.3	43.7	42.1
Girotransfers [1]	93.9	82.8	70.0	67.1
Greece	117.5	89.5	52.6	64.9
Italy	89.1	81.3	63.8	60.7
Japan	81.0	73.0	84.1	106.3
Netherlands:				
Girotransfers [1]	86.0	67.4	39.5	39.5
Poland	119 2	105.5	87.7	102.7
Roumania	145.2	103.2	13.2	11.0
Sweden	108.3	108.3	87.5	79.2
Switzerland:				
Clearings	91.3	73.9	37.7	34.8
Girotransfers [1]	101.7	96.1	54.1	58.4
U.S.A.: Bank Debits:				
New York City	63.8	43.8	27.9	26.7
Outside New York City	83.4	65.7	46.4	43.4

(*a*) Daily bank debits to private accounts.
(*b*) Clearings of the "Chambre de compensations des banquiers de Paris" and Girotransfers.

[1] At the Central Bank.

From this table it seems clear that total clearings have increased in 1933 as compared with 1932 only in a few countries, notably in Canada (16 %), Chile (36 %), Greece (23 %), and Japan (26 %) — in all of which there was some measure of currency depreciation. Among the gold-standard countries, however, substantial increases were recorded by France (12 %) and Poland (17 %). The sharpest decrease was recorded by Czechoslovakia (40 %).

A somewhat more noticeable tendency to increase in the latter part of 1933 is apparent if monthly totals are examined; but there is a strong seasonal movement. Moreover, stock-exchange activity plays such a large part in the total that it is necessary to be cautious in drawing inferences from clearing statistics in general. There was an upward trend in Germany, Argentine, Austria, France, Italy, the United Kingdom and South Africa, in all of which stock-exchange activity played a large part. In the United States and Canada, the influence of the stock exchange is even clearer in revival leading to a peak in July 1933, and falling sharply thereafter.

It is clear from the following table that there was a continued shrinkage of deposits in the gold countries and in the United States. In the countries off the gold standard, the cash reserves and the general liquidity of banking enterprises seem to have improved, at least until the renewal of strain upon the gold currencies imposed a check to recovery in the spring of 1934. Deposits showed a tendency to increase and to shift from fixed to current accounts, and bank loans and advances were rather freer, but there was a distinct tendency in many countries for Government loans to absorb current capital so that recovery remained dependent in large part upon Government expenditure. The improved position of the commercial banks in many countries, however, placed them, "in most cases, in a position to expand considerably the volume of commercial credit outstanding without resort to central banks or other institutions for additional cash reserves "[1]. This achievement of sounder and more liquid banking conditions in several countries was perhaps the greatest progress made during 1933 towards general business recovery. Such recovery, however, still awaited the return of business confidence, and at the beginning of 1934 the disquieting indications of international economic strain which were noted in the concluding section of Chapter I were threatening, not only to discourage business confidence, but also to jeopardise the technical banking position in the countries most seriously affected.

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[1] *Commercial Banks 1925-1933*, page 33.

Percentage Change in Commercial Bank Deposits at the End of 1933 as compared with the End of 1932.

Country	Current Accounts and Sight Deposits	Other Deposits	Total Deposits
South Africa	+ 82	— 1	+ 49
Ecuador	+ 69	+ 29	+ 61
Peru	+ 30	+ 19	+ 25
New Zealand	+ 27	+ 12	+ 16
Chile	+ 26	+ 1	+ 17
Mexico	+ 26	+ 117	+ 10
Lithuania	+ 17	— 3	+ 1
Greece	+ 13	+ 11	+ 12
Colombia	+ 11	— 4	+ 5
Denmark	+ 11	+ 5	+ 7
Finland	+ 10	+ 3	+ 5
Sweden	+ 8	+ 2	+ 1
Canada	+ 8	— 2	+ 1
Australia	+ 8	— 2	+ 1
Japan	+ 8	+ 6	+ 6
Argentine	+ 8	— 6	— 2
Portugal	+ 7	+ 2	+ 5
Latvia	+ 5	+ 10	+ 6
United Kingdom	+ 3	— 7	— 2
Estonia	+ 3	— 6	+ 0
Hungary	+ 1	+ 2	+ 1
Poland	+ 1	— 12	— 6
U.S.A.	— 3	— 14	— 7
Czechoslovakia (excluding banks in Slovakia)	— 4	— 4	— 4
Italy	— 4	+ 21	+ 1
Brazil	— 8	— 5	— 7
Germany	— 10	— 6	— 8
Switzerland	— 12	— 16	— 15
France	— 13	— 32	— 14
Norway	— 14	— 6	— 7
Uruguay	— 19	+ 2	— 9

Statistics of bank deposits alone are inadequate to afford convincing evidence of monetary change; but the spread of the percentage changes shown in this table is at least suggestive. The grouping of the paper-currency countries, particularly those which produce raw materials for export, at the top of the table, and of the gold countries at the bottom, is striking. In many of the raw-material-producing countries, also, there has been an encouraging shift from fixed to demand deposits, a change which is generally regarded as indicating more active business. The marked decrease of time deposits in certain of the gold-currency countries, however, notably in France, appears to indicate rather the desire of depositors to hold their funds in a more liquid form. Moreover, inspection of the

monthly movements of deposits, as given in the League's *Monthly Bulletin of Statistics*, shows that, in most cases, the greater part of the increases shown took place before the last quarter of 1933. If the statistics are calculated for the end of October or November [1] instead of the end of December in each year, the increases shown would be greater and the decreases less. There appears to have been a slackening of the improvement, if not an actual retrogression, towards the end of the year 1933, which was continued into 1934 and was probably caused by the international difficulties to which attention has previously been drawn.

On the active side of the banking balance-sheets, increases of loans and investments have generally been small. The statistics for the reporting banks (members of the Federal Reserve system) in ninety cities of the United States were:

Loans and Investments by American Banks, 1933.

($000,000's.)

Group	March 29th	June 28th	September 27th	December 27th
Loans on securities	3,644	3,748	3,687	3,628
All other loans	4,688	4,704	4,853	4,774
Investments in Government securities	4,583	5,254	5,056	5,267
Other investments	3,086	2,959	2,933	2,997
Total loans and investments	16,001	16,665	16,529	16,666

In the United Kingdom there were more definite signs of trade revival. Investments rose from £305 million at the end of 1931 and £497 million at the end of 1932 to £588 million at the end of 1933. As frozen credits were released, advances fell from £932 million (December 1931) to £799 million (December 1932) and £764 million (December 1933), while acceptances increased and there was also an encouraging shift from time to demand deposits.

The position in France largely reflects a withdrawal of deposits for investment in public and semi-public securities or for gold hoarding. In Germany, contraction continued though at a slower rate than in 1932.

The banking situation at the beginning of 1934, therefore was irregular. Improvement was noticeable in most of the countries which had abandoned the gold standard, and was marked in the raw material exporting countries, including not only Australia and New Zealand, Canada and many South

[1] As in *Commercial Banks 1925-1933*, page 31.

American countries, but also European countries such as Lithuania, Finland and Denmark. The technical position of the banks was much improved in most countries which had abandoned the gold standard, even when that improvement had not been reflected in any great advance of deposits or investments. On the other hand, contraction was still going on in the gold-standard countries and the renewed downward pressure upon the gold price levels at the beginning of 1934 had again placed the banking systems of those countries in a more difficult situation.

The Re-organisation of Banking Systems.

No country escaped banking losses and some shock to credit as the depression dragged on and deepened from 1929 to 1933; but those which, from long experience, possessed strong, soundly organised and conservative banking systems, came through this period with less damage to either private or public credit, or to economic activity in general, than those which were caught by the depression with their credit lines over-extended and their institutions burdened by illiquid assets and embarrassing short-term liabilities. The depression witnessed a general contraction of credit, not regularly, but in a succession of crises. Everywhere a strain was thrown upon the commercial banks, and few countries were wholly exempt from banking failures, while, in some, failures were so numerous and so damaging to credit that the State had to intervene and re-organise the whole banking system and, in many, a considerable amount of re-organisation still remains necessary. The vast losses incurred in some countries are set out in "Commercial Banks 1925-1933". Since that volume was prepared, the Chairman of the Reconstruction Finance Corporation in the United States has announced that the loss on the deposits in the United States banks which were closed in the crisis is estimated at 35 per cent, or a total of $2,500 million. It would be premature to assume that banking reconstruction in the world as a whole has been completed or that the last has been heard of the losses which recoiled upon banks during the depression. Indeed, there remain some countries where re-organisation can hardly be said to have begun.

Least change has probably taken place in the British banking system, which is dominated by a few very powerful joint-stock banks with a long history of amalgamations and consolidations behind them, and with a tradition of conservative policy based upon long experience. The massive financial resources

and highly specialised handling of different banking functions which are characteristic of the London money market have also been strengthening factors.

There was some evidence that industrial investments had increased as the banks nursed certain industrial enterprises to which they were committed; but the cash reserve ratios of the banks remained steady and their liquidity was unimpaired.

The private banks were more seriously affected than the great joint-stock banks, their aggregate balance-sheets showing a contraction of about 50 per cent between the end of 1929 and the end of 1932. Deposits were reduced and partners' capital and reserve funds were written down to cover losses on loans and discounts; but there were no failures and no signs of the public losing confidence in the stability of any bank.

In the British Dominions also — Australia, Canada, New Zealand and South Africa — despite the great severity of the depression which followed the heavy fall in export prices, banking conditions remained essentially sound. In these Dominions the banking structure is largely modelled on British experience with a small number of strong banks operating under Royal Charters or legislative authority, and a strong development of branch banking. The lesson of previous depressions in which frozen assets paralysed deposit banking had been well learned, and the banks were in a position to maintain their liquidity and emerge intact from the strain and diminished activity of the years 1929-1933. There were no banking failures, [1] and the only notable change — an important one — in the banking structure of these Dominions is that New Zealand has created, and Canada has passed legislation creating, a Reserve Bank, while the Commonwealth Bank of Australia completed its transition to central banking functions during the depression. South Africa has had a Reserve Bank since 1921, and in 1933 India also passed legislation to create a Reserve Bank.

One of the lasting effects of the depression, indeed, is likely to be the added flexibility resulting from the development of central banking functions in the British Dominions and the modifications in commercial banking practice caused thereby.

In many other countries, also, the commercial banks came through the depression without serious damage to their stability. This was notably the case in some of the smaller European countries which, with a comparatively simple economic organisation, had not participated unduly in the preceding boom and therefore were not faced with an uncontrollable situation arising

[1] The reduction of the number of banks in Australia and Canada was caused in both cases by the absorption of one small bank by a larger institution in 1931.

from the sudden withdrawal of foreign short-term assets. Lithuania may perhaps be cited as an example. Though exposed to heavy withdrawals of deposits, especially from those banks which had foreign connections (especially with Germany), the banking system showed great powers of resistance. Lithuania adhered to the gold standard without imposing exchange control, deposits decreased, but savings deposits increased, and the conservative policy of the joint-stock banks in regard to long-term industrial and agricultural loans made it possible for them to retain their liquidity. The only failure was that of a private banking firm which had become involved in the fortunes of a particular industry.

Industrial and agricultural loans have always played a larger part in commercial banking operations in most Continental-European countries than in the more specialised British system of deposit-banking. Indeed, the facilities granted by the banks to industrial enterprises have in the past often been regarded as a distinct aid to industrial progress in those countries. Some of the problems involved in this form of banking are discussed in a later chapter. Meantime, it should be observed that the system of direct participation by the deposit banks in industrial finance is firmly established in most continental countries and does not necessarily lead to credit strain when prudently conducted. The depression, however, caught many countries with excessive long-term commitments based, in some cases, upon the utilisation of foreign short-term money, a combination which exposed the banks, particularly in Austria and Germany, to heavy losses and the consequent necessity for drastic reconstruction. Another factor which must constantly be borne in mind is the distinction between the deflation that became necessary in countries which adhered to the gold standard, and the relief which came from the reduced pressure on the price-levels in other countries when the gold standard was abandoned.

Even the strongest financial countries which adhered to the gold standard — France, Belgium, the Netherlands and Switzerland — found the pressure on their banking systems very severe. These countries are creditors on balance. The Netherlands and Switzerland were most involved in Central Europe, and, in addition, the Netherlands suffered from the force of the economic depression in its colonial empire. Belgium also suffered in this way; but deflation was commenced early in the depression in both countries and was severe in 1931 and 1932. There were no banking failures in the Netherlands, but in Belgium some of the weaker banks failed, and in both countries there was severe contraction and some loss of reserves, particularly in the industrial banks. The index of the price of bank

shares fell in Belgium from 100 in 1929 to 35 at the end of 1933, and in the Netherlands from 100 to 58 in the same period.

In Belgium, France and Switzerland, the State supported the banks to a considerable extent, mainly by coming to the rescue of important banks which had got into difficulties. The case of Switzerland may be cited as an example, though it is to be remembered that, while adhering to the gold standard, Switzerland did not carry out any deflation as serious as that pursued in most of the other gold countries. In 1931, the Banque de Genève failed with heavy losses, part of which fell on the local taxpayers, and two other Genevese banks effected an amalgamation, which gave the opportunity of writing off losses and securing new capital. The newly formed bank — the Banque d'Escompte Suisse — suffered a run and, after temporary assistance, was reconstructed again in April 1933, shortly afterwards absorbing one of its weak affiliates. Finally, at the end of April 1934, the bank, failing to receive assistance from the local government, was forced to close its doors. In the summer of 1932, the Federal Government created a Caisse de Prêts to grant temporary assistance to banks and other enterprises. During 1933, three big banks obtained authorisation to write down their capital and write off losses. In November 1933, another big bank, the Banque Populaire Suisse, a co-operative credit institution with 350,000 depositors and 100,000 shareholders, was forced to undergo an extensive reconstruction and to seek fresh capital from the State. There were other smaller bank failures and reconstructions, indicative of the difficulties created by restricted exports and tourist traffic, together with high domestic prices and costs.

In Germany, as in Austria, losses were so heavy as to wipe out banking capital in the aggregate, so that the reconstruction of the banking system was possible only by State action. As in most Central-European countries, there were two main aspects of the banking crisis: the drain of domestic deflation and withdrawals of short-term foreign money. There were crises in the middle of 1930 and again, after the Credit-Anstalt difficulties, in the middle of 1931, and the strain was renewed when the United Kingdom abandoned the gold standard in September 1931. Efforts to meet it by drastic deflation and rigid exchange controls reduced economic activity to a low ebb in 1932, and, when domestic programmes of public works and unemployment relief called for an expansion of credit in 1933, the external transfer problem became acute and banking reserves were strained. At the beginning of 1934, the whole credit system of the country was virtually centralised in the Reichsbank, which controlled not only the domestic credit situation but

the external financial transactions of the country with a narrowing margin of reserves.

These examples may be sufficient to illustrate the variety of experience among the European banking systems. They are by no means exhaustive; but fuller details of the difficulties and dangers to which the banking systems in both gold and paper currency countries were exposed during the depression may be found in the volume from which the facts recorded above are taken. This publication, "Commercial Banks 1925-1933", gives for forty countries both a summary of recent developments and statistical information from which a clear and detailed picture of the banking situation may be constructed.

It remains only to draw attention to the most recent developments of banking policy in the United States. A brief account was given in the SURVEY for 1932-33 of the events leading up to the banking crisis in February and March 1933 and of the measures taken to deal with that crisis. The story was carried up to the passing of the Banking (Glass-Steagall) Act signed on June 16th. During the latter part of 1933 and the early part of 1934, the main events to be recorded were the steps taken by the Reconstruction Finance Corporation to assist banks to re-open, and the creation on October 15th of the Deposit Liquidation Board as a branch of the R.F.C., the purchasing by the Corporation of preferred stock in a large number of banks, the creation of new Government institutions dealing in various forms of long-term and intermediate credit, and the creation in February of three Export Banks to foster international trade. By the end of 1933, the R.F.C. had authorised purchases of $825 million of preferred stock in over 4,500 American banks, while $700 million of its loans to banks were still outstanding at that time. These developments, together with the agricultural, real-estate and commodity finance corporations that had been created, and the closer connection between the Federal Reserve Board and the Treasury betokened a greatly increased participation in, and control of, the banking system by the Government. The Gold Reserve Act, passed in January 1934, by which the Treasury took possession of the gold reserves and issued gold certificates to the Federal Reserve Banks, was a further step in the same direction.

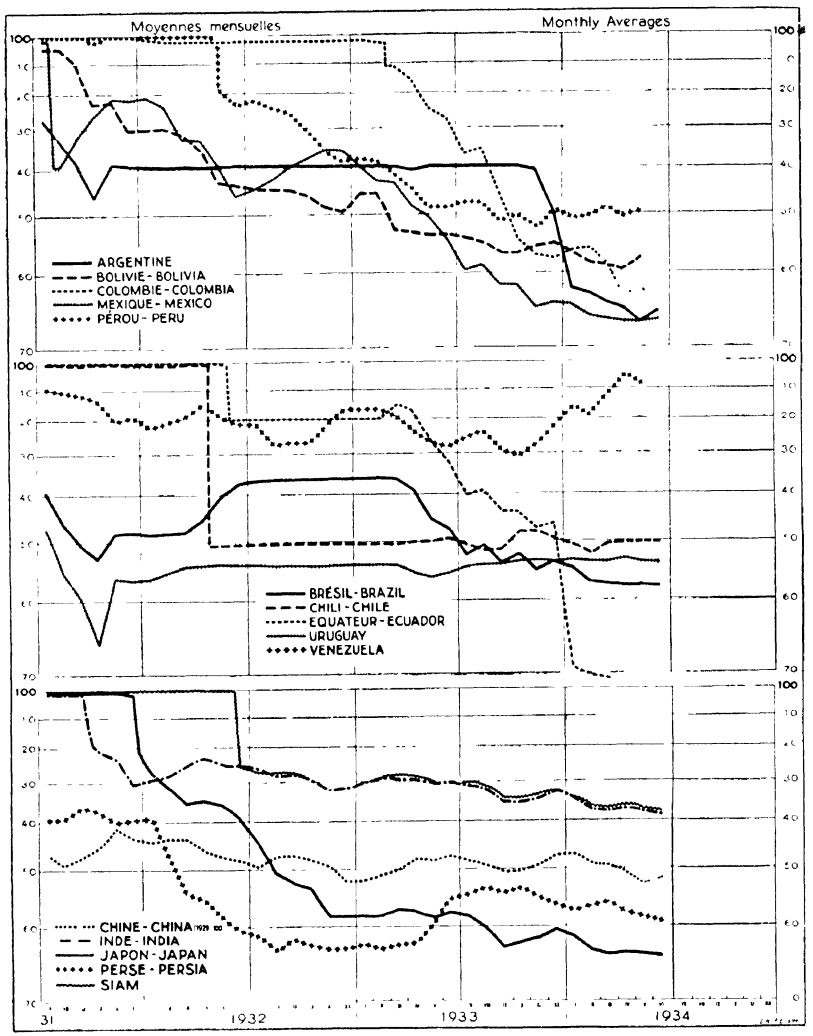
THE EVOLUTION OF MONETARY STANDARDS.

Exchange instability continued during 1933 and was aggravated in the early months of 1934 by the further decline

The Movement of Exchange Rates.

Percentage Discount of Certain Currencies in relation to their Gold Parity.

Logarithmic scale.

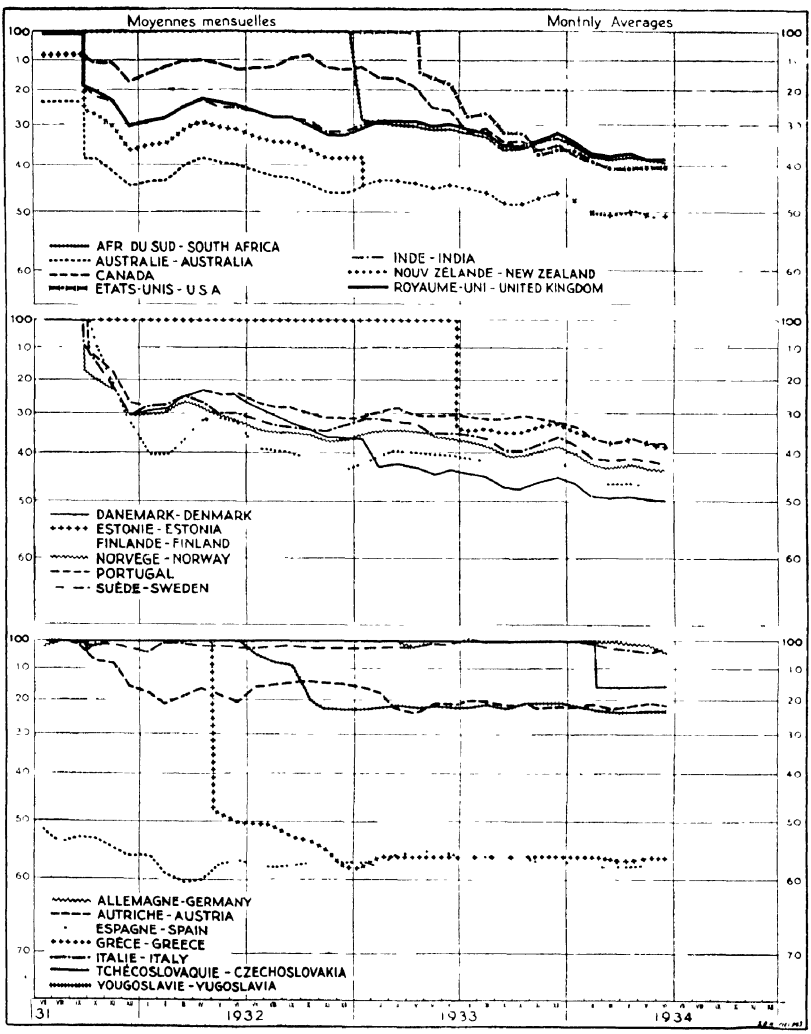


* Argentine: since December 22nd, 1933; Ecuador: since January 1934, free rates.

The Movement of Exchange Rates.

Percentage Discount of Certain Currencies in relation to their Gold Parity.

Logarithmic scale.



* Devaluation in relation to the old gold parity.

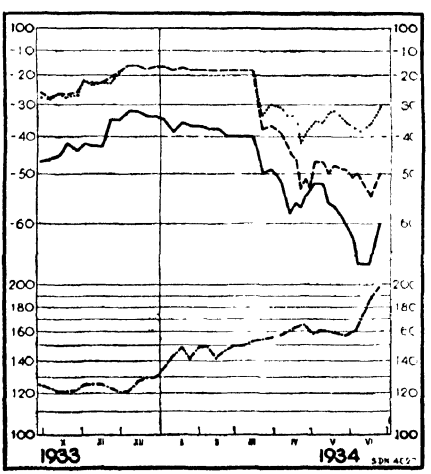
of the dollar and sterling currencies, though the definite devaluation of the dollar in January 1934 might in some respects be regarded as a first tentative step towards future stabilisation. The course of the foreign exchanges up to the end of March 1934 is best summarised in the diagrams on pages 268 and 269.

The principal change to be observed is the fall of the dollar after March 1933 and the subsequent fall of several of the South-American currencies. South Africa also joined the sterling group in the middle of the year, and the whole group, including not only the British countries but several European countries also, drifted lower after July 1933. The Japanese yen, which had remained in a stable relation to sterling from the end of 1932, also drifted lower. The extent of depreciation is shown in the following table. Besides the dollar, sterling and yen depreciations, account must be taken also of the fluctuations in the market for different sorts of blocked marks. These are summarised in the following diagram, which shows the percentage discount of blocked marks and the premium on export-valuta.

