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March 5, 1926

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ECONOMIC SURVEY

(The following Survey is strictly impartial both in content and in selection, and is in no way subject to the influence of Editorial opinion.)

DENMARK

POLITICAL AND GENERAL

Economic and Trade Conditions in January.—The National Bank of Copenhagen and the Government Statistical Department publish the following information on economic and industrial conditions in Denmark in January.

The value of the krone has remained largely unchanged, and the average of the quotations has therefore varied very little from that in December. The quotations were for sterling Kr.19.58 (in December Kr.19.50), for dollars Kr.4.04 (in December Kr.4.03). The average value of the krone, therefore, was 92.3 gold öre in January as against 92.6 gold öre in December.

The comparatively stable currency conditions during recent months have made it possible to continue the adjustment of the banks' deposits and loans. In this connection it is of importance that the greater part of the amounts placed for foreign account in the Danish banks during the sharp rise in the value of the krone during the summer have now been withdrawn. As far as the activity of the three principal banks is concerned, the deposits decreased to the extent of Kr.32 million, while the loans granted decreased to the extent of Kr.24 million. At the same time the loans granted by the National Bank show a decrease of Kr.27 million, while the currency holdings were Kr.20 million less than in the previous month; in consequence the notes in circulation were reduced to the extent of Kr.35 million, viz. from Kr.437 to 402 million, which is Kr.53 million less than at the end of January 1925. The turnover of shares and bonds on the Copenhagen Bourse was small in January, more especially in the case of shares, the weekly average for bonds being Kr.4.0 million and for shares Kr.1.4 million as against Kr.4.4 million and Kr.3.2 million in December.

The index number for Stock Exchange quotations points to a lack of interest in shares, and there was a decided slump in shipping shares. The bond index number for January was 86.6 (in December 86.8) and the share index number 95.0 (in December 98.4), taking 100 on July 1, 1914, as the basic number.

The wholesale price index number of the Statistical Department, which had remained unchanged during the preceding month, fell 4 points and was fixed at 172. The decrease in January was mainly caused by the lower prices for agricultural produce and feeding stuffs.

The trade balance for December was more favourable than for November, and compared with December 1924 it was very much better. Imports in December amounted to Kr.153 million and exports to Kr.132 million, thus showing an import surplus of Kr.21 million as against Kr.27 million in the previous month and Kr.47 million in December 1924. The total trade balance for the year is, therefore, considerably better than in 1924, the import surplus being Kr.129 million as compared with Kr.211 million.

Agricultural exports in January were on a larger scale than in the preceding month, exports of meat and cattle being even twice as large. The average

weekly export of butter was 23,819 hkg. (in December 22,821 hkg.), of eggs 633,200 score (in December 591,700 score), of bacon and pigs 36,290 hkg. (in December 35,185 hkg.), and of meat and cattle 11,948 hkg. (in December 6,405 hkg.).

The prices obtained for exported products have been somewhat lower than in December, the average of the official weekly quotations being for butter, Kr.325 (Kr.335 in December) per 100 kg.; for bacon, 201 öre (202 öre in December) per kg.; for eggs, 250 öre (322 öre in December) per kg.; and for meat, 57 öre (62 öre in December) per kg. live weight.

Unemployment continues and was nearly double that of last year, the percentage at the end of January being 31.1 as against 16.9 in January 1925. In the industrial trade the percentage was 27.3 as against 12.1.

The State revenue from Excise and Customs in January amounted to Kr.23.4 million, Kr.9.5 million of which was derived from Customs duties. In January 1925 the corresponding figures were Kr.26.9 million and Kr.11.0 million respectively.

INDUSTRY

The Past Year from the Point of View of Industry.—

In its review of economic conditions in 1925 which it issued at the turn of the year, the Danish Merchants' Guild refers to exchange movements during the year and their effect upon various branches of commerce and industry. It is pointed out that a rise in the value of the krone is to the advantage of creditors at the expense of debtors—the opposite to the effect of depreciation. The manner in which recent movements in the value of the krone have affected different branches of industry is therefore largely connected with the relation between active and passive capital. Agriculture, with its large mortgage debts, is in the worst position of all, while commerce, with a comparatively small capital, is in the best. In the latter case, where bank debts are in foreign currency, the profit on these helps to make up the loss on stocks. Also there is the fact that expenses, including wages, do not fall to the same extent as market prices. Generally speaking, the year was a good one from the industrial point of view, especially during the first six months. Falling prices caused heavy losses in the wholesale trade. At the beginning of the year the shipping position was tolerable; its possibilities for profit were reduced to a minimum during the summer, and the autumn brought no improvement.

With regard to the shipping trade, the *Scandinavian Shipping Gazette* explains that Danish sailing vessels are divided into two classes, large and small, each with its own organisation. The small vessels are practically all employed in the coasting trade, where they eke out a precarious existence owing to the very keen competition forced upon them by both Dutch and German vessels. There is no defence against this competition, there being no obstacle to foreign vessels engaging in the Danish coasting trade and no increased charges for foreign ships which might make the existence of Danish ships a little more easy. During the past few months there has been a movement to combine all the ship-

owners' organisations interested in the cargo trade in the Baltic and with Danish ports. So far these efforts, which, among other things, aim at minimum freights, have not borne any fruit, and the position of the Danish small owners is as difficult as ever.

Towards the end of last year there was trouble with the seamen, and it was only after considerable discussion that an arrangement was arrived at. Since then the various district committees of the Association for Small Danish Sailing Ships have held meetings to consider the position as to the crews and also as to reductions of freights. A proposal has also been discussed concerning the establishment of an Emergency Defence against disloyal competition, and it is stated that under any circumstances the association is determined in some way or other to take measures against the foreign motor ships and small steamers which compete in this special trade.

It is also stated that the association intends to call upon the Government to only grant freight subventions in respect of goods which are carried in Danish ships. The goods to which this particularly refers include the products of brickworks, peat, road stones, and similar cheap raw material which cannot bear the high freight if they are to compete with similar materials from abroad. The association will hold its general meeting at the end of this month in Nakskov, and on that occasion a final decision will be taken on the various questions which are of such great importance to the maintenance of the Danish small-ship trade.

Iceland Fisheries in 1925.—The past year ended with a new export record, the unique yield of 1924 having been surpassed, if not in actual figures then in actual values. In 1924 the export value was Kr.80 million, and in 1925 Kr.70,779,776. But the Icelandic krone is not the same now as it was then. In 1924 it rose from 54 to 62 gold öre, and in 1925 from 62 to 81½ gold öre. Since September it has been unchanged, and the selling price for sterling in Reykjavik is Kr.22.15. Calculated at the gold value the export in 1924 amounted to about Kr.43 million, and in 1925 to about Kr.50.5 million gold.

As before, the fisheries have the honour of this result. They have not failed, despite the fact that they have not given anywhere near the same yield as in 1924. For it must be remembered that the fishing fleet has during the year been increased; many new motor boats and line-fishing boats have been added, as well as six trawlers (two of which, however, were lost). Owing to this increase, the production has been about the same as in 1924.

The trawler fisheries off the Westland Coast in 1925 have been a disappointment, and, owing to a wage dispute, operations were stopped for about a month in the autumn, the result being that the exportation of fresh fish was not so large as in 1924, as the fresh fish season extends from the autumn into the new year. The boat fisheries off the south coast gave a better result than the year before, except in one or two areas.

The herring fisheries gave employment for more ships than on any previous occasion, and twice as much fish was caught as in 1924. The yield was 215,038 barrels of salt herrings and 30,099 barrels of pickled herrings, while 146,722 skippund (about 150 kilogrammes each) went to the train oil works. Furthermore, 163,000 barrels were obtained by Norwegian fishermen outside the territorial waters. There were seven oil works in operation during the year, of which one was Icelandic, one Danish-Icelandic and all the others Norwegian, some of which were erected during the year. The pecuniary yield is, however, problematic. In 1925 241,638 barrels of herrings were exported for Kr.7.6 million, as compared with 131,150 barrels for Kr.5.4 million in 1924.

Of dried stockfish there were exported 39,207 tons to a value of Kr.37,318,502, as compared with 40,950 tons for Kr.41,616,389 in 1924; of dried fish, 17,697 tons (as against 13,768 tons); and of fresh fish, to the value of Kr.2,140,901 as against Kr.3,270,000 in 1924. (*Scandinavian Shipping Gazette.*)

FRANCE

POLITICAL AND GENERAL

The Financial Crisis.—With commendable celerity the Senate has disposed of the financial proposals sent up to it by the Chamber of Deputies. An attempt on the part of the Socialists to challenge the right of the Senate to deal with the Bill was defeated by an immense majority, 280 votes to 20, the Minister of Finance declaring that it was fully competent to discuss proposals rejected by the Chamber but presented to the Senate by the Government. The great bone of contention, the proposed tax on payments, was carried on a show of hands, after an amendment to exclude it from the measure and re-introduce it in a separate Bill had been defeated by 258 votes to 34, M. Doumer having made the matter a question of confidence. Finally the Bill as a whole was passed by an even greater majority, 268 votes to 21. The issue now rests with the Chamber, which is apparently not in the mood to surrender without a fight. The Finance Committee has by a narrow majority, 12 votes to 11, agreed to the principle of the tax on payments, but has reduced the rate from 1.25 per cent. to 0.50 per cent. Should the Chamber endorse this alteration the Government will still be left with a shortage of revenue of over two milliards on the Fr.5,525 million which the Minister of Finance required of the Senate and which it duly voted. The taxes, in addition to the Fr.1,600 million originally voted by the Chamber, which its Finance Committee has now agreed to include the alcohol tax, Fr.100 mill.; the salt tax, Fr.18 mill.; the coffee tax, Fr.50 mill.; the tobacco tax, Fr.600 mill.; the insurance stamp tax, Fr.100 mill.; and the tax on payments, Fr.1,000 mill.,—or a total of Fr.3,468 million. The debate in the Chamber was timed to begin yesterday.