The Exchange Value of Blocked Marks, September 1933 to June 1934.[1]

Logarithmic scale.

——— Effektensperrmark ---------- Kreditsperrmark
Registermark -·-·-·-·- Exportvaluta (Aufgeld)



[1] *Wirtschaftsdienst, Hamburg.*

The Percentage Premium or Discount of Various Currencies in relation to their Gold Parities in 1929.

Country	March 31st, 1933	March 31st, 1934
Mexico	— 43	— 67
Argentine	— 40	64
Japan	— 57	64
Bolivia	— 53	— 59
Colombia	— 11	— 59
Spain	— 56	— 58
Brazil	— 36	— 57
Greece	— 56	— 57
Persia	— 63	— 56
Uruguay	— 54	— 54
Australia	— 44	— 50
Chile	— 50	— 50
China [1]	— 50	— 50
New Zealand	— 44	— 50
Denmark	— 43	— 49
Peru	— 12	— 49
Finland	— 40	— 47
Norway	— 34	— 43
Sweden	— 32	— 12
Canada	— 16	— 41
Cuba	± 0	— 40
United States [2]	± 0	— 40
United Kingdom	— 30	— 38
South Africa	— 30	— 38
Egypt	— 29	— 38
Straits Settlements	— 30	— 38
Estonia	+ 0	— 37
India	— 29	— 37
Siam	— 29	— 37
Portugal	— 29	— 31
Yugoslavia	— 22	— 23
Austria	— 23	— 23
Czechoslovakia [3]	+ 0	— 17
Venezuela	— 19	— 12
Bulgaria	— 4	— 4
Italy	— 2	— 3
Roumania	— 1	— 2
Albania	± 0	— 1.5
Germany	± 0	— 1
Belgium	+ 0	+ 0
France	± 0	± 0
Lithuania	± 0	+ 0
Netherlands	+ 0	+ 0
Poland	+ 0	± 0
Switzerland	± 0	± 0

[1] Silver standard.
[2] Provisionally stabilised on January 31st, 1934.
[3] De-valued by 16⅔ per cent on January 20th, 1934.

In face of the widespread tendency to further currency depreciation disclosed by this table and by the preceding diagrams, the gold *bloc* was exposed to the danger of losing gold from their reserves if and when a measure of stabilisation was adopted. Even before this danger became actual with the devaluation of the dollar, there was a considerable strain on the price levels and the export trades (including tourist services) of the gold countries. The determination of the United States to depreciate its currency in an effort to raise domestic prices was evident in the policy of gold purchases announced in a broadcast given by President Roosevelt on October 22nd. The Treasury was authorised to buy gold at prices to be determined. At first the purchases were confined to gold newly mined in the United States and the sums bought were relatively small. The first price announced was $31.36 an ounce, which was above the world price calculated by comparing the exchange rate with the price of gold in London, the principal world market, and still more above the former gold parity of $20.67 an ounce. The price was raised at short intervals till, in the middle of December, it was halted for some weeks at $34.06, [1] to be later raised in two stages to $35.00, at which point it was provisionally stabilised at the end of January. The operations of the Treasury were extended to gold purchases on the London market during November, but the amounts bought were not disclosed at the time. The total so purchased was later stated to be $185 million at the new valuation, or over 5,200,000 ounces; but the cost has not been revealed.

By fixing the price of gold provisionally at $35.00 an ounce under the authority of the Gold Reserve Act of January 31st, 1934, President Roosevelt effectively devalued the dollar to 59.06 per cent of its former gold parity. This figure was fixed as the upper limit — the authority given to the President by the Thomas amendment to the Agricultural Adjustment Act of June 1933, to devalue up to 50 per cent of the former parity forming the lower limit — of the gold value of the new dollar. While, therefore, the stabilisation was provisional, devaluation at least by 40.94 per cent was definite; but the exchange rates

[1] The successive increases were:

		$			$
October	25th	31.36	November	10th	33.20
	28th	31.82		11th	33.32
	30th	31.96		13th	33.45
	31st	32.12		14th	33.56
November	1st	32.26		25th	33.76
	2nd	32.36		28th	33.85
	3rd	32.57		29th	33.93
	4th	32.67	December	1st	34.01
	5th	32.84		17th	34.06
	8th	33.05	January	16th	34.45
	9th	33.15		31st	35.00

stood for a considerable time above the new parity and it became profitable in consequence to ship gold to the United States. The price of gold on the London market rose sharply and for a time was around 140/– per ounce. There were technical obstacles — principally assay requirements and insurance difficulties — which spread the shipment of gold over some weeks; but during February the United States received $400 million (nearly 11½ million ounces) of gold, while the principal European central banks lost about $368 million. The Bank of France lost $205 million, the Netherlands Bank $86 million, the National Bank of Switzerland $53 million, the Reichsbank $17 million and the National Bank of Belgium $7 million — the gold stock of the Bank of England and the Bank of Italy remaining virtually unchanged in February.

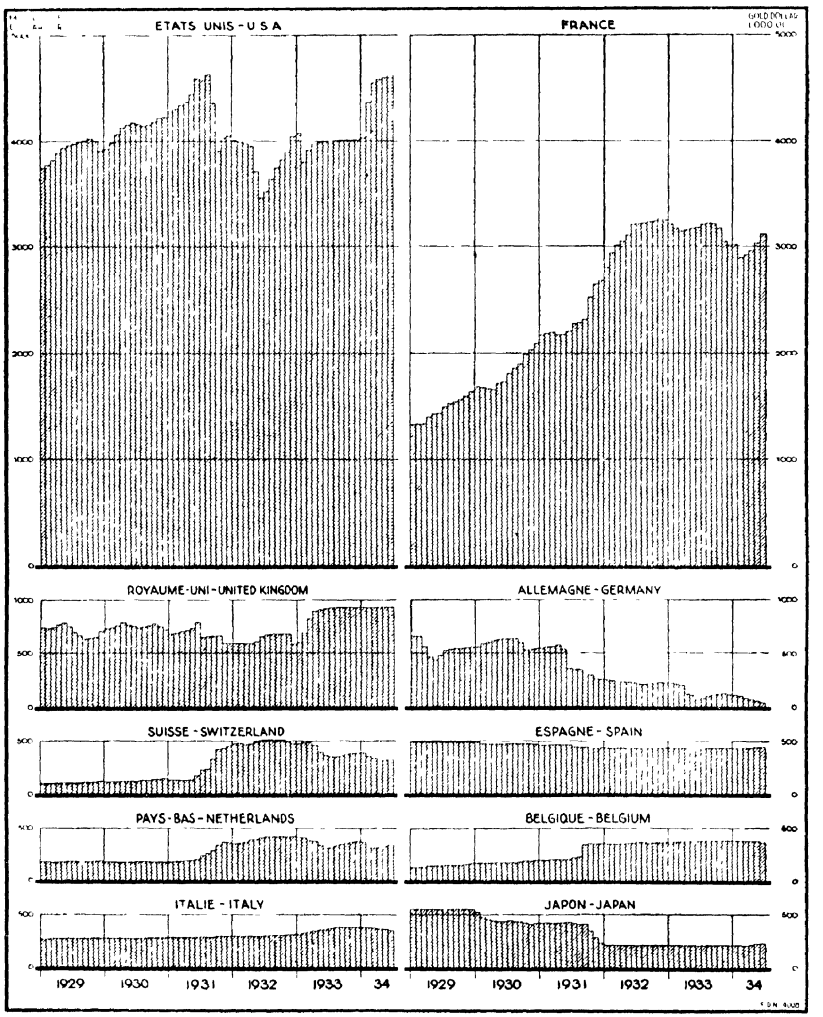
By the end of February, however, the exchange rates moved to an approximate equilibrium with the new gold value of the dollar and gold shipments temporarily ceased. The new equilibrium, however, caused immediate repercussions in the gold-standard countries. In March, Czechoslovakia devalued its currency by one-sixth without abandoning the gold standard. The other gold countries were faced with the necessity of action to adjust their price levels and export costs, if a drain of gold was to be avoided. In France, the long controversy over the balancing of the budget, aggravated by the repercussions of the Stavisky financial scandals, came to a head in a political crisis the result of which was the formation of a Government of national union. This Government was able to secure power from Parliament to balance the budget by a series of decrees, the effect of which was strongly deflationary.

Meantime, there was a pronounced loss of gold and foreign assets from the Bank of Italy in March and the lira became weak; but in early April the Italian Government issued a decree cutting civil service salaries as well as prices and rents. In Belgium on April 26th, the National Bank reduced its discount rate in an effort to facilitate further cost reductions. The drain of gold from the Reichsbank continued to be very heavy throughout March and April and at the end of April the reserve of gold and foreign assets had fallen to RM. 212 million. A strict control over imports was imposed and the Reichsbank initiated further negotiations with foreign creditors in an endeavour to relieve the strain on the balance of payments. The Swiss exchange on Paris also remained at the gold export point and the National Bank lost gold each week throughout March and April.

The result of these exchange movements was a considerable re-distribution of gold reserves, mainly from Europe to the

United States through the United Kingdom, which, protected by a fluctuating exchange, retained its gold reserve intact. The movement of central bank gold reserves during the depression is summarised in the diagram below.

Central Monetary Gold Reserves of Certain Countries in Terms of Old U.S. Gold Dollars (000,000's).[1]



[1] Dollars of 1.50463 gramme of fine gold.

Exchange instability continued to be an impediment to economic stabilisation and recovery, rendering uncertain any steps that might be taken towards price adjustments, banking re-organisation, debt settlement or greater freedom of international trade. Little progress was made in this period towards agreement upon either exchange stabilisation or the re-organisation of an international monetary standard. Reference has already been made to the resolutions of the Monetary Committee of the International Chamber of Commerce at its meeting in Paris at the end of March 1934. The stand taken by this Committee in favour of currency stabilisation explicitly assumed a return to the gold standard. Later, towards the end of April, when the dollar exchange fell nearly to the point at which it appeared that gold might be exported from the United States, the Secretary of the Treasury announced that no obstacles would be placed to such export to foreign central banks. In the following week, gold was actually exported to the value of $7 million. The United States Government in April also commissioned an envoy to enquire into the views of European Governments in regard to future monetary policy; but up to the end of April no steps had been taken to bring about stabilisation or to obtain agreement upon the working of an international monetary system based on gold.

New Provision of Capital.

The provision of capital for industrial production has at least two important aspects. The liquidity of the banking systems, reflected in an abundance of cheap, lendable credit, is the first, and the ability of industrial borrowers to find profitable avenues of investment is the second. To these, in many countries, there must at the present time be added a third — the extent to which the demands for Government expenditure affect the credit available for industrial and commercial transactions.

It should be said at once that there is no simple statistical or other test, applicable to the central bank or to commercial banks, in any country, which may be utilised as a guide to the lending capacity of the banking system. Certain statistical indicators are useful as affording information about the general situation; but banking is an art and its conduct demands the exercise of judgment, prudence and estimation, in ways that are not always measurable by statistics.

The essential function of bankers is to act as money merchants — receivers and distributors of credit. They are borrowers

on the one hand and lenders upon the other, their borrowings being represented by the deposits appearing to the credit of their customers, and their lendings appearing as assets of various kinds — bills discounted, overdrafts, advances and investments. The development of credit has, it is true, given elasticity to the banking systems, so that deposits often, if not generally, reflect advances rather than advances being governed by the volume of deposits available. There are, however, definite limits to the expansion of both sides of a bank's balance-sheet in this way, limits which are set ultimately by the proportion of legal tender money which it is necessary to keep for cash purposes. In developed banking systems, where the ultimate control of such cash resources is in the hands of a central bank, the extent to which commercial banks may expand credit is in the last resort determined by the limits within which the central bank can provide cash resources without endangering the stability of the country's currency. While an upper limit is set to credit expansion in this way, the experience of recent years throws considerable doubt upon the power of a central bank, by enabling the commercial banks to secure cash resources cheaply and abundantly, to set a lower limit of credit contraction. Moreover, in its expansion of deposits and advances, a commercial bank must bear in mind the immediate nature of the liability it incurs to its depositors and must therefore keep its assets so distributed as to avoid the danger of too large a proportion of them being unrealisable in sufficient time to meet a drain by depositors if such should develop.

It is obvious, therefore, that neither the total amount of bank deposits nor the distribution of that total between demand and time deposits is of much use as an indication of the capacity of a banking system to expand credit. An expansion may take place, indeed, without much alteration in the total of deposits, simply by an increased turnover or more rapid velocity. A low bank rate, however, while not necessarily an assurance that investment is increasing, is at least an indication that the central bank is prepared to facilitate an expansion of credit. Such a rate enables the commercial banks to borrow cheaply if need be from the central bank and tends to lower the market rates of discount. There has for the better part of three years been a downward tendency of short-term rates and this has in many countries facilitated both the re-financing of Government debt and the strengthening of the banks' liquid resources. It takes time, however, for such developments to affect longer-term contracts and industrial investment, even in the most favourably situated countries. In the meantime, however, the re-organisation and strengthening of both industry and banking continued,

and in a great number of countries liquid banking resources in the early part of 1934 were greater than they had been for many years.

Better indications of the ability of the commercial banks to extend credit to industry are furnished by the proportion of cash to deposits, by the dependence of the commercial banks upon the support of the central bank, and the composition of commercial bank assets. Statistics of this character, however, become available only after a certain lapse of time and only scattered indications are yet available for 1933. The cash ratios cannot be given, but in certain countries, particularly in the United Kingdom and the U.S.A., the commercial banks had improved their position as far as their relations with the central bank were concerned. The composition of bank assets is available only up to the end of 1932; and, as the following table shows, contraction, except as regards holdings of Government securities, was the general rule up till that time.

Percentage Changes in Discounts, Loans and Investments and Total Credit Portfolio of Certain Countries in 1932 as compared with 1931.

Country	Discounts	Loans and Advances	Investments		Total Credit Portfolio
			Government Securities [5]	Other [5]	
Argentine	— 19	— 4	+ 1		— 10
Belgium	— 18	— 20	— 2		— 15
Brazil	+ 24	+ 5	+ 3		+ 12
Canada	[4]	— 13	+ 15	— 18	— 5
Chile	— 20	+ 2	— 21	+ 14	— 1
Denmark	— 18	— 10	+ 13	— 2	— 9
England and Wales	+ 66	— 14	+ 67	+ 15	+ 14
France	+ 21	— 25	— 8		+ 3
Germany	+ 6	— 16	+ 46	— 13	— 10
Hungary	— 10	— 15	+ 122		— 8
Italy [1]	— 7	— 2	+ 9		— 4
Japan	+ 7	— 1	+ 4		+ 1
Lithuania	— 22	— 15	— 3		— 15
Netherlands	— 2	— 22	— 12		— 16
New Zealand [2]	— 14	— 8	+ 58	+ 0	+ 2
Sweden	+ 16	— 11	+ 4		— 4
Switzerland	— 16	+ 0	+ 0		— 2
U.S.A. [3]	[4]	— 21	+ 23	— 4	— 10

[1] Principal banks.
[2] June 1932 to June 1933.
[3] Member banks.
[4] Included in loans and advances.
[5] Where no figures are shown for "other investments", they are included in "Government securities".

The United Kingdom was the principal exception to this rule, though some other countries like Brazil, Chile and Japan showed signs of expansion also. Government securities formed an increasing proportion of bank assets in most countries.

The gold hoarding which prevailed throughout most of 1933 and the early months of 1934 is another indication of the unreadiness of investors to place their capital in industrial undertakings. The amount of new gold hoarding month by month has been estimated by the Bank for International Settlements as follows:

Gold Hoarding in 1933.

Month	Swiss Francs (000,000's) New Hoarding	De-hoarding
January	125	—
February	1,224	—
March	—	756
April	83	—
May	716	—
June	400	—
July	—	181
August	—	36
September	—	5
October	234	—
November	783	—
December	425	—
Totals	3,990	878

This table is significant both in regard to the hoarding shown in various months and to the return from hoards (in the United States) in March, when the administration took measures to compel the surrender of gold, and again, following the more general improvement from July to September, which is attributed by the Bank for International Settlements to renewed confidence following the formation of the gold *bloc*. The subsequent recrudescence of hoarding on a large scale in the latter months of the year, which continued in the early months of 1934, is attributed to the currency strain imposed by the depreciation of the dollar.

Such large-scale hoarding is symptomatic of distrust of the gold currencies and therefore of expectation of higher gold prices. While it is going on there is little reason to expect credit expansion and a revival of investment in the gold countries, but in the countries off gold the credit situation is considerably easier.

It has been calculated that in the United Kingdom, for example, the commercial banks' advances, which in more normal times were estimated at 50-55 per cent of their total

deposits, had fallen to 38.2 per cent in January and 41.1 per cent in March 1934, while investments which are usually reckoned at 15-20 per cent had risen almost to 30 per cent in the same month. On the basis of these figures, it has been estimated that an expansion of advances amounting to about £200 million sterling was possible before the traditional proportion of 50-55 per cent of total deposits would be reached.[1] The conclusion was drawn, therefore, that ample credit resources were available to meet any demand for industrial investment likely to arise in the near future. It has been argued, indeed, that the plethora of bank credit now available may create the possibility of a rapid over-expansion of credit leading to a new investment boom.[2] Such calculations are necessarily hypothetical and depend upon certain assumptions as to the manner in which both the banks and their clients will dispose of the credit available; but it is evident that the banking position is such as to permit industrial expansion if other circumstances are favourable.

Not only in the United Kingdom, but in practically every other country where discount and interest rates have fallen greatly, the problem in recent months has not been a shortage of credit, but the difficulty of "tapping the reserve supplies of credit which the banks could extend if a legitimate demand arose". The difficulty obviously lies in the definition of a "legitimate demand". In the United States the excess reserves of member banks (the excess, that is, over the amounts that must statutorily be kept with the Federal Reserve Banks) rose to $1,500 million by the end of March 1934, at which figure they were almost double the statutory requirements. The borrowings of the member banks from the Federal Reserve Banks at this time had fallen to negligible proportions. This more favourable position, however, had not been reflected in industrial loans and investments, but only in holdings of Government securities.

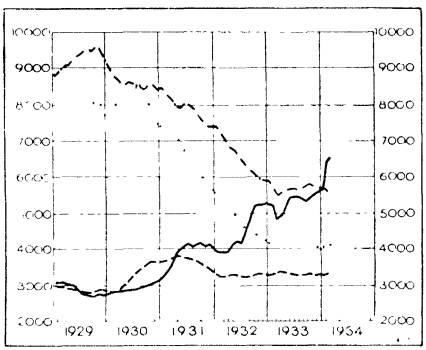
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[1] *World Banking Review, Financial News Supplement*, April 30th, 1931. "How Much can the Banks Lend?", by a Banking Correspondent.
[2] *Ibid.*, "The Gold Standard and Credit", by F. W. PAISH.

The Movement of Loans and Investments of Banks which are Members of the Federal Reserve System. [1]

$ (000,000's omitted).

———— U.S. Government securities
---------- Other securities
Loans on securities, adjusted for seasonal variation
—·—·— · · All other loans and discounts, adjusted for seasonal variation



Apart from those countries where banking conditions were so thoroughly disorganised by the successive crises of 1931-32 that re-organisation of the banking systems has hardly been begun, the difficulties that remain in the way of industrial recovery do not arise from a scarcity of available credit. In all the countries which abandoned the gold standard, the limits to credit expansion implicit in the necessity of keeping a fixed exchange rate have been removed. In the countries remaining on the gold standard, the downward pressure on the price levels which is the result of competition from countries with depreciated currencies, and of the trade restrictions which are designed to protect the national price levels from such competition, creates banking conditions which require the liquidation of former investments and restrict new issues until a new equilibrium is reached. Those gold countries which maintain the nominal parity by strict exchange controls are of course less able to expand domestic credit without endangering both currency and banking stability; but the principal gold countries have such ample gold reserves that credit expansion is clearly not limited by monetary resources.

[1] *The Annalist*, April 20th, 1934: Statistics from the reporting member banks in ninety leading cities of the United States.

It is probable that the organisation by which credit is made available to small enterprises is capable of improvement and proposals for new institutions to meet this need have recently been discussed — for example, in the United Kingdom.[1] Such practical suggestions for improvement of the credit machinery are, however, of a relatively minor character and are not inconsistent with the fact that, in most countries at the present time, credit is abundant and cheap. The limiting factors to an expansion of credit are, indeed, primarily the result of the recent disorganisation of prices and production which makes new investment on a profit-earning basis difficult to arrange. This disorganisation and subsequent re-organisation of the capital market forms the subject of the next chapter.

[1] Cf. *World Banking Review*, *op. cit.*

Chapter IX.

THE CAPITAL MARKET.

The Sources of Supply.

In the preceding chapter, it has been shown that the banking systems of many countries had, during 1933, achieved a position of greater liquidity. Credit in those countries was abundant and cheap. Where deflation had ceased and prices, particularly of raw materials, had recently been rising, the credit conditions necessary for renewed capital investment had been restored. Such conditions, however, were not universal in the first half of 1934. Deflation was still proceeding in several countries, which were endeavouring, by lowering their price-levels, to maintain the gold value of their currencies in face of the fresh depreciations elsewhere. The renewal of currency depreciation on the one hand and of price deflation on the other, together with the straitened financial circumstances of several important debtor countries, constituted a strain on international economic equilibrium which tended to undermine the confidence of investors and to limit the possibilities of credit expansion. Gold hoarding continued on a great scale.

Even in the most favourably situated countries such as the United Kingdom, where the commercial banks were strong and cheap credit had persisted for more than two years, the revival of investment was slow. The capacity of the banks to return to what formerly were regarded as the normal proportions between deposits and advances was limited by the unwillingness of private investors to place their funds in industrial enterprises, and by the capacity of those enterprises to utilise new investments in a profitable way. The problem of reviving the capital market could not be solved by banking action alone. New investment depended upon the initiative of borrowers and lenders, and thus upon the restoration of confidence in the business outlook. In the present chapter, an attempt is

made to examine the elements of this problem by stating the facts available concerning the supply of, and demand for, capital, and the recent developments of interest rates.

The sources of capital supply are multifarious; but, for the present discussion, a broad distinction between the re-investment of profits in an extending business and new capital derived from the outside public may prove a convenient starting-point. Large-scale industry, organised in some form of joint-stock corporation, holds the field of investment. The private business, financed by the owner's personal capital, while still important in some countries, tends to be displaced more and more by the impersonal joint-stock company using capital drawn either from investors whose share in the ownership and control of the business is usually small, or from the use of reserves set aside from the profits of the undertaking.

The *Survey* for 1932-33 showed the great shrinkage of company reserves during the depression years. Earnings diminished while interest charges and, to a large extent, dividends were maintained, so that reserves were drawn upon and the possibilities of capital expansion by the utilisation of reserves largely disappeared. The following table shows clearly the increasing proportion of national income taken for debt service in the United States, and the relative maintenance of dividends in the early years of the depression.

National Income paid out in the United States, 1929-1932.

In millions of dollars and percentages.[1]

	1929		1930		1931		1932	
	$	%	$	%	$	%	$	%
Dividends	5,963	7.4	5,795	7.7	4,311	6.8	2,590	5.3
Interest	5,687	7.0	5,826	7.7	5,662	8.9	5,506	11.2
Total Income from Personal Property[2]	12,215	15.1	12.238	16.2	10,508	16.6	8,489	17.3
Total National Income	81,040	100	75,438	100	63,289	100	48,952	100

These figures may be supplemented by Professor Irving Fisher's estimates of internal debt and national wealth, and of

[1] National Bureau of Economic Research, *Bulletin No. 49*, 1934.
[2] Includes also net balance of international flow of property incomes.

fixed charges to national income, in the United States in 1932 as compared with 1929. [1] For 1929, internal debt is calculated as about 55 per cent of the national wealth; for 1932, the estimate is almost 107 per cent.

These estimates are sufficient to illustrate the general point that, during the depression, incomes from interest were well sustained and formed a greatly increased percentage of national income. While these statistics refer to national income, the same phenomenon was evident in business incomes. The proportion of earnings taken by fixed charges, mainly interest, increased, while profits and company savings diminished or disappeared. Thus, in Germany, it is calculated that, in 1929, the surplus of company earnings over amounts paid out as dividends amounted to RM. 882 million, and formed a considerable proportion of the net amount available for investment (RM. 6,083 million). In 1931, on the contrary, company earnings fell behind the amount necessary to maintain intact the companies' own capital stock (plus reserves and amounts carried forward) by no less than RM. 1,000 million, and in 1932 again they fell behind by RM. 1,750 million. [2] These large sums were therefore drawn from capital to write off losses and make dividend payments.

The fall in business profits which was evident in practically every country, at least up to the end of 1932, and which appears to have continued in many countries during 1933, has therefore changed the proportions in which the supply of capital is derived from various sources. The tendency towards increased profits in some countries in 1933, notably in the United Kingdom, has brought back the possibility of greater corporate savings; but, in the meantime, the supply of capital immediately available comes largely from the accumulation of savings on the part of those private persons or institutions whose incomes are derived from interest and fixed charges. [3]

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[1] Irving FISHER: "The Debt-deflation Theory of Great Depressions", *Revue de l'Institut international de statistique*, January 1934.

[2] Statistisches Reichsamt: *Statistisches Jahrbuch fur das Deutsche Reich* 1933, page 494. *Cf.* the shrinkage of corporate savings in the U.S.A. in previous depression years. F. C. MILLS: "Economic Tendencies in the United States", page 432. *Cf.* also Werner LINDGREN: "The Accumulation of Capital in Finland in Recent Years", *Nordiska Foreningsbanken Unitas*, No. 4, 1933.

[3] The amounts placed to company reserves in the United Kingdom calculated as a percentage of net profits (after payment of debenture and loan interest) for each quarter was:

Quarter	1930	1931	1932	1933	1934
I	18.4	16.2	9.6	12.2	18.5
II	18.6	14.8	11.1	12.6	20.7
III	18.3	— 8.9	3.2	4.0	
IV	15.1	— 20.0	— 7.8	12.3	
Year	17.9	10.3	7.4	11.5	

While the investment of corporate savings in the past may be open to criticism,[1] the necessity to rely largely upon capital derived from other sources in the effort to stimulate new investment in the recovery stage of the cycle throws into sharper relief many of the problems of business finance which were discussed in the *Survey* for 1932-33.[2] The strong inclination of private investors and investing institutions to seek security, rather than profits involving risk, leads to a preference for gilt-edged securities, debentures and preferred, rather than ordinary, shares. The surpluses accruing to those who derive their incomes from property are either hoarded or locked up in Government loans and safe securities at low yields, and are difficult to tempt into risk-bearing enterprises, even when the latter offer opportunities of greater profits.

Institutions such as investment trusts, which enable the individual investor to spread his risks, go some distance towards overcoming this difficulty. There has recently been a notable development of such institutions,[3] but this method of investment does not quite meet the difficulty of providing capital for new enterprises. A particularly interesting example of such a trust is the "United Kingdom and Argentine 1933 Conversion Trust", by means of which the new loan floated in London to convert the frozen short-term holdings in the Argentine was combined with British Government securities in the units offered to investors.

The statistics of new issues in recent years bear witness to the great difficulty of floating new enterprises. Even though these statistics cannot now be regarded as giving a very complete picture of the capital markets, the enormous decline of public issues indicates the paralysis of investment in recent years. The savings of private investors are reflected in increased gold hoarding, in the accumulation of short-term balances or bank deposits, in increased issues and higher prices of Government securities, and to some extent in a recovery in sound industrial securities in certain countries; but not in the new issue market for industrial securities. It is possible that the tendency to arrange the financing of new enterprises by private subscriptions, especially on the part of large financial institutions such as insurance companies, may have provided new capital in fairly substantial amounts; but such financing cannot be measured statistically and it is most unlikely that it can have offset the very great fall in new public issues disclosed by the following table.

[1] *Cf.* Robert WEIDENHAMMER: "Faulty Investment of Corporate Savings", *American Economic Review*, March 1933.
[2] Chapter V: "The Profits of Enterprise".
[3] *Cf. The Investors' Chronicle and Money Market Review*, January 27th, 1934.

Public Issues of Long-term Securities in the Principal Capital Markets, 1929-1933.[1]

(National Currencies, 000,000's.)

Country	Unit	Kind of Issue	1929	1930	1931	1932	1933
Belgium	Franc	Total	12,876	5,447	6,019	5,249	3,011
		of which public authorities	975	1,872	3,390	4,316	2,115
France [2]	Franc	Bonds	14,393	26,121	26,590	25,424	24,994
		of which public authorities	3,876	5,092	8,245	14,547	16,512
		Shares	8,323	4,373	2,048	1,356	963
		Total	22,716	30,494	28,638	26,780	25,957
Germany	Reichs-mark	Bonds	1,685	2,926	1,338	824	1,423
		of which public authorities [3]	520	339	27	278	993
		Shares	979	555	635	150	91
		Total [4]	2,683	3,481	1,980	974	1,514
Japan	Yen	Bonds [5]	1,721	1,821	2,570	3,378	5,577
		of which public authorities [6]	718	1,221	2,057	2,729	...
		Shares	1,152	731	1,796	540	1,327
Netherlands	Gulden	Bonds [5]	219	507	208	320	266
		of which public authorities [1]	51	184	163	280	261
		Shares	213	29	10	1	2
		Total	442	537	218	321	268
Spain	Peseta	Total	2,497	908	798	950	993
		of which public authorities	662	163	205	668	761
Sweden	Krona	Bonds	233	879	548	465	674
		of which public authorities	50	453	255	186	482
		Shares	270	255	341	129	98
		Total	503	1,134	889	594	772
Switzerland	Franc	Bonds	358	583	624	466	275
		of which public authorities	35	38	244	211	168
		Shares	316	29	24	12	6
		Total	674	613	648	478	281
United Kingdom	£	Bonds	137.7	230.4	74.9	170.2	222 1
		of which public authorities	75.4	136.1	43.0	126.5	180.3
		Shares	147.5	37.9	27.2	18.7	22.7
		Total	285.2	267.8	102.1	188.9	244.8
United States [6]	$	Bonds	4,091	5,478	2,805	1,172	596
		Shares	6,089	1,545	311	20	120
		Total	10,183	7,023	3,116	1,192	716

[1] Conversions are excluded in all cases, except France, Japan and Sweden.

Statistics giving the total amount of conversions in these countries are not available separately from total redemptions. The following statistics are available concerning the redemption (including conversions) of different forms of securities in these markets.

Country	Kind of bonds redeemed	Currency (000,000's)	1929	1930	1931	1932	1933
France	1. Bons de la Défense nationale et du Trésor ordinaire (Excess of redemption)	Franc	7,445	278	991	—	1,588
	2. Other French bonds	Franc	2,776	9,709	13,804	2,507	2,320
	3. Foreign bonds	Franc	97	49	75	97	187
Japan	1. Government loans (including Treasury bills, rice purchase notes, local authorities)	Yen	414	1,091	1,700	1,807	...
	2. Bank and Corporation bonds	Yen	660	293	338	420	...
Sweden	1. All bonds	Krona	286	759	531	264	533

[*Continued on following page.*]

The extremely low levels to which new capital issues fell in 1933 are emphasised by the compilers of these estimates in various countries. For the United Kingdom, where the signs of incipient recovery were clearest, it was stated that "there was little industrial activity in the new capital market during 1933".[7] The compilers of the statistics for the United States remark that "the slimness of the new financing in 1932 was hardly a circumstance to what happened in 1933"[8], while, in the Netherlands, it was stated that "capital issues did not constitute an exception to the general lethargy which characterised the year 1933. Here also a new low record was registered.[9]

In particular countries the hesitancy of the investors has been reinforced by Government measures, of which the outstanding example is the Securities Act which came into force in the United States in August 1933. It has been argued that the provisions of this act, which did not apply to Government issues, but imposed more stringent control over the flotation of new industrial issues, was responsible for checking investment in that country.[10] Modifications of this Act were contained in the later measure for the regulation of Stock Exchange dealings, passed in May 1934, but it is too soon yet to appreciate their effect.

Reference is also made later to the unofficial embargo upon foreign issues in the London market since the first great conversion operations were begun in the middle of 1932, to the Johnson Act passed in May 1933 by which Governments which have defaulted on their war debts are barred from the United States markets, and to developments of a similar character in

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[*Continued from preceding page.*]

Shares include both preferred and ordinary stocks. By public authorities in the sense used above is always understood national public authorities, both central and local.

Belgium: National Bank, *Bulletin d'Information.*

France: Statistique générale de la France, *Bulletin trimestriel,* mars-juin 1930-31.

Germany: Statistisches Reichsamt, *Wirtschaft und Statistik,* 2. Mai Heft 1934.

Japan: The Institute for Commercial Research, Kobe University; *Annual Bulletin of the Financial and Economic Statistics* 1933; Tokyo Chamber of Commerce, *The Monthly Reports on Current Economic Conditions.*

Netherlands: Centraal Bureau voor de Statistiek, *Jaarcijfers.*

Spain: *Revista de Económica y Hacienda,* Madrid, January 6th, 1934.

Sweden: Kommerskollegium, *Ekonomisk Oversikt.*

Switzerland: National Bank, *Bulletin mensuel.*

United Kingdom: *The Economist,* December 30th, 1933.

United States: *Commercial and Financial Chronicle,* January 13th, 1934.

[2] Issues for French account only.

[3] Municipal bonds issued by public credit institutes and bonds issued by public enterprises excluded.

[4] The totals for 1929 and 1931 include 19 and 7 million RM. issued for foreign account.

[5] These figures includes Treasury bills.

[6] Excluding Federal Government issues.

[7] *The Economist:* "Commercial History of 1933", February 17th, 1934.

[8] *Financial and Commercial Chronicle,* January 13th, 1934.

[9] Rotterdamsche Bankvereeniging, *Monthly Review,* February 1934.

[10] *Cf.* C. J. BULLOCK: "The Securities Act of 1933", *Harvard Review of Economic Statistics,* March 1934.

other countries. The paralysis of new investment has been most complete as regards foreign issues, partly because of Government restrictions on foreign lending, but mainly because of widespread monetary instability.

A glance at the preceding table is sufficient to show that share issues have fallen more heavily than any other class of investment. In the United Kingdom, the total issues of shares in 1933 were about 15 per cent of the issues in 1929; the issues of "ordinary" shares being less than 9 per cent of the 1929 issues. In France, total issues in 1933 were about 12 per cent of the 1929 figure. In Germany,[1] the corresponding figure was just over 9 per cent, in the United States and in Switzerland less than 2 per cent, in the Netherlands less than 1 per cent. Only in Japan were share issues at all sustained, rising to Yen 1,327 million in 1933 as compared with Yen 1,287 million in 1928 and Yen 1,152 million in 1929.

Such a decline in the issues of industrial shares is, of course, a normal development in all depressions, though the magnitude of the decline is unprecedented. In this depression, however, the issues of fixed interest industrial securities have also diminished greatly. In previous depressions, such securities played a large rôle in attracting new investment in the recovery period.[2] In the United Kingdom during 1932 and 1933, the issues of bonds and debentures increased and in 1933 were greater than in 1928. In this case, since the total amount of Government loans did not increase, it is evident that there was some revival in the issues of fixed-interest industrial securities. There is, however, no evidence of such a revival in the other principal money markets and the increased industrial debenture issues in the United Kingdom were far from compensating for the great decline in share issues. They did, however, provide some enterprises with new capital at the lower interest rates ruling in 1933.

The demoralisation of investment in most countries is further demonstrated by the fall (except in a few countries — *e.g.*, Denmark and Switzerland) in the value of new mortgages registered. Faced with the risks of currency depreciation and with the general economic uncertainty of recent years, in most countries a good many owners of capital have preferred to hoard their wealth, either in gold or in currency or in bank deposits, rather than place it even in the traditionally safe

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[1] The peak in Germany was reached in 1928 and the figure for 1933 was less than 7 per cent of the amount in that year.

It should be remembered that the complete cessation of foreign lending also affects the supply of new capital to debtor countries like Germany, so that the actual position is worse than the statistics of domestic issues might indicate.

[2] *Cf.* Ernst WOLFGANG: "Die Kursbildung am Rentenmarkt", Poeschel Verlag, Stuttgart 1931, and Karin KOCK: "Study of Interest Rates", Stockholm, 1928, page 125.

forms of long-term investment. Capital has gone to earth often in the shape of gold hoards at higher prices, buried in safe-deposit vaults. The only new issues which have in recent years met with a ready response from the investing public in most countries have been Government loans, which have accounted for an increasing proportion of the new long-term issues, as the following table shows.

New Long-term Loans issued by Public Authorities as a Percentage of Total New Long-term Public Issues in Various Countries, 1929-1933.

Country	1929	1930	1931	1932	1933
Belgium	8	34	56	82	70
Germany	15	4	1	29	66
Netherlands	12	34	74	80	97
Spain	27	18	26	70	77
Switzerland	5	6	38	44	60
United Kingdom	26	51	42	67	74

The Demand for New Capital.

The demand for new capital at any time is governed in some degree by the price at which capital can be borrowed, and this in turn is dependent upon both demand and supply in the given circumstances, and upon credit policy. Certain aspects of the movement of interest rates are dealt with in the next section. In this section, attention is directed not so much to the terms upon which capital may be borrowed as to the obstacles which remain to the profitable utilisation of new capital. This involves analysis of the information available concerning the liquidation of past commitments, in order to estimate the credit-worthiness and profit-earning possibilities of potential borrowers. It is evident that any general analysis of this problem must be extremely tentative. Particular cases vary enormously. In every country, the day-to-day activities of bankers are largely concerned with the practical handling of individual requests for credit accommodation. No general analysis can yield clear-cut practical solutions; but there are certain aspects of the problem as a whole that demand general treatment. The particular cases which, in the aggregate, make up the general situation must be judged, not only individually, but also in the light of general tendencies.

No aspect of economic organisation, indeed, demonstrates quite so clearly the necessity for supplementing detailed treatment of particular cases by broad surveys of the general trend.

Errors of estimation in the field of investment derive at least as much from general policy as from particular decisions. This is now very clear, for example, with regard to loan policies in the years before 1929. It might reasonably be claimed that the great majority of loans in that period were sound at the time, and in the circumstances, of their issue. It was the cumulative effects of parallel decisions which proved unsound in the aggregate, though almost every decision, by itself, might have been defended.

The most important general problems that demand consideration here arose from the necessity for clearing away the debris which accumulated when the over-extended loan structure of the boom period collapsed in the depression. It is not reasonable to expect new capital investment to revive vigorously until the reorganisation of past investments has reached a stage where business enterprise, freed from the losses consequent upon previous mistakes, may be expected once more to earn profits on a sound basis. This is particularly true in present circumstances because of the tendency, emphasised in the preceding section, for potential investors to fight shy of new risk-bearing enterprises. In former depressions, the final stages of capital reconstruction were often forced by the appearance of new enterprises capitalised on a lower cost basis. Such a tendency is now slower in developing and it is therefore more important than ever to revise past commitments and place business enterprise once more in a profit-earning position.

The re-emergence of profits not only provides an encouragement to new investment, but also replenishes one of the principal sources from which supplies of new capital may be drawn. There is a double interest therefore in the fact that, for the United Kingdom, the company profits declared in the last quarter of 1933 and the first quarter of 1934 show a distinct increase.[1] The table below, which shows the movement of net profits (after payment of debenture and loan interest) gives encouraging figures for 1933 as a whole and especially for the last quarter. The profits declared in each quarter were, of course, made in the preceding business period for which the accounts were compiled, so that there is a considerable lag between improved earnings and their reflection in larger declarations of profits. The comparisons are between the profits of the

[1] A sample estimate covering the net profits of 163 industrial and mercantile companies in the U.S.A. is given by the Federal Reserve Board of New York (*Monthly Bulletin*, June 1934) and shows a fairly substantial recovery in 1933; but this estimate has been criticised as being based on an inadequate sample. *Cf.* W. L. CRUM: "The Course of Corporation Profits", *Harvard Review of Economic Statistics*, March 15th, 1934, where fuller information is given indicating a persistent and heavy fall in the profits of all corporations during the greater part of 1933. Scattered later information, however, indicates larger profits in the final quarter of 1933 and the first quarter of 1934.

same companies in each quarter and the corresponding quarter of the preceding year.

Percentage Increase or Decrease of Net Company Profits in the United Kingdom (after Payment of Debenture and Loan Interest).[1]

(Net Profits declared by companies in each quarter compared with those of the same companies for the corresponding quarter of the previous year.)

Quarter	1929	1930	1931	1932	1933	1934
I	+ 1.5	+ 1.9	—10.6	—14.3	— 8.9	+ 5.8
II	— 0.7	+ 8.6	—19.4	—21.8	+ 3.3	+ 18.2
III	— 3.0	— 6.4	—35.5	—28.6	— 5.5	. . .
IV	+ 1.4	—18.1	—53.9	— 2.9	+ 30.3	. . .
Year . . .	0.0	— 0.6	—22.5	—18.1	— 0.5	. . .

Profits have increased in Japan also. An analysis of the profit-and-loss accounts of a great number of companies, made by the Mitsui Gomei Kaisha, yields the following results:

	Number of companies	1932 July-Dec.	1933 Jan.-June	1933 July-Dec.
		Yen (000,000's)		
Banks	250	72.4	74.1	77.9
Industrial Companies . .	1,000	197.7	242.5	283.7

For Italy, *La Borsa*[2] has calculated the net earnings of 260 corporate enterprises during the years 1929 to 1933. The amounts earned were 10.8 per cent of the total capital of these companies in 1929; the percentage falling in subsequent years to 4.0 per cent in 1930, 5.8 per cent in 1931, 3.9 per cent in 1932, but rising in 1933 to 6.3 per cent.

For Belgium, on the other hand, the statistics show a continued and heavy decline of the business profits declared in 1933. For all companies included in the national statistics, the figures in recent years have been as follows:

Net Earnings of Corporate Enterprises in Belgium, 1929-1933.[3]

(Base: 1929 = 100.)

Type of Corporation	1930	1931	1932	1933
Business	102	61	14	1
Financial	131	115	55	51
Total	109	75	25	14

[1] *The Economist*, July 14th, 1934.
[2] April 5th, 1934.
[3] Banque nationale de Belgique: *Bulletin d'Information et de Documentation, passim.*

In Hungary also, up to the end of 1933, there was a downward tendency of profits:

Percentage Increase or Decrease of Net Company Profits in Hungary (after Payment of Debenture and Loan Interest).[1]

(Net Profits declared by companies compared with those of the same companies in the preceding year.)

Pengö (000,000's).

Year	Number of Companies	Net Profit or Loss Actual Year	Preceding Year
1931.	1,658	+ 30.8	+ 66.1
1932.	1,607	— 6.2	+ 33.3
1933.	1,383	—17.5	+ 2.3

The monthly figures for Hungary show some tendency towards recovery in the first quarter of 1934, but the number of companies which declared their profits in that quarter is too small a sample of the total to serve as a reliable indication of the trend. One hundred and ninety-four companies showed a net profit of Pengö 7.6 million as compared with Pengö 1.1 million in the first quarter of 1933.

The Belgian figures also show some tendency to recovery at the beginning of 1934 — 1,598 companies which closed their accounts in the first quarter of 1934 showed a net profit of 406 million francs, the net profit of the same companies in the same quarter of 1933 having been 302 millions. The renewal of deflation in the early months of 1934 has not had time to affect these statistics.

Though more statistics are not available, and it is probable that the situation in the United Kingdom is better in this respect than in most other countries, the marked revival of industrial production in 1933 suggests that profits are beginning to reappear in many countries. Circumstances differ greatly from country to country and, in those where deflation is still proceeding, and fixed charges tend therefore to increase relatively to earnings, profits are slower to revive. The relation between other costs, such as wages and taxes, and the movements of commodity prices, is also a powerful factor influencing profit-earning capacity, particularly in countries, such as Germany and the United States, where strong Government action has been taken, affecting costs and prices. No generalised statement, therefore, is possible concerning the present trend

[1] Ungarisches Institut fur Wirtschaftsforschung, June 1934.

of profits and the effect which such a trend may have upon new investment.

It is evident that the credit-worthiness of industrial enterprises depends also upon the progress made in freeing them from the dead-weight burden of indebtedness incurred at higher rates of interest than those now ruling. During the depression, it is evident that some progress has been made in the liquidation of industrial indebtedness. Bankrupcy, default, debt composition, debenture conversions, interest reductions, and, in some cases, repayment or the buying-in of bonds carrying high interest charges, have all operated to reduce indebtedness. Thus, in Hungary, the proportion of debt to the owned capital of business corporations fell from 88 per cent in 1929 to 75 per cent in 1931 and 72 per cent in 1932.[1] In Roumania, the percentage fell from 92.1 per cent in 1929 to 70.1 per cent in 1931.[2]

The latest figures for Germany show a similar tendency. The indebtedness of business corporations, excluding banks, insurance and trust companies, whose balance-sheets become available quarter by quarter show a relatively small but definite reduction of indebtedness proportionately to owned capital. The statistics are summarised below:

Indebtedness of German Corporations, 1932-33.[3]

Reichsmark (000,000's).

Quarter	Capital		Indebtedness		Percentage of Indebtedness of Capital	
	Actual Year	Preceding Year	Actual Year	Preceding Year	Actual Year	Preceding Year
1932: III .	1,774	1,902	1,419	1,583	80.0	83.2
IV .	6,837	7,234	3,525	3,877	51.6	53.7
1933: I . .	1,387	1,442	924	975	66.6	67.6
II .	1,890	1,984	1,670	1,754	88.4	88.4
III .	1,685	1,732	1,322	1,439	78.5	79.3

In the latter part of 1933 and the early months of 1934, there has also been a considerable use of blocked marks and exchange scrip to re-purchase industrial bonds on foreign markets at a considerable discount.

The low short-term interest rates ruling in many countries have also enabled business enterprises to lower their fixed charges in many ways. Not only on account of the short-term credit needed for their self-liquidating commercial transactions, but in the utilisation of overdrafts and short-term advances

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[1] *Annuaire statistique*, 1932.
[2] *Buletinul Statistic al României*, January-March 1933.
[3] *Wirtschaft und Statistik*, 1933-34. Estimates for 1931 (*Vierteljahrsheft zur Statistik des Deutschen Reichs*, Beilage 1) show a similar trend.

for other purposes, and in the possibility of converting debentures, the abundance and cheapness of short-term credit has been an advantage to business enterprises.

In respect of conversions, however, the cheaper interest rates appear to have been of less use to industry than to Governments. The following table summarises the conversion operations that have been carried out on four important money markets.