TRADE

Colonial and Foreign Trade in Hosiery and Knitted Goods.—The hosiery and knitted goods industry, which is widely distributed over the whole of France, but has its principal centre at Troyes, recently instituted an enquiry into the colonial and foreign trade in this class of goods. From the information it was able to collect it appears that French West Africa imported in 1923 over 14,540 kilogrammes of hosiery and knitted goods of foreign manufacture more than in 1922, while the imports of French manufacture fell off to the extent of 6,340 kilogrammes. Through the Agence Economique of that colony in Paris the committee of enquiry obtained fourteen samples of knitted waistcoats of foreign manufacture on the French West African market, which were found to be of an inferior quality, badly made, but from 25 to 30 per cent. cheaper than the corresponding Troyes article. In order to be in a position to compete with the English, Dutch, Japanese and Spanish makers, the French industry would have to use bad cotton and slubber the work, which to its credit it refuses to do. Alternative specimens of such waistcoats are, however, to be submitted to the Paris and Bordeaux exporters and to the merchants in Marseilles and other ports, in the hope of checking the slump in the French trade. In Indo-China, Madagascar and Syria the French industry also meets with sharp competition from Germany, Spain, Italy and other countries. The conclusion arrived at as a result of this enquiry is that cheap goods, which require neither great taste nor particular skill, follow the trader, which explains the extent to which the German, English, and even the Japanese hosiery and knitted goods industries have been able to cut into the French trade in the colonies of that country; and further that, if the French industry is to recover its trade a patient and active propaganda must be pursued among the native populations and among the traders who supply their wants. (*Nord Industriel.*)

GERMANY

FINANCE

The 1926 Budget.—The new Finance Minister, Dr. Reinhold, has placed before the Reichstag a revised Budget for 1926 with a reduction in revenue of Mk. 550,000,000 as compared with the original draft, which balanced with Mk.7.4 milliard.

The reductions in taxation proposed by the Finance Minister are as follows:—

- (1) The reduction of the turnover tax from April 1 from 1 per cent. to 0.6 per cent.
- (2) The abolition of the super turnover tax except in the transfer of valuable material not intended for further industrial working-up, e.g. jewels.
- (3) The reduction of the prohibitive tax on industrial amalgamations.
- (4) The mitigation of hardships involved in simultaneous payment of income and property tax, and alteration of due dates for those taxes.
- (5) The reduction of the Stock Exchange turnover tax involving the reduction by the banks of their rate of commission.

The *Deutsche Allgemeine Zeitung* in criticising the new Budget, points out that in its original form taxes and contributions are estimated on the revenue side at Mk.6.9 milliard. After deduction of the Mk.550 million of taxation reductions proposed by Dr. Reinhold, there remains Mk.6.4 milliards of revenue, and a deficit which he proposes to make good (i) by taking Mk.133 million from money destined for the Reserve Fund, (ii) by surplus revenue on the State Debt of some Mk.4.7 million, and (iii) by raising loans to cover the remaining 370 millions where this cannot be covered out of the Reserve.

According to present estimates the reserve fund should amount to Mk.225 million by March 1, but it remains to be explained how the remaining Mk.150 million is to be covered.

As far as expenditure is concerned the Finance Minister hints at the possibility of another revision of the Budget in case the number of unemployed fails to decrease, involving the necessity of augmented funds for the dole. As regards revenue the 1925 Estimates still form the basis in a general way, but in view of the general economic situation it is not certain whether the careful revenue estimates of the Reich Government will hold good in the face of further developments. Dr. Reinhold states definitely that he does not believe that any reserves are included in the present estimates, and in view of the rapidly depreciating economic situation, involving as it does reduced power of consumption of the masses, no one can tell how the returns of taxation may develop.

In view of this fact the utilisation of the Reserve Fund, says the *Deutsche Allgemeine Zeitung*, is extremely serious, as it constitutes a last reserve of the State finances in case of failure to balance Expenditure and Revenue. If the reserve is to be placed under the heading of revenue the State Budget for 1926 will be robbed of its last reserves. In any case 1927 will show whether Dr. Reinhold's financial policy is right or wrong, for in 1927 the reserve fund will have ceased to exist. The void filled by the reserve in 1926 will again be open, and in 1927 either the expenditure side will have to be curtailed or the revenue side increased by improvement in the economic situation, at the same time keeping in mind that 200 millions taken from the 1924 surplus will have to be compensated for quite apart from reparations payments.

Dr. Reinhold's plan is to bring about the recovery of industry by means of lightening the financial burden, but he must achieve his end at latest by 1927 if he is going to justify his Budget in that year. There is no one who would be so rash as to maintain that Reinhold's hopes will be realised, but on the other hand no one can say that they will not be realised. There

is no certainty as to how the economic crisis will develop, nor can it be asserted whether economic recovery can be effected by relief from taxation.

With regard to the reduction of expenditure, Dr. Reinhold urged the necessity for administrative reform and for the curtailing of expenses by the Reich, the States and the municipalities. This does not indicate the mere dismissal of officials to swell the ranks of the unemployed, but a far-reaching reform in the entire system and in the distribution of public money. The principle of covering capital expenditure out of revenue is to be discouraged, and loans are to be raised to meet extraordinary expenditure as distinct from ordinary expenses.

The unusual aspect of the Finance Minister's programme is that he places the reduction of revenue before the reduction of expenditure, and the 1927 Budget will in consequence be subject to much graver risks than that of 1926.

INDUSTRY

The Industrial Situation in January.—According to a review of Germany's industrial position appearing in *Wirtschaftsdienst*, the month of January has worked little change in the situation of coal mining in the Ruhr. The daily average output has, however, decreased as compared with the previous month. The following table shows the development in the past four months (in thousands of tons):—

	October.	November.	December.	January.
Coal	329.2	342.9	348.7	329.6
Coke	57.8	56.7	57.0	55.1
Briquettes	10.7	12.4	13.1	13.3

The standing stocks at the mines decreased during the second half of the month, which witnessed an increased demand, the floods and severe frost having hindered sales in the earlier half. The English coal-subsidising policy is having an undoubted effect on German coal sales. Thus the number of unworked shifts has increased considerably, from 124,879 in December to 296,736 in January, in spite of the decrease in the total number of men employed from 396,008 in December to 390,000 in January. This decrease is also due to rationalisation in mining methods, and need not necessarily go hand in hand with decreased production.

Upper Silesia's hard coal mining is still enjoying very favourable sale conditions. The average daily output rose to 60,600 tons (in December 60,000 tons), and the total output increased to 1,450,000 tons (in December 1,397,702 tons). Foreign sales especially in Czechoslovakia and Austria are continually increasing. While overtime and additional shifts have been instituted in hard coal mining, the position on the coke market is unfavourable, and the plant available cannot be kept working to anything resembling fullest capacity.

Competition is felt on the coal market not only from English coal, but increasingly from lignite. In Central Germany even a part of the standing stocks of lignite was shipped in order to meet the demand. Some partial falling off in output and isolated cases of closing down are not of importance in judging the general position.

Potash sales increased greatly in January even if they remained 948,633 d.ctr. behind the January 1925 sales, which amounted to 1,695,000 d.ctr. Weather conditions are said to have influenced the sales. Inland sales are chiefly responsible for the increase as compared with the previous month, as the Potash Syndicate intends to afford German agriculture a favourable credit.

According to statistics published in the Statistical Supplement of the *Reichsarbeitsblatt*, the number of unemployed in the Group entitled "Mining, Foundry and Saline Concerns" on January 15 was 66,041 as against 49,409 on December 15 and 36,532 on November 7.

Except where export business was concerned, the iron and steel market became more animated with attractive prices, without any justification for any more

optimistic view of the general position. The reason for improved business was the crippling of competition from the French industry, which has been incapable of taking on new contracts for some time past. Inland sales continued sluggish on account of the bad position of the consuming industries. The restriction ratio of the Crude Steel Association remained 35 per cent. for January and February.

The Upper Silesian iron industry is in a yet worse position than the mining industry, as sales are entirely lacking. The shutting down of the works of the Upper Silesian Iron Industry Company is contemplated, and the Borsig Works damped down the two blast furnaces still at work eight weeks ago, so that out of fifteen blast furnaces in Western Upper Silesia only four (two each at the Julenhütte and Donnersmarckhütte) remain active.