Conversion Operations in Certain Money Markets, 1929-1933.[1]

(000,000's)

Country	Currency Unit	Kind of Conversion	1929	1930	1931	1932	1933
Netherlands .	Gulden	Netherlands Govt.	81	68	423	266	182
		Private enterprise				1	—
Switzerland. .	Franc	Swiss Government	64	756	671	367	550
		Other	150	225	271	270	76
United Kingdom. .	£	U.K. Government	164	143	12	2,479	51
		Private enterprise	40	45	—	11	62
		Other			—	21	114
United States[2]	$	U.S. Federal Govt.	.	.	.	.	.
		Private enterprise	1,387	529	826	319	338
		Other	22	124	81	219	

In the countries cited, and in many others such as Italy, France, Sweden and the British Dominions, Government (including municipal and Government enterprise) conversions on a large scale have reduced public expenditure and have therefore been of indirect benefit to industry and commerce, not only by making lower taxation possible (or avoiding increased taxation), but also by their influence in lowering long-term interest rates.[3] Direct industrial conversions have, however, been limited. Thus, in the United Kingdom, a survey made by the London *Economist* at the end of July 1932 showed that, of a total of £945 million of debentures, bonds, etc., of British companies quoted in the Stock Exchange Official List

[1] Netherlands, Rotterdamsche Bankvereeniging, *Monthly Review*, February 1934.
Switzerland, National Bank, *Monthly Bulletin*, January 1930-1934.
United Kingdom, *The Economist*; Bank of England, *Statistical Summary*.
United States, *The Commercial and Financial Chronicle*, January 13th, 1934.

[2] Refunding.

[3] The following table shows the strong tendency towards lower interest rates on the London money market (*The Economist*, February 3rd, 1934).

Borrower	Total Stock Converted		Average Yield per cent. Original Issue		New Issue	
	1932	1933	1932	1933	1932	1933
	£ (000,000's)					
U. K. Government	2,363	51	4.9	4.5	3.4	3.0
Dominion and Colonial Govts. . .	18	111	5.8	5.5	4.8	3.85
Industrial Enterprises	11	61	6.0	5.45	4.7	4.5

(excluding issues under the Trade Facilities Acts), about £105 million would be eligible for conversion within ten years, while £840 million lay outside the "conversion zone". At the end of 1933, the same authority estimated that 60 per cent of the amount within the "conversion zone" had already been converted. A similar investigation showed that preferred shares to the amount of £786 million, issued before 1929, were quoted above par at the end of 1933, and would therefore have been convertible if conversion had not been forbidden by the company law of the period when they were issued. Preference shares amounting to £826 million were quoted below par and could not therefore be converted.

Apart from conversions, the reduction of debt charges by bankruptcy, default, interest reductions, compositions, repayments, suspensions of interest or amortisation, and purchases of outstanding securities, has been proceeding in most countries; but it is impossible to generalise concerning the adequacy of the reductions so far made. It is obviously necessary to reduce existing debt charges to the point where profits emerge once again, if new investment is to take place. On the other hand, the possibility of profits being earned is dependent, *inter alia*, upon the general level of prices, and in many countries — in all which reflect rather than determine world conditions — a rise in prices may precede a renewal of investment. No investor is likely to lend new capital the return upon which is likely to be swallowed up in meeting former obligations, unless, indeed, he does so in order to salvage at least part of his former investments. Where, as has been the case in many countries, compulsory reductions of capital or interest are expected, or default of some kind is regarded as inevitable, new investment ceases almost entirely. Such expectations have undoubtedly been powerful in preventing a revival of investment in recent years. It is feared that the process of debt reduction has not yet been completed and the investor therefore hoards his capital.

In many countries, arrangements have been made by which industrial enterprises have been able to free themselves of some portion of their fixed charges, giving shares in return. A notable example is provided by the reorganisation of the Chilian nitrate company, Cosach, where indebtedness amounting to $232 million has been reduced to $52 million by the issue to creditors of "income-bonds", interest on which are payable from profits.[1] In Germany, during 1933 frozen debts have in many cases been turned into equity shares.[2]

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[1] *South-American Journal*, Annual Review 1933, January 24th, 1934.

[2] Ludwig MELLINGER: "Erholung der Kredit-Bereitschaft", *Die Bank*, March 21st, 1934.

More general attempts, for the most part with Government support, have been made to reduce the burden of indebtedness by interest reductions. Indeed, the problems of indebtedness, particularly as they affect the agricultural communities, have preoccupied a great many Governments.[1] In Australia and New Zealand, reductions of interest chargeable on private debt formed an essential part of the official recovery plans, equally with the conversion of public, and the compulsory reduction of interest on municipal, debt. In Germany and many other European countries, as well as in most of the South-American States, legislation has been passed providing for interest reductions, and in many cases for the rearrangement of capital obligations, in respect of agricultural debt. Action has been taken elsewhere, notably in the United States, aiming at the reorganisation and improvement of the long-term agricultural capital market.[2]

Nevertheless, the burden of indebtedness still rests heavily upon most agricultural communities. The value of agricultural production, and therefore of agricultural income, fell heavily in the depression and while, in some countries, there was improvement in 1933, this improvement was slight and by no means universal.

It is perhaps too soon, in the early summer of 1934, to estimate the effect of the widespread efforts to assist farming communities to increase their net incomes. Statistics are not yet available to measure the extent of debt reduction that has taken place and there are a great many other factors, particularly farm prices and costs, to be considered. While there has been an encouraging increase of farm income in some countries during 1933, the figures remain far below the levels of the

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[1] *Cf. e.g.*, Anwar Igbal QURLSHI: "The Farmer and His Debt", Indian Rural Reconstruction League, London 1934; ROUVEROUX: "De la protection des débiteurs agricoles", *Journal d'Agriculture pratique*, May 5th and 12th, 1934.

[2] Argentine: "El Plan de Acción Económica Nacional." Ministerios de Hacienda y Agricultura, Buenos Ayres, 1934.

Australia: COPLAND: "Australia in the World Crisis 1929-1933", Cambridge, 1934. *Economic Record*, December 1932 and June 1933.

Brazil: *Diario Oficial Estados do Brazil Unidos* No. 281, of December 6th, 1933.

Canada: *Reuter's News*, Ottawa, June 4th, 1934.

Germany: Institut fur Konjunkturforschung 8-III-A, Berlin 1934; Department of Overseas Trade, "Economic Conditions in Germany", London 1933.

Hungary: League of Nations, "Financial Position of Hungary in the Third Quarter of 1933" (document C.617.M.290.1933.II.A.F.1293).

New Zealand: BELSHAW: "Crisis and Readjustment in New Zealand", *Journal of Political Economy*, Vol. XLI, No. 6, 1933.

Poland: "*La Pologne*", February 1st, 1934, pages 94-96.

Roumania: *L'Est européen agricole*, No. 7, October 1933, Paris, Jouve et Cie., Banque nationale de Roumanie, *Bulletin mensuel*, avril 1934.

Union of South Africa: Department of Overseas Trade, "Economic Conditions in South Africa", London, July 1931 and September 1933, and Report of the Commission to Enquire into Co-operation and Agricultural Credit, Cape Town, 1934.

Value of Farm Production and Farmers' Income 1929-1934. [1]

National Currencies (000,000's).

A. — Agricultural Net Revenue: Value of Products sold off the Farm or retained for Home Use, less Amount of Crops retained for Food or Seed.

B. — Value of Produce sold off the Farm.

C. — Agricultural Income: Remuneration of the Farmers' and their Families' Labour and Capital, Taxes paid, etc.

Country		Unit	1929	1930	1931	1932	1933
Argentine	B [2]	Pesopap.	2,168	1,396	1,456	1,288	1,120
Canada	A	Dollar	1,034	820	538	476	465
Denmark	B [3]	Krone	1,195	1,133	951	813	851
Finland	A [4]	Markka	4,281	4,676	4,820	5,312	4,835
France	A [4]	Franc	83,700	70,500	64,400	58,000	...
	C	Franc	44,800	35,200	30,700	26,500	...
Greece	A	Drachma	8,462	7,776	7,615	9,393	...
Hungary	A	Pengö	1,819	1,525	1,135	1,091	996
	B	Pengö	1,336	1,059	765	633	620
Irish Free State	B [3]	£	40	38	33	23	17
Netherlands	A	Gulden	.	931	.	...	.
Roumania	A [5]	Leu	96,565	56,022	46,374	47,829	40,982
	A [4]	Leu	59,187	31,336	25,507	25,326	23,417
Spain	A [5]	Peseta	12,817	.	12,491	...	...
	A [4]	Peseta	9,748	9,096	9,617	...	...
Sweden	A	Krona	1,059	949	851	920	945
Switzerland	A	Franc	1,479	1,371	1,403	1,262	1,224
United States	A	$	11,917	9,414	6,909	5,143	6,360
	C	$	6,341	5,707	4,500	3,442	...

Country		Unit	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34
Australia	A [6]	£A	223	174	144	148	...	...
England and Wales	B	£	221	216	196	183	178	...
Germany	A	RM.	13,865	13,340	11,654	9,889	8,800	9,800
	B	RM.	10,173	9,847	8,691	7,364	6,460	7,250
	C	RM.	5,816	5,774	5,200	4,700	3,750	4,310
New Zealand	A [5]	£NZ	83	75	57	50	53	...

[1] *Sources:*
Argentine, *Trade Statistics.*
Australia, *Production Bulletin*, No. 26, 1933.
Canada, *Monthly Bulletin of Agricultural Statistics*, March 1930-1931.
Denmark, *Statistiske Efterretninger*, January 1934.
England and Wales, *Agricultural Statistics*, 1930-1932, Part II.
Finland, *Annuaire statistique*, 1933; Bank of Finland, *Monthly Bulletin*, 1934.
France, *Revue d'Economie politique*, May-June 1930-1934.
Germany, *Konjunkturstatistisches Handbuch*, 1933, p. 187. *Wochenbericht* des Instituts fur Konjunkturforschung.
Greece, *Annuaire statistique*, 1930-1933.

[*Continued on following page.*]

years when the debt burden was incurred, and debt reduction is a slow process.

The impression left, therefore, by a survey of the debt situation in agriculture as well as in industry, and of the other obstacles to a renewal of investment activity, is one of incomplete reorganisation. There are countries, notably the United Kingdom and some of the British Dominions, where reorganisation has proceeded far enough to encourage the beginning of new investment; but, in many other countries, the burden of old debt still weighs heavily and the capacity to earn profit has not yet been re-established. Such revival of investment activity as could be found in the first half of 1934 was confined to a relatively few countries and to domestic investment in those countries on a scale still far below the levels reached before the depression began.

The Influence of Credit Policies.

The situation of the capital market in the early summer of 1934, as will be evident from the preceding sections of this chapter, differed considerably from country to country. In the next section, it is shown that the international capital market still remains paralysed and that such movements, mainly of short-term capital, as have recently taken place are on the whole withdrawals rather than new investments. With international investments still paralysed, the national capital markets are subject to local influences in greater degree than formerly. These local influences are of two sorts, those already examined in the sections dealing with supply and demand and those which arise from the credit policy followed in particular countries.

[*Continued from preceding page.*]

Hungary, *Journal de la Société hongroise de statistique*, 1934, Part I.
Irish Free State, *Statistical Abstracts*, 1933.
Netherlands, *Jaarcijfers voor Nederland*, 1933.
New Zealand, *Monthly Abstract of Statistics*, January 1934.
Roumania, *Buletinul Statistic al Roumâniei*, April 1933.
Spain, *Anuario Estadistico de España*, 1931.
Sweden, *Vierteljahrsheft zur Statistik des Deutschen Reichs*, Erstes Heft, 1934.
Switzerland, *La Vie économique*, January 1929-1932 and 1934.
United States, *Statistical Abstract of the United States*, 1933; Department of Commerce, *The National Income*, 1929-1932.

[3] Value of total exports, 95 per cent of which are agricultural products.
[3] Value of agricultural exports.
[4] The meat and dairy production is represented by the value of th home-grown fodder consumed by those sections, a figure which of course is too low.
[5] Aggregate gross amount of agricultural, pastoral and dairy production.
[6] Value added by the agricultural production, plus aggregate value of pastoral and dairy production.

The former cannot be easily summarised, though certain outstanding facts, such as the tendency for company reserves to diminish during the depression and the hesitancy of private investors to entrust their savings to new enterprises, are common to most countries. There is a broad distinction to be drawn between those countries where deflation is still proceeding and those where a policy of expansion is being followed; but circumstances differ greatly and individual factors are of such varying importance in particular countries that each case must be considered separately. This conclusion is reinforced by a consideration of the movement of industrial share indices summarised in the table below. Share prices may be influenced,

Quarterly Movement of the Market Value of Industrial Shares, 1933-34. [1]

Base: Average 1929 = 100.

	1933				1934	
	March	June	Sept.	Dec.	March	June
Austria	46	46	44	41	46	49
Belgium	30	37	34	31	29	26
Canada	22	40	45	42	48	47
Chile	127	140	152	147	151	....
Czechoslovakia	51	58	62	57	62	....
Denmark	79	85	87	90	92	95
France	41	48	47	43	37	37
Germany	53	56	48	52	60	60
Hungary	52	53	51	46	52	....
Japan [2]	199	221	258	281	317	337
Netherlands	27	33	31	32	33	29
Norway	67	77	81	80	81	80
Poland	29	29	31	29	30	26
Spain	44	45	45	51	53	52
Sweden	34	42	42	42	46	46
Switzerland	57	68	68	66	69	66
United Kingdom	66	73	79	81	88	89
U.S.A.	22	41	43	42	45	43

not only by increased profits calling forth renewed investment, but also by fears of currency inflation or deflation, by flights of refugee capital, by credit policies designed to raise prices and other similar causes. Thus, among the countries cited below, the indices fell between March 1933 and March 1934 in Belgium (3 %) and France (10 %), remained practically level in Austria, Hungary and Poland, but rose by over 20 per cent in the Netherlands, where the price of rubber was an important factor, in Czechoslovakia where the currency was devalued early in 1934 and in Switzerland. All these are gold countries. Among the countries not on the gold standard, share values rose

[1] League of Nations, *Monthly Bulletin of Statistics*, June 1934.
[2] Average 1930 = 100.

most where the currency was most depreciated, as in Chile (where the rise took place mainly before 1933), Japan, and in the United States (104 %). The greatest rise of all, however, took place in Canada (117 %) which not only was influenced by developments in the United States, but received a great deal of refugee capital from that country. Substantial rises occurred also in Sweden (36 %) and Great Britain (33 %).

With the supply of capital reluctant to seek investment and the demand in most countries still hampered, the price of capital has responded slowly to the cheap-money policies that have been followed almost everywhere. Short-term discount and interest rates have fallen to, and stayed at, very low levels; but long-term interest rates move more slowly. The evolution has proceeded further in the United Kingdom than in most other countries and the following table summarises the ruling rates on new capital issues.

Movement of Short and Long-term Rates in the London Money Market. [1]

Annual Average per Centum.

	1929	1930	1931	1932	1933
Bank rate	5.50	3.42	3.93	3.00	2.00
Three months' bill rate	5.27	2.61	3.55	1.84	0.69
Yields on new issues of all Government borrowers	5.07	5.43	5.60	3.72	3.14
Yields on new issues of industrial debentures	6.10	5.96	6.33	5.44	4.58
Yields on new issues of preferred shares	6.58	6.00	6.50	6.32	5.28

The tendency towards lower rates of long-term interest in other markets was less marked. The following tables give the information that is available for France and Germany.

Movement of Short and Long-term Interest Rates in the Paris Money Market. [2]

Monthly Average per Centum.

	1929		1931		1932		1933				1934	
	VI	XII	VI	XII	VI	XII	III	VI	IX	XII	III	VI
Bank rate	3.5	3.5	2.0	2.5	2.5	2.5	2.5	2.5	2.5	2.5	3.0	2.5
Commercial paper, 45-90 days . . .	3.50	3.48	1.06	1.88	1.12	1.06	2.13	1.75	1.38	2.39	2.88	2.00
Yields on new issues of all bonds . . .	5.55	5.00	4.60	4.50	5.35	5.60	5.60	6.30	5.95	5.95	6.10	6.30

[1] *The Economist*, February 17th, 1934.
[2] Statistique générale de la France, *Bulletin trimestriel*, April-June 1930-1934.

Movement of Short and Long-term Interest Rates in the Berlin Money Market. [1]

Annual Average per Centum.

	1929	1930	1931	1932	1933
Bank rate	7.10	4.93	6.86	5.21	4.00
Private discount	6.87	4.43	6.14	4.95	3.88
Yields on new issues of all bonds	7.82	6.94	6.08	4.68	6.04

The following summary table, which gives the average yield of representative samples of Government and industrial bonds in a number of different countries, is not strictly comparable with the preceding tables, which refer only to new issues.

The Yield of Government and Industrial Bonds in Different Countries, May 1932-May 1934. [2]

A = Government bonds.
B = Industrial bonds.

Country		May 1932	May 1933	May 1934
France	A	4.62	5.01	4.56
	B	5.03	5.62	5.34
Germany	A	10.04	6.78	6.14
	B	10.94	7.54	6.93
Japan	A	5.94	4.91	4.46 [3]
	B	6.93	6.04	5.51 [3]
Netherlands	A	4.40	4.30	4.29
	B	5.73	5.09	4.97
Sweden	A	4.42	4.22	3.65*
	B	5.74	4.92	3.91*
Switzerland	A	3.76	4.13	4.22*
	B	7.21	6.76	7.52
United Kingdom	A	4.28	3.51	3.39
	B	5.38	4.44	4.27
United States	A	3.83	3.79	3.84
	B	8.35	6.94	5.47*

It is hardly possible to do more than state that there is a general tendency for the rate of long-term interest to follow the downward trend of short-term rates as determined by the cheap-money policies pursued by Central Banks. This tendency is most marked in such countries as the United Kingdom, which have combined cheap money with budgetary equilibrium

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* Estimated.
[1] *Wirtschaft und Statistik*, 2. Mai-Heft, 1931.
[2] *Wirtschaft und Statistik*, Nr. 11, 1931, Sonderbeilage.
[3] April 1934.

and cost reductions. In the gold countries, where deflation is still pursued in order to reduce price-levels, share prices tend to fall and the long-term interest rate remains at a high level. Bankruptcy statistics emphasise this contrast between the policies pursued in the countries on and off the gold standard. While the number of bankruptcies as given in the summary table below depends upon the national legislation and does not take account of the amounts involved, the trend is sufficiently indicated. It should, however, be stated that in many of the countries where the number of bankruptcies have fallen greatly, the legislation has been changed. The compilers of this table state that "the figures given for certain countries are not always strictly in accordance with facts, owing to the numerous forms of agreement by which open bankruptcies are avoided". The relative importance of business recovery and of the agreements referred to cannot be assessed.

Number of Bankruptcies in Various Countries 1929-1933. [1]

Monthly Average.

Country	1929	1930	1931	1932	1933
South Africa	141	214	215	208	105
Austria	48	58	68	91	80
Belgium	111	144	213	288	309
Canada	181	200	185	202	170
Chile	14	27	42	25	9
Czechoslovakia	54	74	86	118	130
Denmark	35	32	39	51	30
France	726	756	906	1,170	1,147
Germany	821	945	1,133	717	326
Italy	1,010	1,134	1,483	1,684	1,431
Netherlands	227	255	284	378	382
Poland	43	69	63	46	25
Sweden	219	207	238	299	262
Switzerland	52	52	53	75	72
United Kingdom:					
Bankruptcies	345	369	389	415	367
Company liquidations	262	283	286	275	262
United States	1,992	2,196	2,357	2,652	1,692

The International Capital Market.

Foreign lending has been reduced during the latter part of the depression more than any other activity of the principal

[1] League of Nations: *Monthly Bulletin of Statistics*, March 1934.

capital markets. It is hardly an exaggeration, indeed, to say that it has ceased almost entirely. If one excepts the loans raised by the British Dominions and some colonies on the London market, and certain colonial loans in other centres, practically the only important loan raised abroad by a foreign Government in 1933 was the Austrian loan to which reference was made in Chapter I. The following table, which includes colonial as well as foreign borrowings, shows how such issues have dwindled in recent years.

Loans Issued to Foreign Borrowers on the Principal Money-Markets, 1929-1933.[1]

(National Currencies (000,000's))

Lending Countries	Unit	1928	1929	1930	1931	1932	1933
United Kingdom:							
Dominions and colonies	£	63.2	61.0	61.4	38.5	25.5	29.2
Foreign		42.3	26.2	35.7	9.1	0.3	5.4
United States	$	1,319	758	1,009	254	26	—
France:							
Colonies	Franc	72	414	1,343	2,493	2,252	2,748
Foreign Governments .		.	517	2,630	4,161	1,358	1,407
Netherlands:							
Colonies	Gulden	—	—	—	—	104	—
Foreign		242	206	241	32	23	—
Switzerland	Franc	91	110	305	103	145	—

The reasons for this almost complete paralysis of international long-term capital movements are fairly clear. In the present disturbed international situation, when political difficulties are aggravated by economic uncertainty, there is little prospect of renewed foreign lending. In addition to the fear of further currency instability, the influence of national economic policies such as those affecting taxation, tariffs and quota systems, and the decline of international trade, with the ensuing transfer difficulties, make foreign loans exceptionally risky, while few debtor countries are in a position to add to their already heavy commitments new loans at interest rates which must incorporate risk premiums. The year 1933 has been one of further liquidation and readjustment of past obligations in so many

[1] United Kingdom: *The Economist*, Commercial History of 1933, February 1934.
United States: *Commercial and Financial Chronicle*, January 13th, 1934.
France: Statistique générale de la France, *Bulletin trimestriel.*
Netherlands: Centraal Bureau voor Statistiek, *De Nederlandsche Conjunktur*, 1934.
Switzerland: Banque nationale, *Bulletin mensuel*, 1930-1934.

countries [1] that any renewal of lending has been impossible except in the special circumstances of certain dominions and colonies. Embargos placed upon the issues of foreign loans in important lending centres have contributed to the paralysis of the market. Thus the unofficial arrangements made to stop new issues on the London market at the time of the conversion operations in 1932 have been maintained as regards foreign issues. The only exceptions were the Austrian loan and those issues which were made in connection with the new trade treaties to finance British exports, as in the Danish (Dorman and Long) and Polish (Westinghouse) issues and the Argentine loan to free blocked peso accounts. The Johnson Act forbidding the raising of new loans in the U.S.A. by Governments which have defaulted, and the power taken under the new Swiss Bank Law (1934) requiring the consent of the National Bank for any foreign loan above 10 million Swiss francs, are steps in the same direction.

The developments in regard to international indebtedness during the past year have already been stated briefly in Chapter I. The two dates of payment to the United States Government in respect of war debts (December 15th, 1933, and June 15th, 1934) passed without any final agreed settlement being reached. On the former date, the United Kingdom and a number of other countries made token payments; but, before the June payment fell due, the Johnson Act was passed and was officially interpreted as requiring full payment of the current instalment by any country desiring to avoid default. In the event, Finland again paid the full amount of its instalment; but no other debtor country made any payment.

In June 1934, as a year earlier, a new phase of the international debt problem was ushered in by the announcement of the German Government that transfer difficulties would cause a further reduction of its external payments. A conference of creditors met with representatives of the Reichsbank for some weeks in May and early June, and reached a provisional agreement regarding a transfer moratorium which was, however, conditional upon equality of treatment among the creditors,

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[1] An official statement in the House of Commons on March 5th, 1934, gave the following list of countries which, since January 1st, 1930, have failed to pay in full the contractual interest on Government loans raised by them in the London money market: Brazil, Bulgaria, Chile, China (certain loans have been paid in full), Colombia, Costa Rica, Ecuador, Germany, Greece, Hungary, Mexico, Paraguay, Peru, Roumania, U.S.S.R., Salvador (current interest being paid in full), Uruguay, Turkey, Yugoslavia. Governments which have suspended sinking-fund payments but have continued to pay the full contractual interest are not included in this list.

An estimate by Max WINKLER: "Foreign Bonds: An Autopsy", Philadelphia, 1933, of the nominal value (at January 18th, 1934) of the foreign bonds issued by public authorities which would be in default was about $5,000 million (gold). The interest service in default by that date was estimated to amount to $1,000 million (gold).

and upon the maintenance of the service of the Dawes and Young loans. On June 14th, a complete transfer moratorium, to include both of these loans, was announced. Negotiations were reopened immediately between Germany and the Governments in the creditor countries — the United Kingdom, the United States, France, Switzerland, Sweden and the Netherlands, as well as with the Bank for International Settlements. The development of these negotiations is described in the final chapter of this volume.

The arrangements made during 1933 and the first half of 1934 between other Governments and their creditors in respect of long-term debt were all of a temporary and provisional character, affecting the payment or transfer of current interest and amortisation payments. No final arrangements concerning future interest payments or adjustment of capital obligations can be recorded for this period.

Greater progress has been made, however, in the reduction of the outstanding foreign short-term debt. The following estimates made by the Bank for International Settlements refer only to the short-term liabilities of European countries and the United States. At the end of 1930, the total short-term debts of these countries amounted to 70,000 million Swiss francs. The corresponding totals at the end of subsequent years were: 1931, 45,000 millions; 1932, 39,000 millions; and 1933, 32,000 millions. The main causes of this great reduction were the repayment, mainly in gold, of short-term banking and commercial liabilities, both by central and by commercial banks, the use in certain cases of export surpluses in commodity trade, consolidation of short into long-term debt, and the depreciation in terms of gold of some of the principal currencies in which these debts were contracted.[1]

Of these causes, the first and the last were the most important. Short-term withdrawals, for example from London in 1931, and later from Germany and the United States, as well as from other countries where such withdrawals were important, were met by sales of gold and also of foreign assets. The countries of the gold *bloc*, during 1932 especially, practically liquidated their holdings of short-term foreign reserve assets and in so doing added appreciably to their gold stocks. The depreciation of sterling and later of the dollar, also lightened very substantially the burden of external debt obligations of those debtor countries which remained on the gold standard. Thus the total foreign debt of Germany, measured in RM. was

[1] Bank for International Settlements, Fourth Annual Report, April 1st, 1933-March 31st, 1934, Chapter IV.

reduced by 4,126 millions between February and September 1933; but the great bulk (3,173 millions) of this reduction was due to the depreciation of the dollar and of sterling in terms of official marks.[1]

There has, in many other countries, been a widespread and important reduction of external short-term debt. The short-term obligations of the U.S.S.R. fell by about half of the amount outstanding in June 1932, to 450 million gold roubles, at the beginning of 1934.[2] There have been considerable reductions also in the Argentine, Austria, Brazil, Colombia, Czechoslovakia, Sweden, Norway, Finland, Hungary, Lithuania, the Netherlands, Portugal and Greece.[3] Many agricultural-exporting countries were able during 1933 to build up short-term assets abroad to a considerable amount. The Bank for International Settlements estimated that, at the end of 1933, the aggregate amount of short-term assets held in London by South Africa, Australia, India and Egypt and the four Scandinavian countries amounted to £120 million sterling, a greater sum than in the years before the depression.[4] For South Africa, Australia and New Zealand, indeed, the rapid accumulation of short-term balances in London, as export prices rose, proved a source of difficulty. In Australia and New Zealand, where the currency is depreciated in terms of sterling, the prospects of an appreciation towards sterling parity were being discussed in the early part of 1934.

Another important development was the unfreezing of short-term blocked currencies in some of the South-American countries, notably the Argentine and Brazil. The Argentine arrangements with the United Kingdom and other countries were mentioned in another connection earlier.[5] By November 1933, these agreements with the United Kingdom, France, Italy, Switzerland, the Netherlands, Spain and Belgium had freed 82 million pesos which had formerly been blocked in the Argentine.[6] The Brazilian short-term commercial debt has been unfrozen by an arrangement with Dillon Read & Company and Rothschilds, who have accepted debentures of the Federal Government, redeemable in foreign exchange by instalments during six years. The long-term creditors agreed to considerable

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[1] *Wirtschaft und Statistik*, 1. März-Heft 1934.

[2] *Cf. Wirtschaftsdienst*, April 6th, 1934, and the Bank for International Settlements' Annual Report, *op. cit.*

[3] *Cf.* The Bank for International Settlements' Annual Report, *loc. cit.* and League of Nations, *Balance of Payments*, 1931 and 1932, Geneva 1933.

[4] M. GERMAIN-MARTIN: "Les Problèmes actuels des finances publiques en France", Paris, 1933, estimates (page 31) the foreign balances in French banks at between 5,000 and 6,000 million francs.

[5] Page 207.

[6] *Cf. Die Bank*, November 29th, 1933, and *South-American Journal*, Annual Supplement, January 24th, 1934.

reductions of interest rates when the 1931 funding agreement was renewed early in 1934 and this facilitated the payments on account of the new short-term debt agreement. In Uruguay also, a similar arrangement for the gradual repayment of the discounted short-term debt has been in operation since the middle of 1931. In Ecuador and Colombia, exporters are obliged to deliver 25 and 15 per cent respectively of their receipts of foreign assets, and these sums are used to unfreeze short-term obligations.

While, therefore, the international long-term debt situation remains confused and uncertain, the progress made in many countries towards reduction and unfreezing of short-term debts has been very considerable. The efforts made by the debtors and the concessions made by the creditors, combined with a measure of economic recovery, has placed many of the agricultural exporting countries such as the British Dominions, certain South-American countries and the Scandinavian group in a much better financial position. The Bank for International Settlements, in its annual report, drew attention to this more favourable situation, pointing out that "on the whole, these often inconspicuous but distinctly favourable results have been achieved by the efforts of the debtor countries working at their own problems; it is only in exceptional cases (*e.g.*, Austria and the Argentine) that new loans and credit arrangements have contributed. As, however, the improvement which has been taking place in the position of many countries normally in need of foreign capital continues, the way may be opened again to a gradual renewal of international lending, which would again promote trade and facilitate agreements with regard to the settlement of outstanding financial commitments." [1]

The Balance of International Transactions.

The preceding sections of this chapter have dealt with various aspects of the disorganisation which overtook the capital markets in the course of the depression and with the gradual approach to healthier conditions in many countries. It is evident that the situation varies considerably from country to country. There are many, both creditors and debtors, where, during 1933, considerable progress was made towards the establishment of sound credit conditions and where credit-worthy borrowers are beginning to take advantage of lower interest rates. There are others where the burden of old debt is still an insuperable obstacle to profitable new investment,

[1] The Bank for International Settlements' Annual Report, *op. cit.*, page 29.

or where fears of price or currency disturbances add a considerable and unpredictable element of risk which deters enterprise. The improvement is by no means universal and the revival of international trade and investment, except in limited areas, depends largely upon the balance of international economic transactions.

In previous volumes of the *Survey*, it has been emphasised that this balancing is a continuous, dynamic, day-to-day process, in which, not only the exchange of commodities and services and financial transactions, but also their prices must be considered. When the international gold standard was in operation, so that exchange-rates were fixed within narrow limits, international equilibrium was maintained mainly by continuous but slight adaptations of prices and interest rates, which in turn influenced the flow of commodities, services and capital between different countries. Continuous price comparisons were possible and impediments to the free exchange of commodities and to the transference of capital were much less than they have been in recent years since exchanges have been fluctuating.

Some indication was given in Chapter I of the extent to which, in recent circumstances, price movements have diverged in different countries, and this point was emphasised in Chapter IV. Not only the prices of commodities entering into international trade, but shipping freights, the relative costs to tourists travelling abroad, and the prices of all such services, have followed such different courses in different countries that comparisons are difficult and the exchange of goods and services is greatly hampered. Nor have these divergences been correlated with the movements of the exchange rates. A given amount of gold currency has been able to buy larger quantities of goods and greater service in many of the countries whose currencies have depreciated, but whose prices have not risen proportionately. This has affected not only the visible items in the balances of payments, but also the invisible items, notably the receipts or payments for shipping services.

On the financial side, rates of interest have diverged; but international capital movements have virtually ceased, save, indeed, for those of short-term capital, which have been governed largely by the search for security rather than by opportunities for profit. The divergences have in fact been largely due in many cases to the emergence of premiums against the risks of currency fluctuations. Short-term capital movements which formerly played an important role in the temporary balancing of international payments have only too often in recent years been, on the contrary, a means of disturbing equilibrium.

Yet the international payments of every country continue to be balanced over a period of time. Exports and imports, in the broadest sense, necessarily pay for one another. But the balance is struck on a smaller total value of transactions because of the quantitative restrictions, mainly on imports, that have been introduced. When prices diverge greatly, balance is maintained, not by allowing imports to increase in the countries where prices are relatively high, but by restricting the quantities that may be imported and thus maintaining the national price-structure, and the economic organisation upon which it is based, at a non-competitive level. It is this development which has been mainly responsible for the unprecedented shrinkage in the quantum of international trade, and which maintains a precarious international equilibrium despite the wide variance of price movements in different national markets. Behind the shelter of quantitative restrictions, national economic organisation is protected from the competitive effects of price movements which would otherwise bring about a new equilibrium based upon international specialisation and a greater volume of international exchanges.

It is natural therefore to find that, except in limited areas where trade remains relatively free, there has been a constant shrinkage of both commodity trade and the so-called "invisible items". This shrinkage brings into sharper relief the burden imposed upon many countries by external payments, notably debt service, which cannot easily be reduced. The transfer difficulties and financial embarrassments which have been so marked a feature of the last year or two have been greatly aggravated by the impediments imposed to international trade.

It is significant, moreover, that those areas in which trade is relatively free and in which the balances of payments have turned in favour of the debtor countries are the areas in which recovery from the depression is most marked. The "efforts of the debtor countries working at their own problems", to which the Annual Report of the Bank for International Settlements refers as the chief cause of improvement in the international capital market, have been attended with the greatest success where those debtor countries have had relatively free access for their exports to important markets. It is, indeed, mainly by increasing their exports and diminishing their imports that many of these countries have reduced their short-term indebtedness, built up foreign assets, and restored their credit. Thus, New Zealand increased the volume of its exports *per capita* by 30 per cent in the years 1928-1933, while the volume of imports *per capita* fell 27½ per cent in the same

period.[1] Other countries which have suffered severely from restricted export markets have built up an export surplus by severe import restrictions or by selling the produce of an exceptional harvest at very low prices.

Among the countries which have greatly improved the balance of their commodity trade are the Argentine, Canada, Japan, Germany (until 1932), Bulgaria, Finland, Hungary, Poland, the United Kingdom, Turkey, Australia and New Zealand. It is evident from this list that varied forces have been at work, such as, for example, tariffs (in the United Kingdom), exchange depreciation (in Japan), severe cost-deflation (in Poland), increased production (in Australia and New Zealand) and restricted imports (in Bulgaria and Hungary).

Inspection of the balance of payments statistics as given in the League of Nations *Statistical Year-Book* and the annual volumes on *Balances of Payments*, shows the importance also of the relief given to debtor countries by the depreciation of sterling and the dollar. Thus the net payments on account of interest and dividends, measured in terms of gold dollars, fell in the case of Germany from 285.9 millions in 1931 to 214.4 millions in 1932. In the case of Australia and New Zealand, however, the local currencies have depreciated more than sterling. The apparent reduction of debt service is in terms of gold dollars and the actual cost in terms of the local currencies has increased.

The shrinkage of receipts from foreign investment is very striking in the case of the United Kingdom and the United States, as the following table shows. Statistics are not available for other countries.

Net Receipts from Interest and Dividends.

Gold $ (000,000's)

Creditor country	1929	1930	1931	1932	1933
United Kingdom	1,217	1,071	771	508	514
United States	699	769	621	455	308

It is worthy of note, however, that, in 1933, the statistics for the United Kingdom showed a net gain both in the interest and dividends received from abroad and in the estimated net receipts from short interest and commissions.

What tentative conclusions can be drawn from the scanty evidence available concerning the balance of international economic transactions in the early summer of 1934? It is

[1] *Canterbury Chamber of Commerce Bulletin*, March 1934.

sufficiently clear that, among the countries of the sterling *bloc* — which enjoy the double benefit, as far as exports are concerned, of currencies depreciated from their former gold parity, but stable within the important trading group which they themselves represent — there has been not only notable evidence of economic recovery, but also a substantial redressment of the balances of payments, particularly among the debtor countries. Trade is relatively free from quantitative restrictions and is increasing in quantum, raw material prices are rising and the debtor countries' capacity to pay, and therefore to borrow again, has been much improved.

Outside this group, the countries which have had even greater exchange depreciation than sterling — the United States, Canada, Chile, Japan, Greece — tend to drift into a stable relationship with sterling. The unknown quantity is the doubt which remains concerning the future development of currency policy in the United States. Most of the other countries off gold have found their currencies settling in approximately stable relations with sterling. This is clearly so in the case of Japan.

On the other hand, there are many countries which retain the gold standard, either with or without exchange restrictions, where, in default of deflation adequate to reduce prices to competitive levels in the world markets, the strain on international payments remains great. Prices are high, exports are difficult and the invisible items of the balance of payment are adversely affected also. Shipping suffers, and so does the tourist traffic, while debts owing to these countries become more difficult to pay as other currencies depreciate. The exchange rates remain relatively stable and the currency parities are strongly defended; the technical financial position is, in most cases, very strong; gold stocks have not greatly diminished and gold movements are small. The strain is not financial but economic. It has come, not from a drain of gold, but from the weakened competitive power in world markets caused by high prices and costs. The reduction of these prices and costs involves a deflationary effort which, after four years of depression, is politically and economically difficult; but, until such a reduction is effected, there is a steady strain on external economic relations. Authoritative opinion in the gold-standard countries, however, maintains that this strain cannot be removed, but may even be aggravated, by any measures that might be taken to devalue the gold currencies.

Chapter X.

THE ECONOMIC SITUATION IN JULY 1934.

The Second Quarter of the Year.

The first chapter of this *Survey* was written in March 1934 and carried the narrative of events, supported by such illustrative statistics as were then available, up to the end of that month. Subsequent chapters have been written between March and July, dealing in more detail with particular aspects of the economic situation such as production, prices, trade, public finance and banking. The latest information available at the moment of writing was incorporated in these chapters; but it remains necessary to record briefly the events of recent months and to summarise the principal developments of the economic situation up to the end of July. Events have moved so rapidly and their complex inter-actions are still so obscure that such a summary must necessarily be tentative and incomplete. The period which precedes the summer holidays in the northern hemisphere is normally one of hesitation and economic recession, and in 1934 the difficulty of estimation is enhanced by the extent to which national rather than international developments must be considered, and by the unusual part played in such national developments by Government policies that are still in the process of evolution.

The *Survey* is a record of events in the recent past and does not attempt any forecast of future developments. The shadow of coming events, however, always casts an influence over the anticipations of the future, which must be reckoned as an important element in the economic situation at any particular moment. In the middle of 1934, this influence was mainly one of uncertainty, if only because Government policy had become so important in determining the economic trend in many countries. It is necessary only to cite such cases as those of Germany and the United States in respect of general economic policy, and the uneasiness felt regarding the possibility of fresh exchange disturbances altering the relations of leading currencies, and therefore of the whole range of prices in important trading

countries, to illustrate the influence of anticipations of future events upon the present situation. The imminence of the congressional elections, to be held in November 1934, was perhaps the outstanding event of the known future, and the importance universally attached to the evolution of economic policy in the United States vested these elections with peculiar significance.

At the end of March 1934, the foreign exchanges were settling down to the new parities determined by the devaluation of the dollar at the end of January. The gold flow across the Atlantic was diminishing; but the strain imposed on the price-levels of the gold standard countries was becoming apparent. There was no sign of any relaxation of the effort to defend the gold currencies, or of any abandonment of the restrictions imposed on international trade. In April, both France and Italy took steps to inaugurate fresh measures of deflation which should reduce production costs and safeguard the national budgets. In early June, the Belgian cabinet was re-formed and shortly afterwards obtained from Parliament extraordinary powers to cope with the financial and economic situation. In July, the economy measures pursued by the Netherlands Government provoked demonstrations in Amsterdam.

The exchanges throughout these months moved within narrow limits, strictly controlled by the equalisation funds and by central bank action. With the onset of the seasonal pressure on sterling, that currency was noticeably weaker in the exchange markets, but movements were narrow to the end of July.

A glance at the chronology appended to this *Survey* will indicate that the negotiation of trade and clearing agreements continued in full swing in the second quarter of the year. While there was some tendency in the European clearing agreements, and notably those negotiated in connection with the German financial developments described below, to recognise the need for maintaining and even expanding the volume of international trade, the restrictions on trade were tightened in other respects. This was especially the case in regard to Japanese trade. After the breakdown of the Anglo-Japanese negotiations in London, quotas were imposed upon Japanese imports to British colonies. In the case of Ceylon, this had to be carried through against local opposition by invoking the reserved powers of the Governor. The quotas imposed were so much smaller than the current purchases that, in many of the colonies, imports up till May or June had exhausted the quotas for the whole year. Negotiations between Japan and the Netherlands Indies also proved difficult and the interim quotas imposed

by the latter on textiles and pottery caused protests from Japanese exporters and also from Japanese merchants in the Netherlands Indies.

The restrictions imposed by Germany upon the import of raw materials increased continuously. In June, importers were allowed only 10 per cent of the value of their purchases in 1930 and 1931, and in July this was reduced to 5 per cent. One immediate result was a sharp fall in the price of wool, and the outlook for this commodity was still further impaired in July when the Italian Government reduced its quotas of Australian wool imports in protest against the introduction of higher preferential duties implementing the Ottawa Agreement.

The trade statistics for India may be used to illustrate the effects of the Ottawa Agreements and of the Indo-Japanese Agreement. In the twelve months ending March 1934, Indian imports as a whole fell in value by 13 per cent compared with the preceding twelve months; but imports from the United Kingdom fell only slightly and represented 41.2 per cent, as against 36.8 per cent of the total. In many commodities the value of British imports increased substantially. Imports from Japan fell heavily from 15.4 per cent to 14.2 per cent of the total, and the share of other leading countries also fell, especially that of the United States, which declined from 8.5 to 6.2 per cent of the total Indian imports.

The main financial developments in these months were concerned with the negotiations of Germany, Roumania and Greece with their creditors. In Germany, a new stage of these negotiations began with the Transfer Conference, which opened in Berlin on April 27th. This Conference was called to deal with long and medium term obligations, the standstill arrangements regarding short-term debt continuing as before. The exchange situation of the Reichsbank had steadily weakened until at the end of June the gold and foreign exchange holdings fell to the low figure of RM. 77 million, or about 2 per cent of the demand obligations. After prolonged negotiations, the creditor representatives from France, Sweden and the United Kingdom agreed to the Reichsbank's proposals upon the understanding that the discrimination in favour of the Netherlands and Swiss creditors ceased at the end of June. The Netherlands, Swiss and American representatives rejected the Reichsbank's proposals, which offered the choice of three types of payment for the interest due up till the end of June 1935 — bonds of the Konversion Kasse bearing 3 per cent, cash payment in foreign exchange of the coupons at 40 per cent of their face value, or simply payment in blocked marks. From this

arrangement, the Dawes, Young, Kreuger and Lee Higginson loans were excluded, the interest on them to be paid in full. In preparation for this agreement, Germany denounced the special agreements with the Netherlands and Switzerland.

On June 14th, however, the Reichsbank announced a complete transfer moratorium on all external debt service for six months, as from July 1st. This announcement was immediately met by the introduction into the British House of Commons of a Bill to establish exchange clearing. The Bill was passed on June 29th, but negotiations were proceeding and, early in July, an agreement was reached by which Germany promised to transfer the interest on the Dawes and Young loans held by British nationals on June 15th, 1934, and to negotiate immediately for the settlement of certain trade debts, the United Kingdom undertaking to recommend the acceptance of the Reichsbank's proposals to creditors in respect of other loans.[1] Negotiations were carried on simultaneously with the Governments of other creditor countries. The United States protested against any discriminatory treatment and received an assurance that the German Government was prepared to enter into negotiations designed to create the conditions necessary for transfer. The American note of July 16th, however, refused to consider the German Government's obligation to pay the interest due, as "contingent upon special agreements involving trade concessions, clearing arrangements or similar measures ".

On July 26th, an Agreement was signed between Germany and Switzerland, providing for a clearing agreement covering all receipts from trade, capital service and tourist traffic, the Swiss balance being sufficient to cover interest payments, while some additional exports were permitted from Germany. Two days later, a Franco-German clearing agreement was signed in conjunction with a general trade and shipping agreement. This agreement restored quotas on both sides, and interest is to be paid to French holders of the Dawes and Young loans.

The position of the Bank for International Settlements as the agents for the Dawes and Young loans gave rise to a resolution of protest by the Board of the Bank in July. At the same time, the Bank blocked 4,300,000 Reichsmarks held to its account in the Reichsbank and notified the German Government that it had instructed the Reichsbank to withhold in future the collateral revenues pledged for the support of these

[1] Early in August, an understanding was reached concerning the payment to British exporters, the Reichsbank to supply 5 per cent of the sterling due for future purchases, the remainder being paid in blocked marks to the Bank of England, which will pay sterling to the exporters and sell the blocked marks to German importers. This agreement followed close upon the announcement that British manufacturers were refusing to supply further exports to Germany; but does not cover past debts of this kind.

loans. The trustees of the loans served notice on the Reichsbank to the same effect, but the German Government at once notified the Reichsbank that it would not honour the system of collateral guarantees set up by the Hague agreement of 1930, on the ground that the difficulty was not one of payment, but only of transfer.

The final result of these negotiations, therefore, was that Germany agreed to pay interest on the Dawes and Young loans to holders of these bonds in France, Switzerland and the United Kingdom who were nationals of these countries and were in possession of the bonds at stated dates. The situation in regard to other loans remains as it was in June, when the Reichsbank's offer was made. Negotiations are in progress with the Netherlands and Sweden; but not with the United States.

In the early part of July, Greece carried out its agreement, reached in November 1933, to make partial payments on the Refugee Loan of 1924, and the Stabilisation and Refugee Loan of 1928. On July 26th also, the Roumanian Government made an agreement with its creditors, to pay upon various loans percentages ranging from 25 to 55 per cent of the interest due in the three years ending in March 1937.

On June 15th, another instalment of payments on account of war debts to the United States fell due. The passing of the Johnson Act closing the American markets to Governments in default had been officially interpreted by the United States Government as closing the door to token payments for the future. For the reasons set out in its note of June 17th,[1] the United Kingdom announced its intention not to pay; all the other debtor countries which had made token payments on December 15th followed suit. Finland was therefore the only country to meet the instalment due and this it did in full.

While these measures of financial liquidation were in progress, the international capital market remained inactive. There continued to be flotations of Dominion loans on the London market and, on July 19th, the Chancellor of the Exchequer announced a partial relaxation of the embargo on capital issues. The existing restrictions were maintained, but particular cases were promised consideration, especially sterling issues within the sterling *bloc*, where the loan was required to increase the sterling assets of that country to minimise exchange fluctuations and sterling issues on behalf of any borrower where such issues were calculated to benefit British industry.