The number of unemployed in the metal working and machine industries is specially great. On January 15 it amounted to 333,737 as against 138,102 on November 17 and 229,021 on December 15, which represents an increase of 46 per cent. The struggle for contracts in the iron manufacturing industry is extraordinarily lively, with ever-decreasing prices.

The fact that 70,742 d.ctr. of Solingen cutlery was exported in 1925 as against 59,510 d.ctr. in 1913 is attributed by the report of the Prussian Chamber of Commerce to the export of heavier goods of a cheaper quality.

The situation in the machine industry is very unequal, there being a good demand for a few special machines. On the foreign market America is a successful competitor, particularly owing to favourable terms as regards payment. According to the reports of individual firms this branch can boast adequate employment here and there.

Thus Friedr. Krupp A.G. in Essen reports the position in machine construction as relatively satisfactory, the volume of contracts in hand being described as very good. The Magdeburg firm Grusonwerk also reports ample employment in the manufacture of small machines.

Locomotive and wagon construction is quite at a standstill with the Friedr. Krupp A.G. The report of the Chamber of Commerce terms the position of the wagon industry as desperate, and only mentions a few small orders in locomotive construction. According to the *Frankfurter Zeitung*, any such large orders for wagons as have been recently reported are out of the question. According to a recent pronouncement by the competent railway authorities, there will hardly be enough employment for a long time to come for one half of the wagon-building firms now in existence. The French reparations contract for 1,300 wagons is now being negotiated in Paris and should contribute to easing the situation a little.

Here and there large orders are reported in the motor industry, especially for lorries. The association of firms with a view to standardising the types of cars offers a possibility for improvement (see THE ECONOMIC REVIEW, January 22, p. 70). The Horch works in Zwickau reports that in consequence of the receipt of extensive home contracts it has been possible to re-instate during January nearly all the workers dismissed. Opel intends to buy a closed down chemical factory in order to set up a cycle and motor-car factory.

As the Communes have quickly exhausted their means for the purpose of erecting electrical works, the orders in the electrical industry have decreased. Here, too, American competition is felt on the foreign market. Some firms seem to be well occupied. It was reported at the last meeting of the Allgemeine Elektrizitäts Gesellschaft that 30 per cent. more contracts came to hand than in the corresponding period of the previous year.

The situation in the chemical industry remains unchanged; production is a little greater, but stocks remain very large. The number of unemployed rose from 8,896 in December to 12,366 on January 15, 1926.

In the textile industry the situation is unequal. Fashion still favours worsted materials, so that the greatest amount of business is done in this branch. The stocktaking sales have reduced the stocks somewhat, but without bringing with them a corresponding amount of new orders. The spinning and weaving mills are nevertheless fully occupied. The number of unemployed amounted on January 15 to 29,220 male and 24,799 female hands. The West German cotton industry complains of the absence of new contracts and of the necessity for restricted working. Continual payment difficulties with the clientèle are a drag on the whole industry. Rhineland and Westphalia report a few Russian contracts, which help to compensate for lost foreign markets captured by cheaper working English and Italian competition. The unemployment in the Rhenish Westphalian iron district, where the greatest sale for cheap workmen's suits and under-clothing is usually found, has had an unfavourable effect on the ready-made clothing industry. The Lower Rhenish silk and velvet industry is faring very badly. Velvet and plush were only in fashion for a very short time, so that weaving mills and dye-works, etc., are dismissing hands and curtailing shifts. Things are looking up in the cravat industry, but complete closing down is talked of in the felt and carpet industry. The white goods manufacture is not fully employed, and the Chemnitz textile industry is not flourishing. The stocking industry is still working at spring and summer orders, but the knitting industry has very few contracts. Increased orders, especially from America, are reaching the fabric glove industry, where English and American buyers are only interested in the cheapest goods.

In the clothing industry the number of unemployed rose further from 62,337 on December 15 to 121,147 on January 15. Occupation in the ladies' ready-made clothing industry is better than in gentlemen's ready-made clothes, and the results of the stock-taking sales were not satisfactory. According to the reports of the Chamber of Commerce Germany is not yet capable of competing in foreign markets in the branch. Employment is still scanty in the shoe and leather industry. Leather production sank in parts to a third of the available capacity. The number of unemployed rose in one month from 13,645 to 23,665.

The position of the breweries remains excellent. The sales did not fall off in January. The cigarette industry complains of scanty business, and complaints come from the wine industry of forced sales and auctions of wines and vineyards. (*Frankfurter Zeitung*.)

Building activity has been further unfavourably influenced by the weather. The number of unemployed amounted on November 17 to 43,878, on December 15 to 153,167, and on January 15 to 227,976. The statistics of buildings in course of construction published by the *Bauwelt* shows a decrease in all buildings :—

		Houses.	Factories, etc.
1925	January ...	2,447	596
	" November ...	2,740	1,089
	" December ...	3,871	964
1926	January ...	2,272	744

In the paper and pulp industry, as in the cellulose and wood material industries, the stocks increased and production fell off. The cellulose industry showed increased export and reduced home consumption.

Although the general economic position appears very unfavourable according to the reports, some branches of industry have received very encouraging contracts. Thus the Phoenix A.G. and Otto Wolf and Co. have received orders for 200 wagon-loads of rails for Yugo-Slavia. Finland, too, placed rail contracts. Several negotiations are pending with Russia, among others for contracts to be placed with the Allgemeine Elektrizitäts Gesellschaft. At the general meeting of the Lower Rhenish Chamber of Industry and Commerce at Duisburg-Ruhrort in January, General Manager Reusch declared that the general situation was very serious and called for the

exertion of the most extreme endeavours to overcome the existing difficulties.

SOCIAL AND LABOUR CONDITIONS

The Labour Market in January.—The labour market and the standard of employment in German industry have not shown any marked improvement during January. Even if declining sale facilities and increasing difficulties in the procuring of capital have not had an instantaneous effect on the labour market, the general tendency of the standard of employment once a backward movement sets in is hard to bring to a standstill. Thus, during January the reduction of the Reichsbank discount rate, the liquidity of the money market, and the greater facilities for obtaining credit had no definite effect on the conditions of the labour market.

Individual reports from industrial circles covering some two million of employed persons show on the whole a further decrease in employment, although a less marked one than in the previous months. Statistics are available concerning 3,868 undertakings with 1.47 million workers, comparing the standard of employment in January 1926 with that of December 1925. In these representative concerns the number of persons employed dropped to the extent of 5 per cent. The number of persons employed in concerns with unfavourable business conditions rose from 61 per cent. in December to 66 per cent. in January. In comparison with December, which showed an increase from 52 per cent. to 60 per cent. in concerns with unfavourable business conditions, the increase shown in January from 61 per cent. to 66 per cent. is slightly less. (*Hamburger Fremdenblatt*.)

The number of unemployed in Berlin has risen to 223,124, as many as 156,248 persons being in receipt of unemployment benefit. Within one month 63,000 persons have joined the ranks of the unemployed, and those in receipt of the dole have increased by 53,000. Although certain individual concerns have resumed full working conditions, the general unfavourable situation of the market has not changed. (*Deutsche Allgemeine Zeitung*.)

HOLLAND

POLITICAL AND GENERAL

The Ministerial Crisis.—The deadlock occasioned by the resignation of the Colijn Government on November 11 still continues, in spite of every effort to bring the crisis to an end. Dr. de Visser (Christian Historical) met with no more success than had attended M. Marchant's (Radical) attempt to form a Cabinet, and after weeks of fruitless endeavour he was compelled to relinquish the task. The Queen then requested Dr. J. Limburg, a former member of the Second Chamber who has on three occasions represented Holland at Conferences of the League of Nations and is, although a Radical, *persona grata* with most parties, to form a non-Parliamentary Ministry. After another month spent in seeking a solution of the problem set him, Dr. Limburg also has withdrawn from the field. Meanwhile the Social Democratic group in the Second Chamber, in the exercise of its Parliamentary right, has requested the President, Jhr. Ruys de Beerenbrouck, to convoke the Chamber for the purpose of considering a proposal of the Socialists that the Queen should be invited to dissolve it. "It is hardly probable," says the *Gazette de Hollande*, "that there will be any strong inclination to support the Socialist proposal. Faith in the virtue of a dissolution of the Chamber under the system of proportional representation is very weak, especially under such a system as we have in Holland, which does not divide the country into districts and under which the almost incredible transference of some hundred thousands of votes would make no material difference as regards the issue." The Catholic Party, for one, are said to be strongly opposed to a dissolution. As matters stand, with the defeated Colijn Cabinet still carrying on the business of the country, the representation of

the country at the Vatican continues despite the adverse vote of the Second Chamber; but some of the other parties, who stand to lose ground as the result of a fresh general election in view of the present general feeling of distrust in Parliamentary Government, are quite as reluctant to face the constituencies. "In many circles in this country," says the *Gazette de Hollande*, "Parliamentarism has lost much of its prestige. More than ever before its supporters have cause for anxiety." Reviewing the whole situation, however, our contemporary believes that the actual process of shifting the political centre of gravity from Parliament to the administrative departments must lead sooner or later to the formation of a strong Government. The Second Chamber was to meet on March 2, but with what result is not yet known.