The following table shows that, in the first half of the year, issues of capital for domestic as well as for foreign account remained small. It will be seen, however, that in the United Kingdom the proportion of industrial issues rose substantially.

[1] Cmd. 4627.

New Capital Issues.
National Currencies (000,000's.)

Country	Currency	Issues	First six months		
			1932	1933	1934
United Kingdom . .	£	Public Authorities	28.8	23.7	10.3
		Industrial	25.6	34.0	36.7
		Overseas	20.4	11.6	21.9
		Total	74.8	69.3	69.0
United States . . .	$	Local Authorities	476	209	451
		Industrial	190	71	153
		External	—	—	—
		Total	666	280	604
Netherlands	Gulden	Total	121	80	182
Switzerland	Franc	Total	213	50	214
France	Franc	Public Authorities	2291	897	1799
		Private	8577	7828	7005
Germany	Reichsmark	Shares	105	55	49
		Bonds	146	198	502
Sweden	Krona	Total	225	151	72

While the international capital market remained virtually at a standstill, measures were taken in many national markets to create new financial institutions to facilitate industrial borrowing on the part of small- and medium-scale borrowers. The Macmillan Committee had called attention to the need for such institutions in the United Kingdom; but the tradition of British deposit banking was against the locking up of banking resources in permanent industrial investments. Eventually, however, a new company, the Charterhouse Industrial Development Company, was formed in June upon the initiative of the United Dominions Trust. The new company will be prepared to provide credit for all types of industry, and in particular for the small- and medium-sized undertakings, but it will not finance new inventions or the acquisition of existing businesses. In Sweden, a Government proposal to create a somewhat similar credit institute was put forward in June.

The Evidence of Recovery.

In the summer of 1934 there was the usual seasonal recession of industrial activity, aggravated by a marked drop in steel production in the United States and by a considerable degree

of business hesitation because of the somewhat confused and uncertain outlook in that country. The statistics available for the second quarter of the year, however, show improvement to the end of June. In order to indicate the magnitude of this improvement, the following table brings together such monthly indices of world production as are available. These indices represent the movement of world industrial production and world textile production as estimated by the Berlin Institut für Konjunkturforschung, and the statistics of world steel production as given in the League of Nations *Monthly Bulletin of Statistics*. The International Labour Office world index of unemployment is also given for comparison. All these series are calculated on a common base, 1929 = 100. In order to render the movements of the production indices easier to follow, they have been charted on the accompanying diagram.

Indices of World Production and Unemployment.

(Base: 1929 = 100.)

Month		Industrial production [1]	Textiles [1]	Steel [2]	Unemployment [2]
1933:	I	63	91	43	304
	II	63	89	42	303
	III	62	89	46	291
	IV	65	92	48	278
	V	71	98	59	268
	VI	78	105	64	255
	VII	82	108	71	246
	VIII	78	106	68	241
	IX	75	103	62	231
	X	75	100	62	228
	XI	71	98	56	233
	XII	72	98	58	248
1934:	I	74	98	62	249*
	II	76	99	64	238*
	III	78	99	76	220*
	IV	78*	100	76*	210*
	V	79*	...	81*	201*
	VI	77*	...	74*	197*
	VII	...	...	64*	...

In reading this table and diagram, it should be noted that, whereas the indices of industrial production and textiles are adjusted for seasonal variation, no such adjustment is made for the indices of steel production and unemployment. The

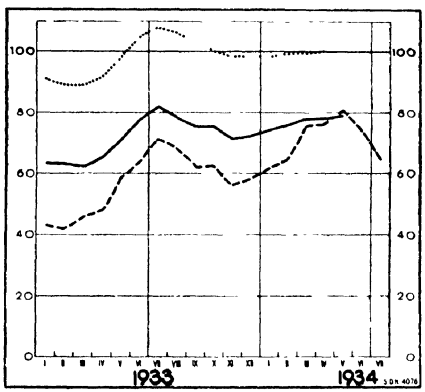
[1] Adjusted for seasonal variation.
[2] Unadjusted.
* Provisional.

movements of these series are clear and consistent. There was a strong upward trend from March 1933 to July of that year, followed by a substantial recession which lasted till November, and another, but less rapid, increase till May 1934. The sharp fall in steel production in June and July leads to a presumption that, as in previous periods of a similar character, the more general production indices will also show a decline when the figures become available.

Monthly Indices of World Production

(Base : 1929 = 100)

——— Industrial production
---------- Steel production
Textile production



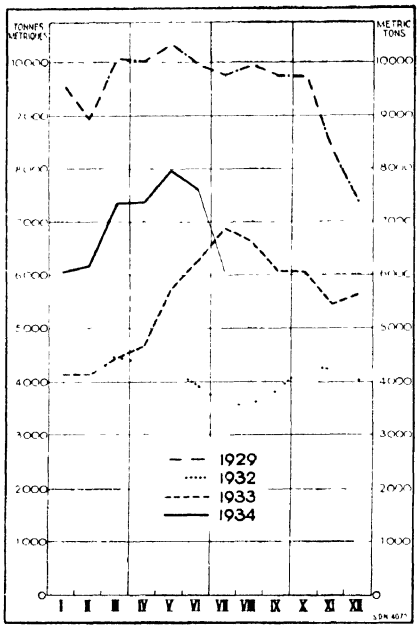
It will be obvious that these movements are largely governed by the fluctuations of business activity in the United States, which are weighted heavily in the world indices. Industrial production in that country, for example, accounted for about 45 per cent of the total world production. The indices are weighted in accordance with production in 1928. If production in 1932 had been used for weighting, the fluctuations in both Germany and the United States would have had less influence on the final indices. There is a large area, including the Western European creditor countries, where fluctuations of industrial activity have been less pronounced. Recovery has been steadier and the recent setback less marked in this area than the table above would suggest.

The importance of steel production as an indication of progress in the important investment industries is great enough to warrant the inclusion of the following diagram, which shows the world production of steel month by month for the years 1929 and 1932 to 1934. The relatively high level reached in May and the heavy fall in July are clearly shown. Both, however, reflect mainly fluctuations in the United States.

Building activity has often proved one of the means of escape from past depression. Low interest rates, reduced prices of building materials and a tendency to lower wages

World Steel Production.

(Metric tons (000's).)



encourage new activity in this important industry. In the following diagrams, the movement of certain national indices of building activity is plotted quarterly from the beginning of 1932 to the second quarter of 1934. In all cases, except those of Australia, New Zealand and South Africa, the value of building permits issued had been corrected for changes in building costs, so as to show the quantum of building. For convenience the curves are shown in three diagrams, the first showing movements in some countries on the gold standard, the second those in some countries off gold, and the third the value of building permits issued in the three British Dominions mentioned.

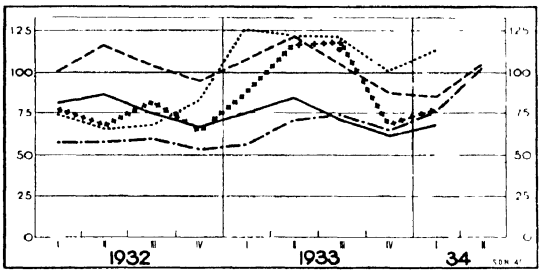
Among the gold group, the most noticeable movements are the downward trend in France and the distinct upward trend in Italy.

Among the countries off gold, the marked increase of the index for the United Kingdom is in striking contrast with the recent downward trend in the United States. In Germany, where the nominal gold parity is maintained by exchange control, there was some increase also. For the other countries cited, there is a strong upward movement in 1934, all the more noticeable because of the low levels to which building activity had fallen in those countries during the depression.

The Quantum of Building Activity in Certain Gold-Standard Countries.[1]

(Base: 1929 = 100.)

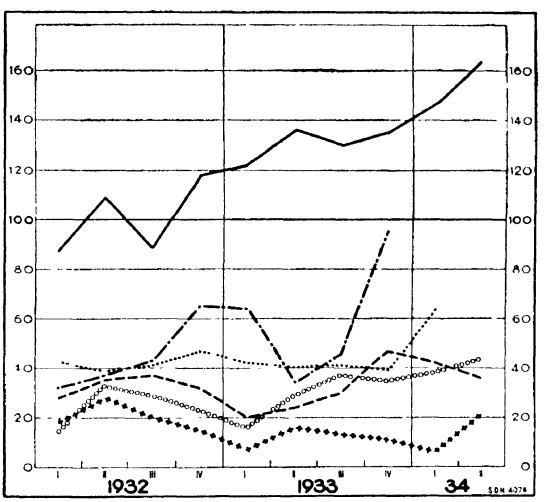
Belgium — Italy
France — Netherlands
Switzerland



The Quantum of Building Activity in Countries with Depreciated Currencies, and in Germany.[1]

(Base: 1929 = 100.)

Argentine — United Kingdom
Canada — United States
Chile — Germany



[1] The indices in all cases are based upon building permits, except in the case of the United States, where they are based upon contracts awarded. All figures are unadjusted for seasonal variations.

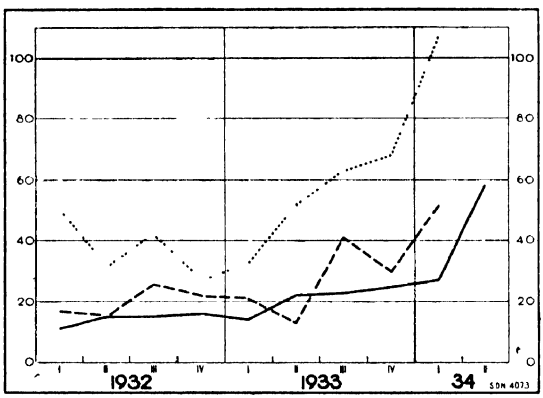
The Value of Building Permits issued in Certain British Dominions.[1]

(Base: 1929 = 100.)

——— Australia

- - - - - - - - New Zealand

..... South Africa



Before considering recent developments in particular countries, attention may be drawn to the most recent statistics relating to other aspects of economic life in the world as a whole. The statistics of world trade in the first half of 1934 show that the principal trends analysed in Chapter VI have continued. The gold value of world trade is still declining, but its quantum continues to increase, though rather more slowly. The relevant figures are given in the table *below*, which shows that the decline in gold value in recent months is due to falling gold prices. In June 1934, as in every month since 1929, the gold value of world trade was lower than in the corresponding month of the previous year.

[1] The indices in all cases are based upon building permits. All figures are unadjusted for seasonal variations.

The Quantum and Value of World Trade 1932-1934.

(Base: 1929 = 100.)

Quarter		Quantum	Percentage increase or decrease compared with corresponding quarter of previous year	Value	Percentage increase or decrease compared with corresponding quarter of previous year
1932:	I	76.2	— 9.8	41.9	—33.0
	II	73.0	—13.6	39.8	—33.7
	III	67.9	—17.3	35.3	—36.7
	IV	78.4	—13.4	39.2	—25.3
1933:	I	72.9	— 4.3	35.0	—16.5
	II	71.8	— 1.6	34.1	—14.3
	III	74.6	+ 9.9	34.7	— 1.7
	IV	80.2	+ 2.3	36.9	— 5.9
1934:	I	74.5	+ 2.2	33.9	— 3.1
	II	74.6	+ 3.9	33.2	— 2.6

The declining rate of increase in the quantum of world trade during the first two quarters of 1934 is due to the fact that the quantum has increased most in raw materials, the bulk of which are shipped in the last two quarters of the year.

The movement of wholesale prices in the gold-standard countries has continued downward. The decline from January was 8 per cent in France (July), 3 per cent in Belgium (July), Poland (June), Switzerland (June) and the Netherlands (June) and 2 per cent in Italy (July). Prices declined slightly (about 1 per cent) in the United Kingdom and most British countries, but rose slightly in Germany and Sweden (about 2 per cent) and more in the United States (about 4 per cent).

It is difficult to measure movements of the terms of trade as between industrial and agricultural countries in such a short period, as seasonal factors influence the indices considerably. There has been a sharp fall in wool prices, but a considerable increase in wheat prices. The more important fact, however, seems to be a clear tendency for the prices of manufactured exports to rise in the United Kingdom and the United States, following the marked earlier rise of raw material prices. This has probably had more influence upon the terms of trade of the agricultural countries than the opposite movement in countries like Italy and France, where the prices of manufactured exports have fallen, but where imports are more restricted. The net effect of these movements has probably been some check to the improvement that had begun to show itself in the terms of trade of the agricultural exporting countries.

The prolonged drought in many of the most important wheat-producing areas of the United States introduced a new element into the economic outlook in the summer of 1934. In Europe, the effects of the drought and of stormy conditions at a later stage of the growing season reduced harvest expectations considerably; but wheat production was estimated as likely to be about equal to 1932, though considerably below the record yield of 1933. The relative increase in the importing countries was well sustained, while there was a substantial fall in the exporting countries, as the following table will show.

Wheat Production in Europe.[1]

Quintals (000,000's.)

Year	Importing countries	Exporting countries	Total
Average:			
1924-1928	253	94	347
1929	292	103	395
1930	249	121	370
1931	265	126	391
1932	328	77	405
1933	350	122	472
1934 [2]	310	90	400

Estimation of the situation in the U.S.S.R. was difficult, but there was little expectation of exports from that quarter. In Canada, the harvest was about 20 per cent less than the average for 1928-1932, but 20 per cent above the poor harvest of 1933. In the United States, on the other hand, the crop failure was very serious. The effects of this failure upon the economic situation in the United States are discussed later. The international wheat situation was eased by the prospect of a substantial diminution in American stocks; prices rose sharply and it was expected that world stocks would decrease substantially though still remaining well above pre-depression levels. There was an expectation of lower yields in India and other producing areas in the northern hemisphere, and sowings in Australia were interfered with by adverse conditions. With stocks remaining above normal, however, and the possibility of greater yields in 1935, the Wheat Conference which met in

[1] International Institute of Agriculture: *Monthly Crop Reports and Agricultural Statistics*, June 1934.
[2] Provisional.

London reaffirmed the desirability of maintaining a restriction programme.

The economic position of particular countries or groups of countries differed considerably in the summer of 1934. The following brief comments draw attention to some of the outstanding developments of the second quarter of the year; but the inferences to be drawn from these developments must, of necessity, be cautious and tentative. Mention may first be made of the new phase of development into which the U.S.S.R. entered with the inauguration of the second Five-Year Plan. The results of the first Five-Year Plan and of the interim period in 1932 are summarised in the following table:

Results of the First Five-Year Plan in the U.S.S.R.

Product	Unit (000,000's)	1927-28	Production in 1932		
			Planned estimate		Actual result
			Original	Revised	
Coal	tons	35.4	75.0	90.0	64.2
Petroleum	tons	11.6	21.7	28.0	22.2
Cast iron	tons	3.3	10.0	9.0	6.2
Steel	tons	4.0	10.4	9.5	5.9
Rolled steel	tons	3.2	8.0	6.7	4.2
Machinery	roubles [1]	1,822	4,688	6,800	7,361
Cotton fabrics	metres	2,695	4,670	3,061	2,550
Boots and shoes	pairs	23	80	92	80
Electrical energy	kilowatt-hours	5,050	17,120	17,000	13,100

In these official statistics, it is of course impossible to make allowance for quality as distinct from quantity. The second Five-Year Plan, which came into operation in 1933, shifts the emphasis from large-scale investment industries to agricultural production and consumers' goods industries in an effort to raise standards of living. Information concerning the results in 1933 is scanty and the full development of the consumers' goods industries is not planned for the first years of the new Plan, so that estimation of the results is as yet premature.

In the United Kingdom, the index of business activity compiled by *The Economist* which had been rising steadily throughout 1933 was checked in the second quarter of the year.

[1] At 1926-27 prices, including agricultural machinery and plant for the production of electrical energy.

There is usually a seasonal recession in this quarter and the decline in 1934 was not greater than the seasonal movement. The value of retail business continued to improve, but this was largely because of an increase in food prices. The further outlook remained largely dependent upon the continuance of improvement in the countries of the sterling area.

Economic progress continued in the Scandinavian countries and Finland. Higher wheat prices brought a marked improvement also in the Argentine and there was evidence of expansion in Chile also. Among the British Dominions, production continued to increase in Canada and South Africa, and a rise in butter prices helped New Zealand; but both that country and Australia suffered from a fall in wool prices. The accumulation of sterling assets by practically all of these countries, however, rendered probable an increase of imports. The exchanges over the whole sterling area remained stable and trade is relatively less restricted among the sterling countries than elsewhere, though the prospect of further restrictions being imposed upon the import of foodstuffs into the United Kingdom was causing some concern. The position in Japan remained about the same. Increasing trade restrictions had checked the increase of exports, production remained at about the same level and there was no noticeable deterioration up to the middle of the year.

In China, a severe price deflation took place during 1933 and the early part of 1934 as the price of silver rose in terms of most of the world's currencies. There was a drain of silver from the interior to ports like Shanghai, and there were evident all the consequences of appreciating currency. China was plunged into severe economic depression, with falling prices, reduced production, and an adverse trade balance. A fall in the price of silver in June and July, combined with a severe drought, caused a rise in Chinese commodity prices; but with the vigorous steps taken to raise the price of silver in the United States the downward tendency was renewed and China lost large amounts of silver.[1]

Apart from the United States, the most notable developments of the second quarter took place in the countries of the gold *bloc*. In France, the seasonally adjusted index of production fell by 5 per cent between March and June and unemployment increased by about 2 per cent. The fall was mainly in the textile and building industries, the former being hindered by the restriction of imports into Germany and new quotas imposed by Belgium. The conclusion of a Franco-German

[1] Sir Arthur SALTER: "China and the Depression," Supplement to *The Economist*, May 19th, 1934.

trade agreement to operate from the beginning of August was, however, expected to alleviate the difficulties of the textile industries. Wholesale prices fell heavily (by 8 per cent between January and July), but there was no great fall in nominal wage rates, and retail prices fell less than wholesale. On the other hand, considerable adjustments were made, particularly in the manufacturing industries, the price of manufactured exports falling by about 9 per cent in the first half of 1934. This was largely seasonal; but important as showing a continued downward tendency of prices as strong as in previous years. This fall, however, did not prevent a substantial decline in the value of exports, which in May 1934 were 8 per cent below those of May 1933. The quantum of manufactured exports rose more than in 1933, but the quantum of raw materials imported fell sharply in the second quarter of 1934, more than the usual seasonal decline.

The budgetary programme launched in April, in which a 10 % reduction of civil service salaries was an important item, led to a substantial improvement in the price of *rentes* and general lowering of interest rates, as shown in the following table. This improvement was, however, checked as the result of political uncertainties in July.

Discount Rates and Bond Yields in France.

Month	Discount rates		Bond yields		New Bond issues
	Banque de France	Market	3 % Rentes	Industrial and Railway Bonds	
March	3	2 7/8	4.55	6.37	6.10
April	3	2 5/8	4.00	5.71	5.55
May	2 ½	2 5/8	3.87	5.34	6.50
June	2 ½	2	3.86	5.27	6.30
July	2 ½	1 7/8	4.07	5.50	5.65

The public finances have also caused concern in the second quarter, the receipts from taxation falling below the estimates to a greater degree than in the preceding year.

In Italy also, a fresh effort at cost deflation was launched in April 1934, interest on Government bonds being lowered, while civil service salaries were reduced and energetic steps were taken to cut down the cost of living, including rents. The recovery in production has been marked in Italy, but has been correlated with increasing strain on the balance

of external payments, indicating an expansion of domestic credit. The recovery in production is summarised in the following table:

Index of Industrial Production in Italy.

(Base: 1928 = 100.)

Month	1932	1933	1934
I.	74	71	72
II.	77	74	77
III.	75	81	84
IV.	75	83	87
V.	70	87	89
VI.	63	79	86
VII.	68	85	...
VIII.	69	82	...
IX.	77	85	...
X.	78	83	...
XI.	76	80	...
XII.	74	76	...

This recovery, as in other countries where there has been a marked increase in production, has been mainly in the investment and building industries.

Wholesale prices have fallen slightly, but retail prices have fallen more. Between March and June, the cost of living fell by 6 per cent. Foreign trade has been difficult, the quantum of manufactured exports falling heavily up till April, the latest month for which statistics are available. In consequence, the balance of payments has been strained. The Bank of Italy lost gold and foreign assets steadily from March onwards, despite the imposition of exchange restrictions. Between March and June, the gold and reserve assets of the Bank were reduced 10 per cent.

The movement of economic indices in the other gold countries — particularly Belgium, the Netherlands and Switzerland — are confused and contradictory. In Belgium, new economic policies are in process of being developed aiming, by State action, at the unfreezing of industrial debt in the hands of the banks. In the Netherlands and in Switzerland, economic developments during the second quarter of 1934 were on balance unfavourable to recovery, and in general the strain upon countries of the gold *bloc* was severe.

With the uncertain economic outlook in the United States, and the sharp contrast between domestic expansion and external

default in Germany, the situation of the gold countries gave rise to increasing discussion in the middle of 1934. Technically their financial and monetary position remained exceptionally strong, but the economic strain upon their prices and production and external trade was very great. At various points throughout this *Survey*, it has been necessary to indicate the contrast between the countries on and off the gold standard. Present difficulties in the gold countries, however, do not in themselves prove that a modification of the exchange values of their currencies is either necessary or desirable. The experience of the post-war period has shown that countries which have successfully defended their exchange parities by carrying through adaptation of their price-structures have inevitably passed through a difficult and unpleasant phase of adjustment. It is by no means certain that, on a long view, the economic position of the gold countries, or the general economic situation of the world as a whole, would be improved by a fresh disturbance of exchange parities. The choice between adjustment by means of price changes and adjustment by means of exchange depreciation or devaluation involves both national and international problems. Further, it must not be overlooked that the necessary price equilibrium may be attained either by a reduction in prices and costs in the gold-standard countries or by a rising tendency of prices elsewhere.

The resources available for the defence of the gold standard are massive and the technique of defence is simple and well known. The will to utilise this technique depends, not only upon economic, but also upon political factors which cannot be estimated here; but it is evident that authoritative opinion in the gold-standard countries still maintains the rightness of adhering to present parities and seriously questions whether any general and permanent advantage is to be gained from their abandonment. Obviously, a great deal depends upon the future course of events in respect both of monetary policy and of general economic recovery affecting production and prices in the countries off the gold standard. Since the devaluation of the dollar in January, exchange rates have moved within narrow limits, the dollar remaining within its new gold points, and sterling, with its associated currencies, being controlled mainly with reference to the franc. In respect both of exchange parities and of the prospects of price movements which may relieve or aggravate the strain at present imposed on those parities, perhaps the most important question at the moment concerns the influences that may come from the United States by reason of the developments outlined in the following section.

The American Recovery Programme.

Between March and July 1934, the United States Congress passed a great deal of legislation, much of which implemented or developed various chapters of the recovery programme. The main lines of that programme had, however, been fixed by the legislation of the preceding year, and the chief interest of the period under consideration relates to the administrative use made of the vast powers granted to the President. In the first chapter of this *Survey*, a brief account was given of both legislative and administrative changes to the end of March. Congress was still in session at that time, and it may be useful to mention briefly some of the more outstanding measures which were passed before the adjournment in the latter part of June. This is in no sense a complete chronicle, but merely an attempt to outline the main trend of legislation.