Survey of Economic Conditions in 1925.—In his annual address M. E. Heldring, President of the Amsterdam Chamber of Commerce, described 1924 as the year of the Dawes Plan and 1925 as that of the Locarno Pact. The former gave Europe breathing space, the latter, by creating an atmosphere of conciliation and mutual concessions, produced a feeling of greater security, both important steps on the road to real peace and economic reconstruction, the paving of which must be accomplished by the League of Nations. A great obstacle to reconstruction, however, still subsists in the shape of Customs tariffs which antagonise nations. Both the Dawes Plan and the Locarno Pact have helped on the recovery of Holland, where quiet prevails in the various trades and industries and the general level of national welfare is steadily rising. There are, however, some unfavourable factors which may lead to a reaction; but in view of the fact that the process of reconstruction has now maintained itself for some years in spite of circumstances in neighbouring countries not very favourable to the development of trade, what has been achieved affords food for satisfaction and sustained hope. The foreign trade of the country in 1925 has grown and extended, and there has been a decided improvement in the adverse trade balance. The harvest was not unfavourable, and certain crops were even good. Industrial reports were on the whole more satisfactory than in 1924, the margin of profit being frequently larger, whereas in 1924 in many cases there was hardly question of one. German competition, under the influence of liquidations, etc., is still somewhat abnormal, while French imports, facilitated by the depreciated franc, concern only categories of goods which do not threaten serious danger to Dutch industries. The French iron and steel industry, for instance, which obtains its raw material at home and is therefore in a better position to keep prices down than for example the textile and clothing industries, which have to import their raw material, is slow in delivering, and is therefore less to be feared as a competitor. Wholesale trade, however, cannot show such good results as in 1924, when Germany, hitherto a non-buyer, suddenly came into the market; the situation nevertheless affords ground for satisfaction. Freights in the open market, too, were more unfavourable to shipping than in the previous year, which was itself a worse year than those preceding it. The regular lines serving the trade in goods now most in demand did better than the tramp steamers, and conditions generally may be said to have improved. Shipping as a whole, leaving out of account vessels driven on oil, has benefited by the low price of coal. The freight index number, computed on the basis of 100 for 1913, was 100.23 in November as against 91.74 in June and 112.76 in the previous November. Rhine freights remained low throughout the year. As regards inland navigation, complaints were rife of the prevalence of low freight rates due to an excess of tonnage, and transport by factory-owned vessels is becoming more and more common. Shipbuilding, too, is experiencing a bad time; scarcely any cargo-boats are being built, and the industry has had to maintain itself

on repair work and on the construction of passenger, tank and war ships, which leaves the capacity of the shipyards largely unutilised. Fortunately, there is apparently no further question of Government subsidies, which threatened to injure Dutch shipowners as much as shipbuilders. On the one hand there was little response to the invitation of Dutch shipowners for tenders from foreign dockyards, and consequently Dutch shipbuilders found it more difficult to obtain foreign orders. Finally, as regards unemployment, the position was distinctly more satisfactory: on October 31 the number of unemployed, including those working part time, on the rolls of subsidised unemployment funds was 20,189 as against 21,660 on the corresponding day of 1924, or 8.1 per cent. as against 8.6 per cent. of the membership; while the number of applicants for work at the District Labour Exchanges in October was 57,726 as compared with 58,538 in October 1924. These figures go to show, seeing that the population increases at the rate of 100,000 a year, a growing power of absorption of new labour; still, considerably more employment is certainly desirable.

The Monthly Review of the Rotterdamsche Bank-vereinigen supplements the above survey with the following conspectus of the Revenue returns for the year. After a succession of very satisfactory monthly returns, 1925 finished up with an increase of close on Fl.7 million as compared with December 1924, and the whole year concluded with a total increase of Fl.27 million, which was Fl.46 million in excess of the Budget estimate. The following table shows the position clearly:—

1925 December	...	...	...	...	Fl. 39,245,036
1924 December	...	...	...	...	32,454,172
Increase	...	...	...	...	Fl. 6,790,864
1925 Jan. to Dec.	...	...	...	...	Fl.464,076,700
1924 Jan. to Dec.	...	...	...	...	437,226,381
Increase	...	...	...	...	Fl. 26,850,319
Surplus over estimate	...	...	...	...	Fl. 46,134,700

To the above must be added the proceeds in respect of the Loan Fund 1914, viz. Fl.102.68 million as against Fl.103.74 million in 1924. These receipts, however, may be expected to show a considerable reduction in coming years, as the Defence Tax II., which contributes about one-fourth of the total, is expected to be considerably reduced.

The Consolidated Debt underwent no great change. No new loans were raised, while on January 1 last the indebtedness had been extinguished to the extent of Fl.39,843,250, from Fl.2,916,431,750 to Fl.2,876,588,500, as against an increase of Fl.128,022,750 recorded on January 1, 1924, the amount outstanding on January 1, 1923, being Fl.2,788,409,000. The Floating Debt of the country, which in 1924 had been reduced from Fl.543,773,327 to Fl.343,846,000, was further reduced to Fl.335,670,451 in 1925.

The Foreign Debt to Holland, which is not included in the above figures, is made up as follows (exclusive of the credit of Fl.30 million granted to France by the Nederlandsche Uitvoer Maatschappij):—

Objects.	Amount of credit in millions of florins.	Amount utilised at end of 1924.	end of 1925.
Germany—			
Provisions ...	60	2,361,655	3,402,756
Industrial recon- struction ...	140	115,651,426	117,271,472
Interment costs ...	—	1,546,096	18,350
France—			
Reconstruction ...	25	25,000,000	25,000,000
Poland—			
Clothing and repairs	—	12,296,675	10,368,166
Austria—			
Reconstruction ...	—	16,782,200	16,700,000
Belgium—			
Interment costs ...	—	43,464,000	41,143,000
Other countries—			
Various ...	—	698,000	1,157,604
Total	...	217,800,052	215,061,349

HUNGARY

POLITICAL AND GENERAL

Twentieth Report of the Commissioner General.—

A comprehensive account of the recent economic and financial developments in Hungary is given in the Twentieth Report of Mr. Jeremiah Smith, Commissioner General of the League of Nations for Hungary. The present Report, which primarily deals with the situation in December last, is of special interest inasmuch as the Commissioner General, in surveying the past development, draws certain conclusions which are of a distinctly encouraging character. The past year has proved to be one of progress month by month almost without interruption.

In the general section of the Report Mr. Jeremiah Smith refers to the conference of the Financial and the Hungarian Committee of the League and the League Council held at Geneva in December, on which occasion important questions concerning the financial restoration of Hungary were discussed. The Council expressed its satisfaction with the progress that had been made in the complete execution of the Reconstruction Programme, especially in respect of the excess of revenue during the first five months of the current financial year, the Government's draft of the Budget which enables a surplus to be arrived at without undue strain upon the country, and the valuta measures adopted by the Government permitting the new unit to be based on gold. In view of the fact that in all probability the amount of the Reconstruction Loan will not be drawn upon to cover budgetary deficits, the Government received permission to utilise Kr.20 mill. (gold) of this loan during the second half of the current financial year for the purpose of capital investment, the programme to be submitted to the Commissioner General for approval. It was further agreed that during the financial year 1926–27 the Hungarian Government could apply an additional Kr.50 mill. (gold) for investment purposes under certain specified conditions.

The sums received in December from the revenue pledged as security for the Reconstruction Loan are shown below, in comparison with those received from similar sources in November 1925 and December 1924 (in millions of paper kronen):—

Pledged Revenue.	Nov. 1925.	Dec. 1925.	Dec. 1924.
Customs	147,113	139,462	137,773
Tobacco monopoly ...	119,578	134,393	150,463
Sugar duty ...	55,150	59,315	60,588
Salt monopoly ...	28,501	28,992	28,667
	350,342	362,663	377,593

Converted into gold on the basis of the multiplicator of 14,500 the pledged receipts in December represent approximately Kr.25 mill. (gold), as compared with Kr.24.1 mill. (gold) in November 1925 and Kr.25.3 mill. (gold) in December 1924.

During the first half of the financial year 1925–26 the pledged receipts yielded about 17 per cent. more than during the corresponding period of the year 1924–25, the monthly average being 324 milliards as against 276 milliards. The increase was mainly due to the results of the first quarter of the financial year (July, August and September), since when the receipts have not been very different from those of the preceding year. It is probable that the monthly yield of the pledged revenue has become more or less stabilised at about 350 milliards of paper kronen, and that a pronounced and continued rise will not occur again. The general financial and economic improvement in the country, which is slowly but steadily making itself felt, may lead to some augmentation in inland revenue; but such increase will be offset by the lower returns from Customs resulting from the operation of the commercial treaties with various neighbours. In addition to the above mentioned receipts the sum of Kr.47,390 (gold) was collected by Customs in specie during the month of December.

The gross receipts from all sources in December, as compared with December 1924, were as follows (in milliards of paper kronen):—

Gross receipts.	Dec. 1925.	Dec. 1924.	Difference.
Pledged receipts	362.6	377.5	— 14.9
Other receipts	627.1	517.4	+ 109.7
Total	989.7	894.9	+ 94.8

This result represents an increase of about 10 per cent. on that of the preceding December. Converted into gold on the basis of the multiplier of 14,500 for December 1925 and of 14,963 for December 1924, the total gross receipts amounted to Kr.68.2 mill. (gold) last December and to Kr.59.8 mill. (gold) in December 1924.

The provisional figures of the Treasury receipts from State taxes and State monopolies during the first five months of the current financial year are given below, together with five-twelfths of the Budget estimates for the year 1925-26 for the sake of comparison (in millions of gold kronen):—

	Receipts for the first five months of financial year 1925-26.	Five-twelfths of estimated revenue for 1925-26.
Direct taxes	69.2	53.1
Turnover tax	53.4	43.1
Fees and dues, etc.	26.4	21.9
Consumption tax...	33.5	23.3
Customs	44.6	35.7
Salt monopoly (net)	7.3	4.6
Tobacco monopoly (gross)	43.3	40.7
Transport tax	6.1	3.9

In every instance the actual receipts have exceeded the estimated amounts; for the first time the direct taxes are higher than the preliminary estimates. This result is worthy of attention since it indicates an approach to a just ratio between the yield of direct and indirect taxation; it also suggests that the collecting machinery has been improved.

Although the available figures at the close of the year 1925 are but provisional, they are exact enough to permit a survey of the situation of expenditure and revenue during the second half of the calendar year 1925 as shown in the following table (in millions of gold kronen):—

1925.	Gross expenditure.	Gross receipts.	Difference.
July	52.0	37.7	— 14.3
August	53.2	54.7	+ 1.5
September	50.3	59.2	+ 8.9
October	40.0	58.9	+ 18.9
November	53.4	78.9	+ 25.5
December	51.3	68.2	+ 16.9
Total	300.2	357.6	+ 57.4

The expenditure has not exceeded the Budget estimates, whilst the revenue shows an increase of about 17 per cent. on the estimates. This result is the more striking when it is recalled that since August 1, 1925, the general turnover tax has been reduced from 3 per cent. to 2 per cent. and the State's participation in rents from 25 per cent. to 12½ per cent. The result is satisfactory; it signifies that great progress has been made in the direction of the restoration of the equilibrium in the national finances. Nevertheless, the situation does not justify increased expenditure. The Government decided to take advantage of the favourable situation by abolishing the rent tax as from February 1, 1926, and by reducing the sugar duty from 44.8 to 35 gold heller, i.e. from 6,500 paper kronen to 5,075 paper kronen. The tax on rent is an undesirable form of tributary imposition, whilst the sugar tax in Hungary has been the highest in all Europe. These changes will bring considerable relief to the populace, but they will probably lead to a decline in revenue during the second half of the financial year. The results in general confirm the opinion that the country's finances are steadily moving towards normal conditions. While the actual surplus attained during the six months ended December 31 last amounts to over Kr.57 mill. (gold), one half of the estimated Budget surplus amounts to but Kr.1.7 mill. (gold). The difference is certainly striking.

The Preliminary Estimates for January provide for a gross expenditure of Kr.55,778,243 (gold) and a gross

revenue of Kr.49,886,118 (gold), the estimated deficit being approximately Kr.5.9 mill. (gold). This deficit is partly due to the higher requirements of the State loan service and partly to the heavy purchases of the tobacco monopoly. In addition to the payments already made abroad for the interest and towards the settlement of the national debt, a further sum of £150,000 had to be found for this month, representing the half-yearly instalment to the British Clearing Office. In comparison with the Reconstruction Programme the January estimates are as follows (in gold kronen):—

	January estimates.	Reconstruction programme.	Difference.
Net expenditure	46,784,704	34,125,000	+ 12,659,704
Net revenue	40,892,579	30,825,000	+ 10,067,579
Deficit	5,892,125	3,300,000	2,592,125

The available balance of the Reconstruction Loan on December 31, 1925, was approximately Kr.152.4 mill. (gold). The compulsory loan account showed at the same date a balance of 14.3 milliards of paper kronen.

In regard to the general financial situation the Report mentions that there was little change in the course of valuta and bills during the month of December, whilst the metal cover of the National Bank showed a further gradual improvement, attaining at the end of the year 57.5 per cent. as against 53.8 per cent. at the end of the preceding year. Usually there is a seasonal diminution in the influx of foreign valuta about the middle of December; it would therefore not be surprising and would lead to no disturbance if the Bank's metal stocks decline somewhat in the succeeding months. The metal stocks have attained a satisfactory level; in the Bank's statement of December 31 last they figure at 3,340 milliard kronen, as against 2,480 milliards in the preceding year. In a former Report it was stated that the note circulation appeared to have become stabilised at about 5,000 milliard kronen; the experience of December confirms this statement. Despite the heavy monetary requirements associated with the close of the year the note circulation was increased by only 100 milliards. The note circulation is covered by two-thirds gold or gold currencies, bills, etc. A certain stiffening of the interest rates for short-dated credits was perceptible on the market towards the end of December. It was really a test for inland credit traffic and the general result cannot be regarded as unsatisfactory, despite signs of weakness in the cereal market.

In the section dealing with foreign trade the following table is given showing the development over the first eleven months of the year in comparison with the corresponding months of 1924 (in millions of gold kronen):—

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	1924.			1925.		
	Im- ports.	Ex- ports.	Difference.	Im- ports.	Ex- ports.	Difference.
January	37.6	32.3	— 5.3	63.4	35.2	— 28.2
February	44.1	30.8	— 13.3	58.8	39.9	— 18.9
March ...	51.4	44.5	— 6.9	57.7	52.2	— 5.5
April ...	59.0	51.4	— 7.6	52.6	46.6	— 6.0
May ...	57.4	45.5	— 11.9	52.4	52.5	+ 0.1
June ...	48.6	35.4	— 13.2	47.4	46.1	— 1.3
July ...	59.9	40.2	— 19.7	53.6	50.8	— 2.8
August ...	54.3	34.5	— 19.8	63.4	71.0	+ 7.6
September	62.3	57.4	— 4.9	77.6	80.1	+ 2.5
October	76.6	79.0	+ 2.4	77.2	77.8	+ 0.6
November	70.2	58.5	— 11.7	71.9	79.8	+ 7.8
Total	621.4	509.5	—111.9	676.0	632.0	— 44.0

It will be observed that the unfavourable balance of trade in 1925 is below half of the unfavourable balance for the eleven months of 1924, while the aggregate volume of the turnover increased by some 15 per cent. The importation of cotton and woollen fabrics in November last was only about half of that of the preceding November. The commercial treaty with Italy came into force in December, and similar agreements are in force with Poland and Greece, by which tariff modifications are introduced. During the first nine months of the past year 5.68 per cent. of Hungary's total exports was consigned to Italy and 7.2 per cent. to Poland. The latter figure represents a big improvement in the trade with Poland, since in 1924 only 2.58 per cent. and in 1923 only 1.61 per cent. of Hungary's total exports were directed to Poland. The treaties concluded with Spain and France are awaiting ratification. Negotiations with Austria were resumed in January.

The Commissioner General hereupon explains the new law for the revaluation of commercial and industrial corporations, which, however, was dealt with in THE ECONOMIC REVIEW of January 22, 1926 (p. 74).

The number of unemployed members of the Social Democratic trade unions rose from 26,246 at the end of November to 26,711 at the end of December. A year previous to this date the number of registered unemployed stood at 33,095. The cost of living index of the *Pester Lloyd* showed in December a slight fall, standing at 17,789, the lowest index number since the beginning of the reconstruction. The wholesale index number stood at 18,832, which indicates a slight rise on the month. In December 39 cases of bankruptcy were recorded, in addition to 173 arrangements for the benefit of creditors, making a total of 212 insolvencies for the month. The total number of insolvencies for the whole year amounts to 2,457, of which 389 were bankruptcies and 2,068 arrangements for the benefit of creditors.

INDUSTRY AND AGRICULTURE

Industrial and Agricultural Statistics.—In an exhaustive survey of the financial and economic conditions of Hungary in the year 1925, published in a special supplement of the *Pester Lloyd*, M. Josef Vago quotes numerous data issued by the National Statistical Bureau, from which we have extracted the few sub-

mitted below, inasmuch as these figures give at a glance an idea of the situation in the various industries. The industrial statistics have been completed only up to the end of 1924, and refer therefore to the situation at the beginning of 1925. (See table at foot of this page.)

Although the statistics for the year 1925 are not yet available, the writer expresses the opinion that in general the past year was not so brisk as 1924, chiefly on account of the negotiations which have been conducted for the conclusion of commercial treaties with various countries and which left the manufacturers in a state of uncertainty. The year was characterised by hesitation and little progress was possible in industrial undertakings.