There was, in the first place, a series of measures designed to implement and extend the programme of agricultural restriction. The Bankhead Cotton Control Act in April, the Sugar Control and Allotment Act and the Tobacco Production Act in May, are examples of this form of Government control over important agricultural industries. With the growing realisation of the serious results likely to flow from the persistent drought and excessive heat which devastated particularly the cereal and cattle-raising areas of the northern and north-western States within the mountain chain, considerable modification of the agricultural programme became necessary. The legislative expression of this change is to be found in the measures passed in early June, allocating $450 million for drought relief and a further $200 million for relief to the cattle industry. One of the virtues claimed for the recovery programme is its flexibility, achieved largely through modifications and changes of emphasis in the administrative use made of the extraordinary powers delegated to the President. Such modifications were important in this period, but it is worth emphasising that the main outline of the restriction programme remains intact and is not only defended in principle, notably in the public utterances of the Secretary for Agriculture, but continues to be applied to those industries not devastated by the drought. Moreover, it is maintained in principle as necessary for the future, after the exceptional conditions have passed away, at least until the original objectives of the programme are within measurable distance of fulfilment.

Another important group of measures dealt with financial reorganisation and particularly with the reconstruction of the heavy debt burdens that oppress agriculture and real estate.

The Frazier-Lemke Farm Bankruptcy Act provided for the postponement in certain conditions of farm indebtedness, and for judicial scaling-down of mortgage obligations. The advances of the Home Owners Loan Corporation were further guaranteed by the Government as to capital as well as interest. In this general field also, the Municipal Bankruptcy Act and the Corporation Bankruptcy Act were intended to facilitate the reorganisation and scaling-down of excessive indebtedness. The Johnson Act forbidding the flotation of loans by Governments in default precipitated at least a temporary, but practically complete, breakdown of payments on account of War Debts.

At the same time, fresh efforts were made to stimulate recovery by the infusion of Government credit. The Relief and Deficiency Act of early June brought the funds at the disposal of the administration for public works and relief expenditures up to approximately $5,000 million. On June 20th, the Federal Reserve Banks were empowered to make direct industrial loans. A new department — the Federal Housing Administration — was created by the National Housing Act, to extend financial assistance in a great effort to extend and modernise residential housing.

A three-year programme of road-building, under which $500-600 million are to be appropriated annually for subsidising local and State authorities, was launched by the Cartwright Bill, also passed in June.

The regulation of financial and commercial undertakings was pushed further by measures to set up commissions of control over both stock and commodity exchanges. Opportunity was taken in the former measure to modify some of the more drastic features of the earlier Securities Act, in an endeavour to facilitate the issues of private capital which, it was hoped, would be made possible as the stimulation of business activity by public expenditure began to take effect. The Deposit Insurance Act was extended for another year.

On the monetary side, the most important step taken after the passing of the Gold Reserve Act at the end of January was the Silver Purchase Act passed in June by which authority was taken to buy silver and issue silver certificates until 25 per cent of the monetary reserves were held in that form. The Administration proceeded immediately to utilise this authority, and the price of silver rose rapidly until the nationalisation of silver stocks in the United States brought the market price to the official valuation of 50.01 cents in early August. No further steps were taken in regard to final stabilisation of the dollar.

Finally, mention should be made of the granting to the President of extensive powers to negotiate and carry into effect

reciprocal trade agreements under the Tariff Reciprocity Act passed in the closing days of the session.

These Acts constitute an important body of legislation conferring extensive new powers upon the administration. The use made of these and the previous authorities granted by Congress can be sketched only in the broadest outlines; but attention may be called to some of the more important trends of development in the last few months. Necessarily, such a brief description cannot do justice to the breadth and flexibility of such a vast programme entailing the exercise of greater authority than was ever before granted to a democratic Government in times of peace. The detailed application of this authority in so many varied fields will deserve and probably receive analysis from many angles for years to come. Only an impressionist outline sketch can be attempted here.

Since the devaluation of the dollar at the end of January, the exchange rate has remained fixed between the gold points. The President retains authority to effect a further devaluation to 50 as against 59.06 per cent of the gold value of the former dollar, and there has been much speculation as to whether that power will be used.

The incorporation of silver as a larger element of the monetary reserves has given rise to some expectation that direct inflation by the issuance of new currency based upon silver reserves would ensue. The measures taken to issue silver certificates up to the end of July had, however, not led to any very considerable currency expansion.

The most important, and in many ways the most perplexing, element in the monetary field remained, indeed, the credit situation created by the great accumulation of member banks' excess reserves with the Federal Reserve Banks and the failure of credit to expand in spite of this accumulation of reserves. The statistics are striking and may be summarised in the following table.

Federal Reserve Bank Credit.

$ (000,000's).

End of	Reserve Bank Credit outstanding		Monetary gold stock	Money in circulation	Member Bank reserves	Treasury cash deposits with Federal Reserve Banks
	U.S. Govt. securities	Other Discounts and securities				
1933: May	1,890	329	4,315	5,812	2,167	345
June	1,975	206	4,318	5,675	2,286	317
July	2,028	173	4,320	5,601	2,306	366
August	2,129	169	4,328	5,592	2,427	339
September	2,274	147	4,324	5,595	2,596	331
October	2,400	127	4,323	5,608	2,693	302
November	2,432	150	4,323	5,743	2,573	369
December	2,432	242	4,323	5,824	2,675	315
1934: January	2,434	196	4,033[1]	5,289[1]	2,652	597
February	2,432	134	7,438[2]	5,355	3,093	3,440
March	2,432	87	7,681	5,336	3,439	3,318
April	2,430	55	7,755	5,324	3,744	3,148
May	2,430	40	7,776	5,338	3,763	3,051
June	2,430	35	7,816	5,301	3,837	3,077
July	2,432	29	7,911	5,291	4,020	2,972

This table reveals the phenomenal accumulation of credit resources in the hands of the Federal Reserve Banks and the Treasury but at the same time a drying-up of the demand for commercial credit. The resources available for credit expansion have never been greater, but the expansion does not take place. Heavy Government expenditures which have continued for many months have apparently gone into consumption or been used for the repayment of debt, without stimulating the demand for private credit to establish new enterprises and increase production.

Another aspect of this situation may be illustrated by the diagram reproduced below from a bulletin published by the Cleveland Trust Company, which shows how Government borrowings from the member-banks of the Federal Reserve system have continuously increased while business borrowings (except for some months during 1933) have decreased.

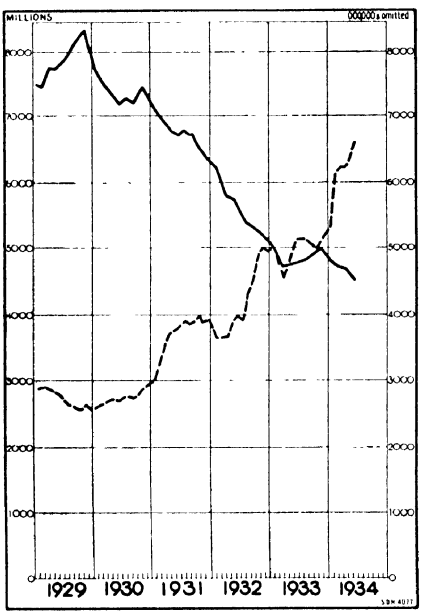
[1] Beginning January 31st, 1934, "Gold coin in circulation" (estimated for that date at $287 million) was excluded from monetary gold stock and money in circulation.

[2] The weight of the gold dollar was reduced from 25 $^{8}/_{10}$ grains to 15 $^{5}/_{21}$ grains, nine-tenths fine. The re-valuation of the gold stock in terms of dollars resulted in an increased value which was accounted for as a miscellaneous receipt into the Treasury.

This is the crucial difficulty which the recovery programme was facing in the summer of 1934. The mobilisation of credit reserves was most impressive, the member banks had reduced their borrowings from the Federal Reserve Banks to the extremely low total of $5 million and had built up reserves in excess of their statutory obligations to a peak of about $1,800 million in the middle of June. Various new credit mechanisms, including the Reconstruction Finance Corporation and the Government institutions by which different sorts of credit were placed directly at the disposal of banks, corporations and agriculture, were in active operation. The Federal Reserve Banks with vast resources and new freedom were empowered to lend directly to industry. Government expenditure on a great scale continued to pour out cash payments for public works, relief, and agricultural betterment. Production, until the seasonal recession in June and July, rose steadily. Prices also rose from month to month. But the capital market remained disorganised and stagnant, and the revival of private enterprise was slow in appearing. Great as the public expenditures had been, it was universally recognised that they represented only a fraction of the new investment that was necessary if industry was to revive to pre-depression levels. The main justification for the public expenditures, indeed, was that they would " prime the pump " and stimulate the flow of private investment and enterprise. The extent to which investment had declined is revealed in the following table:

Borrowings from Banks in the U.S.A. 1929-1934. [1]

——— By business
--------- By U.S.A. Government



[1] Cleveland Trust Company, *Business Bulletin*, July 15th, 1934.

New Capital Issues in the United States. [1]

$ (000,000's.)

First six months of	Local authorities [2]	Industrial and other [3] undertakings	External borrowers	Total
1921 (post-war slump)	467	925	216	1,608
1928 (peak of foreign lending)	750	2,500	941	4,191
1929 (peak of boom)	663	4,205	566	5,434
1932 (depth of depression)	476	190	—	666
1933 (financial crisis)	209	71	—	280
1934 (recovery)	451	153	—	604

Analysis of the reasons for the hesitant attitude of private enterprise and the failure of the potential credit expansion to materialise leads directly to the heart of the controversy regarding the recovery programme. Obviously, credit pumped in large amounts into the market was being used for consumption or for debt repayment without stimulating to any great degree new private enterprise to meet an expected extension of consumers' demand. What new capital was being subscribed was almost entirely for Government loans (which are not included in the table given above, but were estimated to amount to about $3,000 million in 1933 and $4,500 million in 1934.[4] The magnitude of these Government issues did not cause immediate alarm, though the commercial banks' as well as the Federal Reserve Banks' assets were coming to consist of Government securities in proportions which caused some apprehension for the future. Credit was abundant and phenomenally cheap, especially on short term.[5] For three months (April-June 1934) the yield on three- to six-months Treasury

[1] Midland Bank, *Monthly Review*, July-August 1934.
[2] States, municipalities, etc.
[3] Including farm loan issues, and issues by railway and public utility companies.
[4] National City Bank of New York, *Monthly Letter*, July 1934.
[5] The principal short-term rates in New York City were:

Month	Prevailing rate on		Time loans, 90 days	Average rate on call loans	Average yield on	
	Prime commercial paper, 1-6 months	Prime Bankers' acceptances, 90 days			U.S. Treasury Bills, 3 months	U.S. Treasury notes and certificates, 3-6 months
January	1¼-1½	½	1-1¼	1	.66	.25
February	1¼-1¼	½	¾-1	1	.63	.08
March	1 -1¼	¼- ½	¾-1	1	.09	.01
April	1 -1½	1/8- ¼	¾-1	1	.08	Negative
May	1	1/8- ¼	¾-1	1	.07	Negative
June	¾-1	1/8- ¼	¾-1	1	—	Negative

notes and certificates had been negative. There were all the monetary conditions necessary for a vast expansion of private borrowing, but such borrowing did not take place.

Many reasons have been advanced for this state of affairs. Among them are the fear in many quarters that direct currency inflation was impending, the effect upon financial enterprise of the drastic restrictions and penal provisions of the Securities Act, the fear of drastic controls of the stock and commodity exchanges, and to some extent of penal taxation in the future; apprehension also concerning the general development of Government policy in respect of business enterprise and profits, and steadily rising costs of production, particularly those imposed by the National Recovery codes and the operations of the Agricultural Adjustment Administration. Whatever the individual or combined influence of these fears may have been, there was an obvious lack of confidence and consequent demoralisation of the capital market, which, indeed, was sometimes described as "a strike of the Wall Street financial interests". It is probable, however, that business enterprise based its calculations as usual upon the expectation of profits and that the paralysis of investment represented largely the difficulty of visualising profits until further adjustments of the structure of production and finance had been effected. One of the main causes of that difficulty clearly lies in the legacy of past disorganisation which still overhangs many industries—over-capacity in some of the great avenues of investment, such as the steel, automobile, and city building industries, agricultural debt and over-capacity in present circumstances, and municipal financial difficulties. Abundant credit does not get rid of maladjustments and disproportions in the structure of production.

Much of the Government expenditure, moreover, has clearly represented, directly or indirectly, payments in relief of distress which have not evoked new production. Drought relief is an example of expenditure which, however necessary, merely fills a gap in consumption without stimulating new enterprises. Many of the measures organised primarily to deal with unemployment fall into this category also.

As this *Survey* closes at the end of July, the emphasis of the recovery programme appears to be shifting somewhat. Though there remained much discussion of currency experiments past and future, currency policy had been more stable for several months. Certain of the more drastic provisions of the Securities Act had been modified and the regulation of the security and commodity exchanges was causing less apprehension in practice than in anticipation. The National Recovery Administration, strongly criticised, not only for its cost-raising tendencies, but

also for the restrictive nature of many of the codes, was in process of substantial modification. Labour unrest was widespread and strikes had been both frequent and serious The Administration had disclaimed the responsibility for adjudication in labour disputes, and there was general expectation that such disputes would continue to arise and be strenuously fought. The National Recovery Administration had also abandoned the principle of price-fixing and exempted small towns and certain industries from the operation of the codes. A general reorganisation of the Administration was foreshadowed in the near future. The restriction programme of the Agricultural Adjustment Administration was also modified to meet the new situation created by the drought. Public expenditure continued on a great scale and, in particular, the great construction schemes were being pushed rapidly to completion, and other even larger schemes involving in some cases the redistribution of population from stricken areas were being discussed.

The situation in the United States has been outlined more fully than that in other countries, not only because of its intrinsic importance, but also because of its bearing upon the problem of international equilibrium. It is not contended that American developments are the sole or even the principal factor to be watched in the future evolution of international economic relations; but they constitute a factor of great weight, and one, moreover, which appears likely to be active and positive. It is true that, in such an equilibrium, all the terms of the equation must be considered. A passive policy on one side is as important as more mobile and changing policy on the other. Economic policy outside the United States, however, appears less likely in the near future to produce rapid changes in exchange rates, prices, production costs and similar items entering into the balancing of international accounts.

The strained and precarious equilibrium in which international economic relations are held at the moment, together with the consequences flowing from the restrictive policies pursued in order to sustain national price-levels and economic organisation against violent disturbances from external competition, constitute perhaps the chief obstacles to a continuance of the economic recovery which had been manifest up till the middle of 1934. The hesitation of recovery in recent weeks has been primarily caused by international uncertainty — political and economic. The fear of further exchange disturbances, a growing realisation that there are comparatively narrow limits to the degree of recovery that can be expected without a lifting of the barriers that at present impede international trade, and uncertainty regarding the future course of prices have operated

as a check to enterprise. There was therefore, in the summer of 1934, a general disposition to await the evolution of events and Government policy in the United States during the autumn and early winter in the hope that returning confidence and growing prosperity in that country would render easier the restoration of more stable economic conditions and a greater degree of international economic co-operation throughout the world.

CHRONOLOGY OF EVENTS

1933

AUGUST

1. *Anglo-Argentine* trade agreement approved by Argentine Senate.
   Canada: Government issues £15,000,000 4% loan at par in London, redeemable 1953-1958.
   France-Portugal: Trade Treaty denounced.
   Hungary: Minister of Finance arranges for a loan of 20 million pengö from banks.
   Hungary-Turkey: Trade agreement concluded.
   U.S.A. "Blanket Code" comes into force.
   Issue of $850 million loan announced.

2. *Austria:* Standstill agreement of Austrian banks automatically prolonged until January 15th, 1934.
   Bulgaria: Government transfer 31 per cent of amount due August 1st, Bulgarian 4½% Loan 1907.
   Canada: Royal Commission on Banking (Lord Macmillan, Chairman) appointed.
   France: First half of British credit — £15 million — repaid.
   Minister of Finance decides not to enforce 10% cut in salaries of State officials.

3. *Albania-Germany:* Commercial treaty of August 1926 denounced by Albania.
   Bulgaria: Negotiations with British holders of Bulgarian post-war loans successfully concluded.
   Chile: Approves extension to end of year of 50% increase of Customs duties.
   International Nitrate Conference ends in failure.
   France-Portugal: Trade agreements of 1911, 1922, 1925 and 1930 denounced by Portugal.

4. *Belgium:* Parliament votes 3,300 million francs for public works.
   Roumania-Spain: Commercial treaty of June 1930 denounced by Roumania.

5. *Belgium:* Fixes at 25 million Belgian francs Belgium's share in loan to Austria.

7. *Austria:* Contract for Italian *tranche* of Austrian loan signed at Rome.

8. *British and French* contracts for Austrian loan signed.
   Little Entente: Economic Conference opens.

10. *United Kingdom:* Issue of £4,514,200 at 96 per cent of 3 % Sterling Bonds, guaranteed by British Government under Austrian Loan Guarantee Act, 1933.
Empire Marketing Board terminated.

13. *Cuba:* President Machado deposed.

14. *Roumania:* Transfer moratorium declared. Conference with bondholders adjourned to September 5th.

15. *Austria-Yugoslavia:* Commercial treaty concluded.
United Kingdom: Opening of Wheat Conference in London.
Issue of £305,600 Kenya Government 3½ % inscribed stock 1957-1967.
Netherlands: Bank rate lowered from 3½ to 3 per cent.

18. *Germany:* Withdrawal of currency restriction on foreign shipping.

21. *United Kingdom:* Wheat Conference — creation of permanent advisory committee agreed upon.

23. *Belgium:* Decree published concerning measures to be applied to countries which block Belgian balances.

24. *Denmark:* Denounces Tariff Truce.
Irish Free State: Denounces Tariff Truce.

25. *Austria-Hungary:* Commercial treaty concluded.
United Kingdom: Wheat Conference — final agreement initialled.

26. *Brazil-Portugal:* Commercial treaty signed.
Italy-Roumania: Commercial and shipping treaty renewed till November 30th, 1933.

29. *U.S.A.:* President Roosevelt issues decree authorising sale and export of newly mined gold.

30. *Argentine:* Signs international wheat agreement.

31. *Bulgaria:* Short-term loan concluded with France — 40 million French francs, at 4% redeemable within one year — for financing Bulgarian cereal exports.

SEPTEMBER

1. *Poland-Roumania:* Quota agreement concluded.

2. *Italy-U.S.S.R.:* Five-year pact of friendship, non-aggression and neutrality signed.
Sweden: Issues 4 % bond loan of Kr. 72 million for conversion of 4½ % 1920 loan.

3. *Hungary-Roumania:* Convention on export of wood signed.

4. *Italy:* Bank rate lowered from 4 to 3½ per cent.
Netherlands: Denounces Tariff Truce.

5. *Estonia:* Eesti Pank decides to base Estonian crown on £ sterling.

Finland: Bank rate lowered from 5½ to 5 per cent.

Germany: British and American representatives meet Dr. Schacht to discuss Government's proposal to issue scrip in settlement of 50 per cent of current interest on German external loans.

Roumania: Negotiations in Paris with bondholders in regard to foreign debt service reduction.

6. *Austria:* Government decrees that external debts be paid at market rate of exchange.

7. *Italy-South Africa:* Shipping agreement concluded.

8. *Baltic States:* Estonia, Latvia and Lithuania convene conference of Baltic States in Riga.

Greece-U.S.S.R.: Commercial agreement concluded.

Poland: Issues 120 million zloty internal loan at 93 or 96 per cent for payment in six monthly instalments.

U.S.A.: American Bankers' Association approves bank code.

9. *Spain:* Lerroux Ministry formed.

11. *Baltic States Conference* sets up permanent committee in Riga.

12. *Australia:* £21 million Australian 3¾% conversion loan issued at 98 per cent redeemable in fifteen to twenty years.

14. *Greece-Turkey:* Negotiate ten-year treaty mutually guaranteeing common front against third parties.

15. *France:* Law of 1916 forbidding introduction of foreign securities on French market repealed by Cabinet.

Netherlands: Denounces (as from June 30th, 1934) 1929 Convention for Abolition of Import and Export Prohibitions and Restrictions.

16. *U.S.A.:* Coal Code signed.

18. *India:* Informal Conference between Lancashire delegation and representatives of Indian cotton mill industry held at Bombay.

United Kingdom: International Wheat Advisory Committee meets in London.

19. *Netherlands:* Bank rate lowered from 3 to 2½ per cent.

20. *Poland-U.S.S.R.:* Commercial agreement concluded.

22. *Argentine-United Kingdom:* Supplementary trade negotiations concluded.

Sweden: Denounces Tariff Truce.

23. *Bulgaria:* Treaty of neutrality, conciliation and arbitration concluded with Turkey on March 6th, 1929, renewed for five years.

India-Japan: Cotton Conference opens at Simla.

Switzerland: Approves issue of 40 million Swiss francs 4% internal loan at 98.

25. *League of Nations:* Fourteenth Ordinary General Assembly meets.

26. *Argentine:* Senate votes bill adhering to League of Nations. Tariff agreement with United Kingdom signed. Customs convention with Italy signed.

Germany: Grain price stabilisation law passed.

27. *Spain-Turkey:* Commercial treaty denounced by Spain.

28. *Argentine-United Kingdom:* Financial agreement freeing short-term balances concluded.

29. *Finland-United Kingdom:* Three-year trade agreement signed.

Germany: New peasant inheritance and mortgage laws passed.

Roumania: Minister of Finance announces Government has arranged for payment of all debt services falling due during second half of 1933-34.

30. *Sweden-United Kingdom:* Text of trade agreement published.

Switzerland: Denounces Tariff Truce.

OCTOBER

3. *U.S.A.:* British War-Debt mission arrives in U.S.A.

4. *Hungary:* Ninth International Wool Conference opens in Budapest.

New Zealand: Prospectus published in London for £5 million 3½% issue of inscribed stock 1949-1954 to repay equal amount of 5% bonds, 1932-1934, due on January 16th.

5. *Argentine:* Government proclaims tariff changes supplementing trade agreement with United Kingdom.

6. *Czechoslovakia-Poland:* Provisional trade agreement concluded.

Finland-Germany: 1926 trade treaty denounced.

Germany: Agreement reached whereby Swiss creditors receive 100 per cent of debt service.

Germany-Portugal: Clearing agreement concluded.

U.S.A.: Congressional Committee set up to enquire into Stock Exchange.

9. *Germany:* Proposed revision of Reichsbank laws submitted to Bank for International Settlements.

United Kingdom-U.S.A.: War Debt negotiations begin.

Spain: President dissolves Cortes and fixes general election for November 19th.

10. *Argentine-Brazil:* Commercial treaty concluded.

Brazil: Anti-war pact of non-aggression and conciliation signed in Rio de Janeiro by representatives of Argentine, Brazil, Chile, Mexico, Paraguay and Uruguay.

12. *Austria-Poland:* Commercial treaty concluded.

France: Denounces Tariff Truce.

14. *Germany:* Announces withdrawal from Conference for the Reduction and Limitation of Armaments and League of Nations.

Greece: Bank rate lowered from 7½ to 7 per cent.

United Kingdom-Portugal: Trade agreement signed.

16. *Roumania-Turkey:* Sign treaty of friendship and non-aggression.

U.S.A.: Creation of Deposit Liquidation Corporation—Reconstruction Finance Corporation to advance $1,000 million to closed banks to permit reimbursement up to 50 per cent of their deposits.

17. *Germany:* Agreement reached with British and Dutch creditors in regard to payment of scrip.

18. *U.S.A.:* Conversion of Fourth Liberty Bonds, $500 million in cash and $1,875 million to be called in (bonds for 12 years — interest at 4¼ per cent first year and 3¼ per cent subsequently).

19. *U.S.A.:* Bank rate lowered from 2½ to 2 per cent.

20. *Czechoslovakia:* Informs Washington of inability to continue making War Debt payments.