In regard to agriculture the past year was more satisfactory than 1924. In the seven chief branches of agricultural production the results were better than in the preceding year. The following table shows the total production of the main crops in the two years and the increased production in 1925 (in thousands of metric cwt.s.) :—

Agricultural production.	1924.	1925.	Increase.
Wheat ...	14,035	18,058	4,023
Rye ...	5,614	7,842	2,228
Barley ...	3,203	4,831	1,628
Oats ...	2,281	3,322	1,041
Maize...	18,828	23,622	4,794
Potatoes ...	15,351	23,599	8,248
Sugar beet ...	12,742	15,360	2,618

These figures actually represent an aggregate increase of about 34 per cent. in the main crops. Unfortunately, prices for the most part have proved unsatisfactory, and agriculture has, therefore, not reaped the full benefit of the improved harvests. Prices were very good, at the beginning of the year, exceeding pre-war parity, but dropped considerably during the second half of the year, only reviving slightly in the last two months.

SOCIAL AND LABOUR CONDITIONS

Results of the Land Reform.—Although the law relating to the land reform in Hungary was passed by the National Assembly towards the close of the year 1920 the application of the provisions have been so dilatory that after five years only about one-half of the programme has been realised. Hungarian agriculture has not suffered from the severe crises such as those which have accompanied the introduction of a radical land reform in certain other countries. The Hungarian measure was relatively moderate. The principle of forced repurchase was not introduced, nor was a maximum figure fixed for the area of large estates. Even after the execution of this reform measure there remains in Hungary a large number of *latifundia* of more than 20,000 argents in area (roughly 30,000 acres). Nevertheless, there has been during the past few years a marked change in the proportion of large and small estates in the country. Since the year 1913 the total area occupied by small proprietors has increased by some 970,000 arpents, or about 13 per cent. In 1913 the land belonging to small proprietors represented no

INDUSTRIAL STATISTICS FOR 1923 AND 1924.

Industry.	Number of factories.		Number employed.		Working days. 1924.	Wages paid (in thousands of gold kronen).		Aggregate value of products (in millions of gold kronen).	
	1923.	1924.	1923.	1924.		1923.	1924.	1923.	1924.
Iron and metal industries ...	231	252	39,639	41,415	72,094	18,404	37,906	147.2	193.3
Machine works ...	165	175	41,848	41,468	50,415	24,257	41,199	87.2	115.0
Electrical power stations ...	125	131	53,604	5,599	46,248	3,464	8,192	24.9	45.3
Stone, pottery and glass industries ...	371	402	30,215	30,564	76,566	8,828	16,967	39.1	52.3
Timber and bone industries ...	277	301	13,982	14,500	78,264	5,906	10,196	26.6	36.1
Leather, brush and feather industries ...	84	86	6,598	7,284	24,266	3,111	6,082	41.1	51.6
Textile industries ...	171	188	26,706	34,485	51,082	8,005	20,805	147.3	193.4
Clothing industries ...	98	100	6,262	7,234	27,970	2,949	6,550	28.5	31.8
Paper industries ...	56	55	2,641	2,586	15,630	807	1,875	4.6	7.2
Foodstuffs industries ...	863	772	49,627	49,640	185,260	16,787	35,881	543.3	702.5
Chemical industries ...	196	196	11,638	11,017	50,758	5,960	12,302	72.4	84.1
Reproductive works, art fabrics, etc. ...	92	97	6,723	6,638	28,542	3,965	8,440	14.1	18.0
Total ...	2,729	2,755	241,269	252,434	707,104	101,633	206,395	1,777	1,531.5

more than about 44.2 per cent. of the total arable land in the country, whereas to-day it represents 50 per cent. of the total. In 1913 the number of smallholders per one thousand farmers was 620, while it is now 840. The number of smallholders in Hungary has actually increased by about 220,000, the total at the present time being estimated at approximately 1,100,000. After the complete execution of the land reform these small proprietors will occupy about 84 per cent. of the total arable land in Hungary. (*Pesti Napló.*)

ITALY

FINANCE

Treasury Statement for the Half-year ended December 31, 1925.—A notable feature of the course of national finances during the first half of the current financial year is the marked increase in Government expenditure as compared with the preceding years. To a large extent this increase is due to the augmentation of the salaries of civil servants and employees in the various public services, which before the war were notoriously low. Reform in this department has long been overdue and the Press in general shows no inclination to quarrel with the Government for improving the status of its employees. Further large sums are required by different public works, but such expenditure is rightly regarded as a productive investment. The actual Treasury situation at the close of the first half of the current financial year reveals continued improvement, since the increased expenditure is more than counterbalanced by the more satisfactory Treasury receipts. The actual ordinary revenue collected during the first six months of the current fiscal year exceeds, for instance, the estimated figure by over L.900 mill., and the budgetary situation showed at the close of the past calendar year a surplus of some L.227.6 mill. on the ordinary account as against a deficit of over L.180 mill. on the similar account for the corresponding period in the preceding financial year. The detailed figures of the Treasury Statement for the half-year ended December 31 last are given in the *Bollettino di Notizie Economiche*. The data reproduced below summarise the situation and permit a comparison with the corresponding period of the financial year 1924-25 (in millions of lire):—

EXPENDITURE FOR HALF-YEAR ENDED DECEMBER 31, 1925.

	July to Dec. 1925.	July to Dec. 1924.
Ministry of Finance—		
International debt service ...	1,976.0	1,938.9
Other items ...	2,666.5	2,265.1
Ministry of War ...	1,361.1	986.6
" Education ...	747.5	535.96
" Marine ...	480.3	332.5
" Public Works ...	351.0	285.1
" Communications ...	239.4	466.5
" the Interior ...	296.7	340.6
" Foreign Affairs ...	202.9	41.1
" Justice and Public		
Worship ...	190.5	184.0
" National Economy ...	167.4	85.7
" the Colonies ...	151.7	68.1
Total ...	8,831.3	7,530.4

REVENUE FOR HALF-YEAR ENDED DECEMBER 31, 1925.

	July to Dec. 1925.	July to Dec. 1924.
Ordinary Revenue—		
Yield of direct and indirect taxation ...	8,549.3	7,854.3
Yield from State property ...	38.9	33.5
Public Services—		
Posts ...	6.6	286.1
Telegraphs ...	4.6	67.8
Telephones ...	1.7	74.8
Sundry services ...	38.5	32.7
Reimbursements and contributions to costs ...	60.7	41.9
Miscellaneous receipts ...	1,651.4	227.3
Total ...	10,351.8	8,618.5

Extraordinary Revenue—

Reimbursements and contributions to expenses ...	90.8	22.4
Miscellaneous Receipts ...	163.3	238.1
Other assets ...	81.74	18.2
Total ...	10,687.7	8,897.3

Other receipts—

Railway construction loan... ..	6.5	0.1
From various loans and credits ...	3,173.0	1,917.8
Accountancy balance items ...	49.7	36.0

Total ... 5,229.2 1,953.9

Grand Total ... 13,917.0 10,851.2

The extremely small return from the postal, telegraphic and telephone services as compared with the yield in the preceding year is accounted for by the fact that the postal and telegraphic services now have an autonomous administration, while the telephone service has with certain exceptions been leased to private companies.

The summarised budgetary situation for the first half of the current financial year and the estimated figures are shown in the tables herewith (in millions of lire):—

ACTUAL REVENUE AND EXPENDITURE, JULY TO DECEMBER, 1925.

	Receipts.	Expenditure.	Difference.
Ordinary account ...	8,998.6	7,045.5	+ 1,953.1
Extraordinary account ...	275.6	2,001.1	— 1,725.5
Total ...	9,274.2	9,046.6	+ 227.6
Loans and disbursements for railway construction ...	125.0	125.0	—
Variations in capital account ...	1,080.9	721.3	+ 359.6
Total (1925) ...	10,480.1	9,892.9	+ 587.2
Total (1924) ...	11,456.0	9,803.0	+ 1,652.9

ESTIMATED REVENUE AND EXPENDITURE, JULY TO DECEMBER, 1925.

	Receipts.	Expenditure.	Difference.
Ordinary account ...	8,088.7	7,011.1	+ 1,077.6
Extraordinary account ...	216.1	1,981.8	— 1,765.7
Total ...	8,304.8	8,992.9	— 588.1
Loans and disbursements for railway construction ...	125.0	125.0	—
Variations in capital account ...	658.3	726.9	68.6
Total estimates (1925) ...	9,088.1	9,844.8	— 756.7
Total estimates (1924) ...	9,680.1	9,766.5	— 86.4

Settlement of the Debt to Great Britain.—An Agreement arrived at between the Italian and British Governments for the settlement of the Italian debt to Great Britain embraces in the main the following provisions in respect to annual payments by Italy. During the current financial year Italy will pay to Great Britain the sum of £2,000,000, during the next two financial

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years the sum of £4,000,000 per annum, during the next four years the sum of £4,250,000 per annum, in each of the next succeeding years up to the financial year 1986-87 the sum of £4,500,000 per annum, and during the financial year 1987-88 the sum of £2,250,000. The payments are to be made at the Bank of England on September 15 and March 15 of each year. Italy undertakes to issue and deliver to the British Treasury a bond in respect of each of the payments provided for in the Agreement. The payments due under all bonds issued in accordance with the Agreement will be made without deduction for present or future taxes imposed by Italy or under the authority of political or local taxing authority within Italy. In every respect such bonds are to be exempt from any and all form of taxation. Italy may, subject to not less than ninety days' notice to Great Britain, postpone such part of any of the half-yearly instalments falling due on or after September 15, 1928, as exceeds the sum of £1,000,000 to any subsequent fixed date of payment, not, however, beyond two years from the original due date, on condition that if Italy shall at any time exercise this privilege as to the postponement of any instalment, the instalments falling due in the second succeeding year cannot be postponed unless the arrears have been cleared off. A tax of 5 per cent. interest per annum will be imposed upon all postponed instalments, payable half-yearly.

It is further agreed that the accounts relating to the war debt of Italy to Great Britain, including the Wheat Executive and the War Risks schemes shall be definitely closed, the British Treasury being entitled to retain any sums credited to Italy in respect of these accounts. Except as where otherwise specified, Great Britain and Italy agree to renounce all claims or counter-claims in respect of these accounts. Great Britain also renounces all outstanding claims against Italy in respect of renting ex-enemy shipping. Great Britain also agrees to credit Italy against payments next due with certain proportionate sums if at any time it appears that the aggregate payments received by Great Britain under Allied War Debt Funding Agreements and on account of reparations, etc., exceed the aggregate payments made by Great Britain to the United States in respect of war debts. In such a case an account will be drawn up by the British Treasury, with interest at 5 per cent. on either side, and should the accounts show that the receipts exceed the payments Great Britain will credit Italy with such proportion of that excess as the payments made by Italy under the Agreement bear to the aggregate sums received by Great Britain. This process will, if necessary, be carried out every year, provision also being made that in case of a deficit in this account such deficit must be made good by Italy by increasing the instalment next due.

Great Britain is to retain under the Agreement the sum of £22,200,000 belonging to Italy and deposited under the Agreement of 1915 against the Italian war debt. This, however, will not bear interest, and will eventually be released to Italy, in respect of the sum of £1,000,000, in eight equal instalments on September 15 and March 15 of each of the four years as from September 15, 1928, and, in respect of the balance, in equal half-yearly instalments as from September 15, 1932, provided in every case that the annuities under the Agreement have been paid to date.

The settlement of the debt thus extends over a period of 62 years, the total sum to be paid amounting to £272,250,000, or about 6,806,250,000 gold lire. According to *Echi e Commenti*, this represents a reduction of £338,590,000 in Italy's favour, since the original debt figured at £610,840,000.

The Italian Press in general approves the settlement, and, while pointing out the enormous burden of the combined debt payments, is has not been slow to recognise the generous sacrifice made by Great Britain. The *Giornale d'Italia* considers that this settlement will go a long way towards cementing the friendship between the two countries and will form a guarantee for the future

peace and welfare of Europe. The *Nazione* enumerates the various sacrifices that have been made and will still have to be made by Italy, and then roundly declares that these have been overshadowed by those made by Great Britain, maintaining that Great Britain's generosity in this matter is far greater than that of the United States. A great deal has been gained by British confidence in the present Italian administration. The *Tribuna* states that Italy has found in her new discipline, which embraces sacrifices, the determined will to settle all her war accounts and to restore normal relations, especially of an economic or financial character, with other countries. The *Corriere della Sera* mentions that, taking all the factors of sacrifice on Great Britain's part into consideration, the total reduction in the debt actually represents 86 per cent., whilst the reduction in the debt to the United States represents but 79 per cent. In a contribution to *Echi e Commenti*, Signor Felice Corini, Parliamentary Deputy, after expressing his general approval of the Agreement, criticises the article relating to the proportionate increase or diminution in the instalments to be paid by Italy, according to the aggregate sums received by Great Britain under Allied War Debt Agreements and the payments made by Great Britain to the United States. He considers that this point is still somewhat obscure and needs further elucidation to facilitate the smooth working of the Agreement.

Taxation of Joint Stock Companies.—Italian taxation of joint stock companies falls into two categories: direct taxation levied on profits and indirect taxation which, theoretically, represents an increase in production costs transferable to the customer, though in practice it frequently absorbs a notable share of the profits.

The following direct taxes are paid by joint stock companies:—

(1) Land tax, levied at rates varying from 11.89 per cent. to 19.15 per cent. on the rentable value of land calculated in gold. The surtax on land levied by local government bodies averages six times the amount of the Government tax. This tax only affects those industries which use large areas of land as a factor in production, such as real estate and railway companies.

(2) The tax levied on the rentable value of buildings, including, until 1925, that of factories and workshops, at rates rising from 21.01 to 27.74 per cent. The surtaxes levied under this head by the local government bodies average 200 per cent. of the Government tax. Since 1925 the rentable value of factories and workshops is not taxed separately but calculated in reckoning the returns for income tax.

(3) Income tax, category B, levied on industrial profits at the rate of 20 per cent. Companies pay on annual profits as shown by the difference between their assets and liabilities. By this method not only distributed profits are taxed, but also those paid into the reserve.

(4) Income tax, cat. C, levied at source at the rate of 12.83 per cent. on the salaries of staff in the employ of joint stock companies. This amounts in practice to a further charge on the companies themselves.

(5) Income tax, cat. A, levied on the interest on debentures issued by companies at the rate of 25.5 per cent. Debentures are frequently issued in Italy tax-free, the tax being paid by the companies issuing them.

(6) The tax on transfers, levied at the rate of 4.50 per mill. of the capital value of bearer securities estimated at the average rate at which they were quoted on the stock exchange during the previous year. In the absence of such quotation their value is estimated by the brokers' syndicate. If the securities are registered this tax is levied at the rate of 2.50 per mill. of capital value.

(7) The Communal and Provincial surtax on income tax, cat. B, is levied, since 1925, at the rate of 3 per cent. of net income and at the rate of 2.40 per cent. on income taxed under cat. C.

(8) Municipal tax on business activities levied at the rate of 2 per cent. on net profits.

Until June 1925 a tax of 15 per cent. was levied on the dividends or interest paid on bearer securities. A recent decree has exempted from income tax the excess price (over nominal value) of new share issues. Besides these direct taxes, companies are subject to stamp duty and registration fees, tax on sales, Excise duties, taxes on insurance, municipal taxes levied on machinery, fuel, raw materials, gas, and electric power.

According to a recent study during the three years period 1922 to 1924, the percentage ratio of taxation to dividends and paid up capital of Italian joint-stock companies was as follows :—

	Average percentages for three years 1922-1924.	
	On distributed dividends.	On paid-up capital.
<i>Direct taxation—</i>		
Land tax and surtax	0.20	0.16
Tax and surtax on buildings	3.48	0.280
Income tax Cat. B.	29.05	2.320
Surtax on Income tax	4.18	0.340
15 per cent. on bearer securities (since repealed)	6.16	0.493
Complementary tax	10.41	0.832
Negotiation tax	5.65	0.451
Municipal Tax on business activities and shops	0.97	0.081
Chamber of Commerce Tax	0.67	0.053
Total	60.77	4.866
<i>Indirect and transferable taxation—</i>		
Income tax Cat. A.	3.67	0.300
Income tax Cat. C.	60.78	0.860
Sundry taxes and dues	13.17	1.062
Grand total	88.50	7.09

As the above shows, taxation on industrial companies is excessively high in Italy, so much so that to encourage foreign capital investments the Government has seen fit to exempt the interest on loans or bonds issued abroad for productive purposes from income tax and from certain stamp and other duties. An influx of capital is essential to the economic development of Italy. This fact is recognised by the Government, and it is only the imperative needs of the post-war Budget which stand in the way of a fiscal reform which would relieve industry of some of the heavy burdens under which it now labours. (*Financial Report of the Association of Italian Corporations.*)

TRADE

Foreign Trade Returns January to November.—Although the monthly returns of Italy's foreign trade continue to show an adverse balance there are distinct signs of improvement, as will be observed by comparing the returns for the first six months of the past year with those for the later months, the figures up to November now being available. The change for the better was most marked in the middle of the year, for whereas the adverse balance for June was as high as L.1,101.8 mill., that for July fell to but L.459.3 mill., which again was higher than that of any of the succeeding months. The following table clearly shows the course of the favourable development up to November last (in millions of lire) :—

	Imports.	Exports.	Adverse balance*
January ...	1,827.7	1,119.2	708.5
February ...	2,073.2	1,403.1	670.1
March ...	2,586.9	1,480.4	1,106.5
April ...	2,609.0	1,343.1	1,265.9
May ...	2,442.7	1,439.6	1,003.1
June ...	2,885.3	1,783.5	1,101.8
July ...	1,851.1	1,391.8	459.3
August ...	1,823.5	1,423.8	399.7
September ...	1,698.5	1,596.3	102.2
October ...	1,910.7	1,801.0	109.7
November ...	2,005.6	1,730.9	274.7
Total ...	23,714.6	16,513.3	7,201.5


The average monthly adverse trade balance for this period of eleven months is L.654.7 mill., that for the first six months of the period is L.976 mill., while that for the last five months of the period is only L.269.1 mill.