22. *U.S.A.:* Farmers' strike organised by National Farmers' Holiday Association.

24. *France:* Daladier Cabinet defeated on budget question.

Hungary: Government decree issued on regulation of agricultural debts.

25. *U.S.A.:* Government gold-purchase policy begins to function.

26. *France:* Sarraut Government formed.

Germany: Notifies International Labour Organisation of withdrawal from membership.

Poland: Bank rate lowered from 6 to 5 per cent.

27. *Germany:* New bank legislation promulgated to authorise open market operations by Reichsbank.

Iceland: Denounces Tariff Truce.

Italy: Denounces Tariff Truce.

New Zealand-Norway: Commercial agreement concluded.

28. *Czechoslovakia-Roumania:* Commercial agreement concluded.

United Kingdom: Agreement reached on important points of principle between Lancashire cotton delegates and Indian millowners.

31. *Brazil:* Imposition of surtax on Brazilian goods by French Government. Bank of Brazil instructs London agents to withdraw instalment of 9 million francs due to France under finding of Hague Court until decree rescinded.

Nicaragua: Denounces Tariff Truce.

NOVEMBER

1. *Roumania:* Agreement in principle on external debt reached by Council of Foreign Bondholders.

2. *Bulgaria:* Committee of British holders of Bulgarian post-war loans agrees to accept 10 per cent of interest payments due between April 1932 and April 1934, hitherto paid in blocked leva.

4. *South Africa:* Denounces Tariff Truce.

6. *U.S.A.:* War debt negotiations fail.

7. *United Kingdom:* Denounces Tariff Truce.

8. *Belgium:* Denounces Tariff Truce.

9. *Greece-Norway:* Clearing agreement reached.

   India: Government Loan of £10 million offered in London at 97 per cent, interest at 3½ per cent, to redeem 6 % bonds.

10. *Argentine:* Government accepts offer of twenty-year loan at 4 per cent of 320 million francs made by Swiss, Dutch and Belgian creditors.

    Greece: Government offers foreign bondholders two-year agreement on basis of 27½ per cent payment in first year and 35 per cent in second year.

    India: Denounces Tariff Truce.

    New Zealand: Denounces Tariff Truce.

11. *Fourth Balkan Conference*, meeting in Salonica, recommends that the six Foreign Ministers meet annually.

12. *Germany:* Reichstag elections; overwhelming victory for National Socialist Party.

14. *Germany:* Herr von Papen appointed Reich Commissioner for Saar.

15. *China:* Denounces Tariff Truce.

    Hungary: New standstill agreement concluded with British and American short-term creditors.

    Lithuania: Denounces Tariff Truce.

16. *Albania:* Bank rate lowered from 8 to 7½ per cent.

    France-Syria: Sign treaty of friendship and alliance to come into force on date of admission of Syria to League — *i.e.*, in four years' time.

    Italy: Decree promulgated whereby tariff increases may be made to counteract imports coming from countries with depreciated currencies.

    United Kingdom: Denounces Article 4 of Lausanne Agreement (July 1932) whereby France and the United Kingdom undertook not to adopt discriminatory tariff measures against each other.

17. *Finland:* Denounces Tariff Truce.
Greece: Agreement reached *re* foreign debts between Government, League Loans Committee and Council of Foreign Bondholders.
U.S.A.: Recognition of U.S.S.R.

18. *Australia:* Internal Loan of £10,000,000 greatly oversubscribed.

19. *France:* Supplementary tax of 15 per cent imposed by France on certain British products.
Spain: General election held for first ordinary Cortes of Second Republic.

20. *U.S.A.:* Government sets up Home Loan Bank to make loans for construction of dwellings.
Egypt: Denounces Tariff Truce.

21. *Conference for the Reduction and Limitation of Armaments* adjourned until after meeting of League Council on January 15th. Diplomatic conversations to be held between Governments.
India: Adheres to International Silver Agreement concluded at Monetary and Economic Conference.

22. *New Zealand:* Legislative Council passes New Zealand Reserve Bank Bill without amendment.

24. *France:* Fall of Sarraut Government.

25. *Germany-Poland:* Conclusion of Wheat Agreement.

27. *Brazil:* Denounces Tariff Truce.
Czechoslovakia-Italy: Additional trade protocol signed.

28. *France:* Chautemps Government formed.

DECEMBER

1. *Denmark:* Bank rate lowered from 3 to 2½ per cent.
Germany: Verein für Schutzgebietsanleihen set up to defend German protectorate loan-holders *vis-à-vis* present mandatory Governments.
Latvia-Lithuania: Commercial treaty signed.
Sweden: Bank rate lowered from 3 to 2½ per cent.

2. *Estonia:* Denounces Tariff Truce.

4. *Switzerland-Turkey:* Trade agreement concluded.

5. *Belgium-New Zealand:* Commercial agreement concluded.
Germany: Transfer Moratorium Conference opens in Berlin.
U.S.A.: Prohibition repeal becomes effective.

6. *Italy-U.S.S.R.:* Export credit agreement of May 6th, 1933, prolonged until December 31st, 1934.
Latvia: Denounces Tariff Truce.

Turkey: Five-year plan for economic restoration inaugurated.

Yugoslavia: Banking reform decree issued.

8. *New Zealand:* Government prohibits export of gold.

9. *Iraq:* Denounces Tariff Truce.

Portugal: Authorises issue of consolidation loan for 880 million escudos at 4¾ per cent for conversion of 6½% gold loan.

11. *France:* Finance Bill passed by Chamber.

Italy: Bank rate lowered from 3½ to 3 per cent.

Portugal: Bank rate lowered from 6 to 5½ per cent.

12. *Netherlands-Poland:* Customs agreement signed.

15. *Estonia:* General Committee of Estonian Parliament approves Estonian crown being dependent on £ sterling with 19.2 Est. Kr. per £1 as minimum rate.

Germany-Netherlands: Conclude trade agreement.

U.S.A.: War debt instalment paid in full by Finland. Token payments by Czechoslovakia, the United Kingdom, Italy, Latvia, Lithuania. No payments by Belgium, Estonia, France, Hungary and Poland.

18. *Germany:* Reichsbank Central Committee issues following instructions for next six months:

(1) Interest on Dawes and Young Loans to be paid in full.

(2) On other loans, 30 per cent of amount due to be transferred, compared with 50 per cent during past six months.

(3) No sinking fund payments to be transferred except for Dawes Loan.

19. *Finland-Turkey:* Clearing agreement concluded.

20. *Albania-Yugoslavia:* Trade agreement concluded.

Finland: Bank rate lowered from 5 to 4½ per cent.

Germany-Switzerland: Trade agreement concluded.

21. *Albania:* Denounces Tariff Truce.

Bulgaria-Turkey: Commercial agreement concluded.

India: Bill to establish independent Indian Reserve Bank passed by Indian Legislative Assembly.

U.S.A.: Ratifies silver agreement concluded at Monetary and Economic Conference.

22. *France-Germany:* Breakdown of trade negotiations.

Greece-Turkey: Clearing agreement concluded.

25. *France:* Senate approves Finance Bill providing for additional taxation.

27. *Portugal:* Denounces Tariff Truce.

30. *Greece:* Denounces Tariff Truce.

Italy-Switzerland: Protocol to Commercial Treaty of January 1923 signed.

U.S.S.R.: New five-year plan promulgated.

1934

JANUARY

1. *Bulgaria:* Bank rate lowered from 8 to 7 per cent.

   France: Abolishes 15 per cent *ad valorem* exchange surtax on British goods.

   Government reduces quota of British goods to be introduced into France.

   Lithuania: Bank rate lowered from 7 to 6 per cent.

4. *France:* Crédit Municipal of Bayonne fraud disclosed.

   Indo-Japanese commercial agreement concluded for three years.

   Italy-Yugoslavia: Sign commercial treaty.

5. *Italy-Roumania:* Sign commercial agreement.

6. *Bolivia-Paraguay:* After six months' armistice, war breaks out again.

7. *Australia:* Issue in London of £16,647,000 3¾% stock for converting 5-5½% New South Wales Loan.

   U.S.A.: President Roosevelt presents his budget.

9. *Little Entente Conference.* Economic Council of Conference meets in Prague.

11. *France-U.S.S.R.:* Trade agreement for one year signed.

13. *Italy:* Corporations Bill passed by Senate.

14. *Lithuania:* Elaborates scheme for general banking reform.

15. *Austria:* Standstill agreement with foreign banks provisionally extended.

16. *Argentine-Belgium:* Commercial agreement signed.

17. *Italy:* Decree imposes embargo on wide range of French exports.

18. *Honduras:* Denounces Tariff Truce.

19. *France-Germany:* Trade treaty of 1927 denounced by France.

20. *Mexico:* Ratifies silver agreement concluded at Monetary and Economic Conference.

22. *Little Entente:* Economic Conference opens.

24. *Chile-Germany:* Trade agreement concluded to release German credits in Chile.

    Estonia: Dictatorship instituted after plebiscite.

25. *Cuba:* Australia, Canada, France, United Kingdom, Italy, New Zealand. South Africa and U.S.A. recognise new Cuban Government.

Germany: Meeting of foreign creditors at Reichsbank. British and American creditors protest against "special scrip agreements".

26. *Germany-Poland:* Sign ten-year pact of understanding.

27. *Austria-Sweden:* Trade agreement signed.

30. *Austria-France:* Trade agreement concluded.

France: M. Daladier forms Cabinet.

31. *Argentine-Netherlands:* Trade agreement concluded.

U.S.A.: Gold Reserve Bill signed.

FEBRUARY

1. *Czechoslovakia:* Fixes Czech quota of international loan to Austria at 4 million gold schillings.

U.S.A.: Bank rate lowered from 2 to 1½ per cent.

3. *Italy:* Issues loan for conversion of two-thirds of public debt (*i. e.*, about 61,400 million lire) from 5 to 3½ per cent.

Poland-Switzerland: Trade agreement concluded.

5. *Brazil:* Annual foreign debt service reduced from 24 millions to 8 millions until March 31st, 1938.

6. *Roumania:* Arranges to pay 50 per cent on external debt coupon payable February 1st.

7. *Afghanistan:* National Bank opened.

Belgium Netherlands: Sign commercial treaty.

France: Resignation of M. Daladier's Cabinet.

Hungary-Switzerland: Clearing agreement concluded.

Hungary-U.S.S.R.: Resumption of diplomatic relations.

8. *Bank for International Settlements:* Announces United States is at present not prepared to sign agreement according immunities to gold and foreign exchange stocks held by B.I.S. Netherlands and Luxemburg Governments ready to adhere; Finnish authorities agree in principle; other countries to send replies later.

France: Bank rate raised from 2½ to 3 per cent.

Uruguay: Government suspends for six months legal recourse for non-payment of taxes.

9. *Balkan Pact* signed at Athens by Greece, Roumania, Turkey and Yugoslavia.

France: M. Doumergue forms National Government.

Germany-Netherlands: Transfer agreement renewed.

Yugoslavia: Bank rate lowered from 7½ to 7 per cent.

10. Presidents of Belgian, French, Italian, Luxemburg, Netherlands and Swiss Chambers of Commerce decide to appoint commission to develop business relations between gold countries.

Council of *Balkan Entente* meets in Athens.

Czechoslovakia-Poland: Sign commercial agreement.

Germany-Switzerland: Transfer agreement renewed.

12. *France-United Kingdom:* Trade and shipping treaties of January 26th, 1826, and February 28th, 1882, denounced by France.

U.S.A.: Creation of Export and Import Bank at Washington.

13. *Finland-U.S.A.:* Sign commercial treaty and friendly alliance pact.

United Kingdom: Imposes 20 per cent *ad valorem* surtax on certain manufactured articles imported from France.

14. *Japan-United Kingdom:* Representatives of British and Japanese artificial silk and cotton industries meet in London.

U.S.A.: Issue of 800 million dollar Treasury bonds over-subscribed four times.

15. *Egypt-United Kingdom:* Trade agreement prolonged.

Germany: Short-term creditors renew 1933 standstill agreement.

Poland-U.S.S.R.: Pact of non-aggression extended from three to ten years.

16. *Australia:* Inter-State Conference to study working of Constitution opens.

United Kingdom-U.S.S.R.: Sign commercial agreement.

India: Reserve Bank Bill passed.

17. *Estonia-Latvia:* Sign agreement to be represented by common delegation at international conferences and to set up permanent Council to co-ordinate legislation and political and economic policies.

Switzerland: 75 millions subscribed to 4% loan of 100 millions for Federal railways; 58 per cent subscribed to loan of 50 millions for town of Zurich.

19. *Australia:* Conversion loan of £21,636,550 at 3½ per cent issued in London.

Czechoslovakia: Crown devalued by one-sixth of former gold value

20. *Denmark-Persia:* Trade agreement concluded.

21. *Germany-Hungary:* Trade agreement concluded.

22. *Norway:* Converts 6½ and 6% 1924 loans into 4½% loan.

26. *Canada and United Kingdom:* Approve silver agreement concluded at Monetary and Economic Conference.

28. *Czechoslovakia-France:* Commercial agreement concluded.

France-Sweden: Commercial agreement concluded.

Italy-Netherlands: Commercial agreement concluded.

MARCH

1. *Denmark-Germany:* Agreement reached as to reciprocal trading.
   Estonia-Spain: Commercial Treaty of June 1932 denounced by Spain.
   France: Budget passed.
   Italy-Netherlands: Commercial agreement concluded.
   Netherlands-Turkey: Commercial agreement concluded.
2. *Denmark-Germany:* Trade agreement for 1934 concluded.
3. *Czechoslovakia-Turkey:* Trade agreement concluded.
4. *China:* Ratifies silver agreement with reservations.
   Greece: Government decides to deposit 27½ per cent of interest on foreign loans for 1933-34.
   Italy-Turkey: Commercial agreement concluded.
5. *Czechoslovakia-Greece:* Clearing agreement concluded.
6. *France-Spain:* Trade convention signed.
7. *Germany-Poland:* Agreement for "normalisation" of commercial relations signed.
9. *U.S.A.:* Export and Import Bank created to finance silver purchases by Cuba.
13. *France-Portugal:* Commercial agreement concluded.
16. *France-Greece:* Commercial agreement signed.
    France-Netherlands: Commercial agreement signed.
    Japan: Denounces Convention on Abolition of Import and Export Prohibitions and Restrictions.
    Denounces Tariff Truce.
17. *Austria-Hungary-Italy:* Sign three political and economic protocols.
19. *U.S.S.R.:* Grants Turkey credit of $8 million gold for purchase of machinery and spare parts.
21. *France-Netherlands:* Loan of 100 million guilders in gold granted to French Government by syndicate of bankers in Netherlands.
    Roumania-Spain: Commercial agreement concluded.
22. *Germany:* Budget estimates showing increase of about 530 million marks over 1933-34 approved.
24. *Finland-Germany:* Commercial treaty initialled.
    U.S.A.: President signs Bill granting independence to Philippines after probationary period.
25. *France-Poland:* Trade agreement signed.
    France: Abolishes 4 % and 6 % import taxes on British goods.
26. *Germany-U.S.S.R.:* Protocol regulating foreign exchange questions signed.

27. *Germany-Hungary:* Trade agreement signed.

28. *Hungary:* Renewal of standstill agreement with British and American Banking Committees initialled.

29. *Estonia-Germany:* Commercial agreement signed.
Latvia-United Kingdom: Commercial agreement initialled.

30. *France-Hungary:* Trade agreement concluded.
France-Switzerland: Commercial treaty signed.

31. *United Kingdom:* Financial year closes with budget surplus of £38,897,728.

APRIL

4. *Estonia-Latvia-Lithuania-U.S.S.R.:* Pacts of non-aggression prolonged till December 31st, 1945.

5. *Belgium-Bulgaria:* Trade agreement concluded.
Italy: Third International Wheat Conference opens at Rome.
United Kingdom: Flotation of funding loan (£150 million) at 3 per cent.

6. *Finland-U.S.S.R.:* Non-aggression pact prolonged until December 31st, 1945.

9. *Albania-Czechoslovakia:* Commercial treaty signed.
Czechoslovakia-France: Trade agreement initialled.
South Africa: Union Bank of South Africa formed.

11. *Cuba:* Proclaims moratorium for two years on payments of principal of British and American loans.

12. *Spain:* Ratifies silver agreement concluded at Monetary and Economic Conference.

13. *U.S.A.:* Money market closed to securities of foreign nations in default on obligations to United States Government.

17. *India:* Legislative Assembly passes Textile Protection Bill, embodying Lancashire-Bombay agreement and Indo-Japanese trade agreement.

18. *Hungary-Turkey:* Clearing agreement concluded.

20. *Estonia-United Kingdom:* Commercial agreement concluded.

21. *France-Italy:* Sign trade agreement.

25. *Spain:* Lerroux Cabinet resigns.
Persia-Switzerland: Pact of friendship signed.

26. *Belgium:* Bank rate lowered from 3½ to 3 per cent.
Norway-Turkey: Commercial agreement concluded.

27. *Germany:* Transfer Conference on Germany's long- and medium-term debts opens in Berlin.

Estonia-Poland: Commercial agreement concluded.

South America: Anti-war pact signed by thirteen American Republics, including the United States.

28. *Spain:* Samper Cabinet formed.

30. *Austria:* New constitution promulgated.

MAY

1. *Germany-Yugoslavia:* Sign two-year commercial treaty.

5. *France-Latvia:* Supplementary trade agreement signed.

Mexico: Informs League of Nations of decision to cancel notice of withdrawal given in 1932.

Poland-U.S.S.R.: Polish-Soviet pact of non-aggression prolonged to end of 1945.

7. *France-India-Netherlands-Siam:* Agreement to regulate production of rubber signed.

United Kingdom: Wheat Conference opens in London.

8. *International Rubber Regulation Committee:* Holds its first meeting in London.

9. *Italy:* Central Corporative Committee decides to create twenty-two corporations.

10. *Chile-Netherlands:* Clearing agreement concluded.

11. *Brazil-France:* Trade agreement signed.

Chile-France: Trade agreement signed.

Palestine: Loan of £2 million guaranteed by British Government.

14. *Austria-Hungary*
Austria-Italy } Sign trade agreements.
Hungary-Italy

15. *Poland:* New Cabinet formed with Professor Kozlowski as Prime Minister.

16. *Pan-European Economic Conference* opens in Vienna.

17. *Latvia:* M. Ulmanis forms Cabinet.

18. *Argentine-Switzerland:* Sign ten months' commercial and clearing treaty.

Liberia: Withdrawal of offer of financial assistance by the League of Nations.

19. *Bulgaria:* Georghieff Government formed.

France-Italy: Trade agreement signed.

21. *China:* Financial Conference opens to examine agricultural reconstruction plans and fiscal measures.

22. *Czechoslovakia-Finland:* Protocol to Trade Treaty of March 1927 signed.

Hungary-Roumania: Commercial agreement signed.

U.S.A.: President Roosevelt sends message to Congress regarding silver.

24. *Bulgaria-Yugoslavia:* Commercial and clearing treaties concluded.

Canada: Loan issued in London: £10 million, 3¼% registered stock, 1950-1955 at 96½.

Colombia-Peru: Agreement for settlement of Leticia dispute signed.

Spain-Turkey: Commercial treaty and clearing agreement concluded.

29. *Cuba-U.S.A.:* Treaty signed superseding that of May 1903.

Germany: Transfer conference between Reichsbank and representatives of foreign creditors concludes.

31. *China:* Shanghai Municipal Council loan of $7 million heavily over-subscribed.
China Development Finance Corporation formed.

France: Bank rate lowered from 3 to 2½ per cent.

JUNE

1. *Chile-Netherlands:* Commercial treaty signed.

4. *United Kingdom:* Government notifies United States of decision to defer payment of War Debt instalment due June 15th.

Italy: Text of decree establishing Corporation of Textile Products published.

Saar: Date of plebiscite fixed by League of Nations Council for January 13th, 1935.

5. *United Kingdom:* Charterhouse Industrial Development Co. formed to finance small industrial undertakings.

6. *U.S.A.:* President signs Stock Exchange Market Control Bill.

7. *Australia:* 3¼% internal loan of £12 million over-subscribed.

Belgium-Greece: Clearing agreement concluded.

9. *Czechoslovakia-U.S.S.R.:* Diplomatic relations resumed.

Roumania-U.S.S.R.: Diplomatic relations resumed.

11. *Czechoslovakia-France:* Additional trade agreement concluded.

12. *Belgium :* Cabinet formed by Comte de Broqueville.

Belgium-Czechoslovakia-France-Latvia-Roumania: Notify United States of inability to pay War Debt instalment due June 15th.

U.S.A.: President signs Reciprocal Tariff Bill.

14. *Estonia-Hungary-Italy-Lithuania-Poland:* Notify United States of inability to pay War Debt instalment due June 15th.

Germany: Central Committee of Reichsbank decides to suspend for six months all cash transfers of medium- and long-term debts abroad.

Bank for International Settlements notified that, until further notice, no foreign exchange is available for Dawes and Young Loans.

Turkey: Denounces Tariff Truce.

15. *Finland:* Pays War Debt instalment.

16. *France-United Kingdom:* Trade agreement initialled.

18. *Little Entente:* Permanent Council meets in Bucarest.

19. *U.S.A.:* President signs Silver Purchase Bill.

20. *U.S.A.:* President signs resolution authorising membership of International Labour Organisation.

21. *Estonia-Japan:* Commercial agreement concluded.

23. *Poland-U.S.S.R.:* New quota agreement signed.

25. *Greece:* Postpones for six months payment to United States of interest on War Debt, due July 1st.

Italy-Poland: Agreement reached to exchange Polish coal for Italian motor-car parts.

26. *Afghanistan:* Denounces Tariff Truce.

Norway: New whaling legislation.

27. *Austria:* Bank discount rate reduced from 5 to 4½ per cent.

France-United Kingdom: Commercial agreement concluded.

United Kingdom: Discussions open in London with German Government representatives regarding transfer problem.

28. *Netherlands-Portugal:* Sign treaty of commerce and navigation.

United Kingdom: Debts Clearing Offices and Import Restrictions Reprisals Bill receives Royal assent.

U.S.A.: Places embargo on export of silver.

JULY

1. *Austria:* Corporative Constitution (Bundesstaat Österreich) comes into force.

South Africa: New gold law comes into force.

2. *Saar:* Plebiscite period begins.

3. *Japan:* Cabinet resigns.

4. *Czechoslovakia-Hungary:* Clearing agreement concluded.

Germany-United Kingdom: Conclusion of transfer agreement.

6. *Lithuania-United Kingdom:* Commercial agreement signed.

Italy: Decrees promulgated constituting third and last group of industrial and professional corporations.

9. *Estonia-Latvia-Lithuania:* Understanding reached on principle of Baltic Pact.

11. *Estonia-United Kingdom:* Sign trade agreement.

13. *Belgium-France-Luxemburg:* Commercial agreement signed.

16. *Brazil:* Second Republican Constitution promulgated.
Yugoslavia: Bank discount rate reduced from 7 to 6½ per cent.

17. *Latvia-United Kingdom:* Trade agreement signed.

23. *Bulgaria-U.S.S.R.:* Diplomatic relations resumed.

25. *Austria:* Assassination of Chancellor Dollfuss.

26. *German-Swiss* clearing agreement signed.
Roumania: Foreign debt agreement reached.

27. *France-Germany-United Kingdom-Italy-U.S.A.:* Sign international tin-plate agreement.

28. *Franco-German* transfer and commercial agreement signed.

30. *Bulgaria-Italy:* Commercial treaty signed.

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