As compared with the total volume of foreign trade in the preceding year there has been a marked increase both in imports and exports. The total increase in imports during the period January to November, as compared with the corresponding months of 1924, represents in value the sum of L.6,824 mill., while the augmentation of exports during the same period shows a value of L.3,967.6 mill. The most pronounced increases in imports were registered in the months of March (+ L.1,075.8 mill.) and April (+ L.1,036.9 mill.). The heaviest increases in exports were in the months of June (+ L.557.7 mill.) and July (+ L.543.3 mill.). The increase in imports is more apparent than real, since the rise in the aggregate value has been largely determined by the higher prevailing prices, especially in the case of wheat, rubber, coffee (which actually declined in volume but rose in value), hides and certain other products, which materially affected the monthly balance. Following the tone of the general Press it would appear that the present trade prospects are encouraging, the expectation being now expressed in certain commercial and economic circles that the favourable monthly balance will soon be restored.

INDUSTRY

The Coal Commission.—The technical commission appointed in September by the Minister of National Economy to report on the best means of utilising industrial fuels has completed its labours.

The Commission divided into five sub-committees. The first of these, which was to report on the best ways of utilising imported fuels, recommends the organisation of a national association of boiler-users, which should attend not only to securing the safety of the plants but also to all questions concerning the economising of coal and the substitution of national fuels or of electric power for imported fuels. The second sub-committee dealt with the utilisation of national fuel resources. It has drawn up a list of all the lignite beds of the kingdom, classified according to quality, value and actual and potential output. The distance of the mines from the railway lines and the means of transport best suited to



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each case have also been studied, as well as the advisability of utilising the fuel at the pit-head or of transporting it elsewhere. As to the possibility of discovering new coal beds, the report considers that the best chances are offered at Fano in Tuscany. The third sub-committee reports on the transformation and synthetic production of fuel oils, and the production of briquettes from coal dust, and suggests that subsidies be granted to plants using national fuels. The fourth sub-committee reports on the question of the carriage of both national and transported fuels by land and sea, while the fifth studies the growth in the consumption of lignite during the war and present possibilities. It considers that the quantity which could be used now with advantage, does not exceed 4 million tons a year, which could be raised to 5 or 6 million tons in case of extreme need. This would allow of a saving of one-seventh or even one-fourth of the coal now imported. The output of many of the more important lignite beds should, in the opinion of the Commission, be utilised on the spot for generating electric power. It also recommends that the hydro-electric system in the Alps and Apennines be completed and that reserve thermal super-centrals be built on the lines already projected, many of which could be equipped to burn Italian fuels. Experience acquired during recent years has modified the programme now being gradually carried out for the electrification of the railways. While electrification is profitable on mountain lines, on those passing through many tunnels, and on lines carrying a very heavy traffic, the use of coal is more economical on lines running through flat country and carrying an average traffic. This consideration is guiding the plans now in hand, for which 190 million lire are budgeted in the railway estimates for 1926-27.

It should be noted that in spite of the recent large-scale development of hydro-electric plants the consumption of coal tends to increase from year to year, returning to pre-war figures. The following figures show imports of coal (in quintals):—

	1923.	1924.	1925.
			Ten months.
Belgium	—	759	46,870
France	414,547	292,325	264,022
Germany	117,281	759,130	516,236
„ reparations ...	1,479,736	3,650,953	1,418,063
Great Britain ...	6,506,676	5,905,489	5,489,916
Jugoslavia	34,791	36,195	49,805
Switzerland	—	—	1,069
United States ...	486,112	537,091	453,531
Other countries ...	28,126	37,235	332,099
Total	9,167,269	11,220,775	8,571,611

(Report of the General Fascist Confederation of Italian Industries.)

SOCIAL AND LABOUR CONDITIONS

Price Index Numbers, September to December.—

The following are the price index numbers compiled by Professor Bachi for the last three months of the past year, together with the general index number based on prevailing prices in 1920 and 1913 respectively:—

	October.	November.	December
Vegetable Foodstuffs ...	138.0	137.5	139.9
Animal foodstuffs ...	134.7	131.6	134.9
Chemical products ...	75.3	75.1	74.6
Textiles	105.0	103.0	100.8
Metals and minerals ...	79.9	79.6	79.8
Building materials ...	111.3	112.4	110.1
Vegetable products ...	145.7	146.1	150.7
Miscellaneous	113.6	113.2	113.6
General index based on 1920	114.7	114.0	114.5
General index based on 1913	716.4	711.7	718.8

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RUSSIA

POLITICAL AND GENERAL

Problems of the Economic Crisis.—The official organ of the Labour and Defence Council, the *Ekonomicheskaja Jisu*, publishes a leading article which handles the Russian economic crisis with extraordinary frankness. According to the article in question, the strained and complicated nature of the economic situation is clearly indicated by the further increase in prices, the December index number both in the wholesale and retail trade showing a considerable rise. This last upward movement in prices, which involves a further definite depreciation in the value of the Tschervonetz, is due, in the first place, to the increased price of agricultural products, particularly of grain, the price of which rose during December even more sharply than in the previous months.

The main difficulty in the economic position lies in the unequal relationship of industry to agriculture. A sufficient surplus of grain and agricultural products is available, but they penetrate but slowly into the market, on account of the shortage of industrial products. High as the grain prices are, those of industrial products are yet higher. The balance between agriculture and industry has been upset, resulting in a series of disturbances throughout the Russian economy.

It cannot be denied, says the official organ, that errors have been passed in relation to the credit policy. This is proved by the execution of the credit scheme in the first quarter of the current economic year 1925-26. In six leading banks the increase of funds and current accounts in the course of the first quarter only amounted to Rbl.47.1 million, whereas an increase of Rbl.244.3 million was estimated for in the credit scheme. The credit scheme, says the article, has been executed up to almost 100 per cent. of the expenditure, whereas the revenue side has only been worked out up to 19 per cent. The grave dangers threatening industry owing to inadequate supplies of fuel and interrupted transport are also pointed out.

It may be concluded from this article that for the purpose of overcoming the economic crisis means must above all be found to reverse the tendency in the movement of prices for agricultural products, even at the expense of causing discontent among the farmers. This question is naturally of decisive importance for the development of Russian exports and the stabilisation of Russian currency. The best way to reduce the price of agricultural products is to supply the villages with industrial products. For this purpose Russian industry must at all costs be promoted. As regards currency policy, severe measures should be taken to avoid the danger of inflation. (*Deutsche Allgemeine Zeitung*.)

FINANCE

Revenue Returns for 1923-24 and 1924-25.—The *Agence Economique et Financière* publishes the results of the 1923-24 and 1924-25 Budgets as regards revenue returns. Expenditure for 1924-25 amounts to Rbl. 2,724 million, of which 2,311 millions are ordinary and 413 millions extraordinary expenditure. Under the heading ordinary expenditure 889.4 millions represent expenditure connected with transport, posts and telegraphs, and if this sum is deducted and the decreased buying power of the Tschervonetz is taken into account (amounting to more than 50 per cent. according to retail prices) the total expenditure that Soviet Russia was able to afford for administration, defence and the satisfaction of all material and moral needs amounted in 1924-25 to scarcely the sum of Rbl.600 million (pre-war gold standard).

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REVENUE RETURNS.

		1923-24.	1924-25.
		(In thousands of roubles).	
A. Ordinary Revenue.			
I. Taxes and duties—			
1. Direct taxes ...	...	419,157	567,483
2. Indirect taxes ...	...	293,472	574,100
3. Duties ...	...	64,286	111,848
Total ...		776,915	1,253,431
II. Revenue other than taxes—			
4. Commissariat of roads and communications ...	...	626,086	890,853
5. Commissariat of Posts and Telegraphs ...	...	45,746	92,775
6. Forests ...	...	55,747	160,649
7. Industry, commerce, banks ...	...	41,976	109,652
8. Other receipts ...	...	40,932	66,792
Total of Ordinary Revenue		810,457	1,260,402
Grand total ...		1,587,372	2,543,833
B. Extraordinary Revenue.			
1. Realisation of State Funds...		30,055	21,044
2. Realisation of foreign money arising from export ...	...	32,587	—
3. Credit operations (not including the issue of certificates by the Central Paying Office of the Commissariat of Finance) ...	...	183,093	119,880
4. Issues for Budget requirements		180,415	80,000
Total of Extraordinary Revenue		426,150	220,894
Grand Total ...		2,013,522	2,734,727
Issue of Certificates by the Central Paying Office of the Commissariat of Finance ...			
...	...	190,811	128,275

EXCISE.

Revenue arising from various Excise duties :—

		1923-24.	1924-25.
		(In thousands of roubles.)	
1.	Spirituous beverages—	62,428	172,491
	Alcohol	12,262	49,921
	Wine	10,757	12,339
	Beer	28,698	31,560
	Liqueurs	10,711	69,296
2.	Sugar	49,593	109,233
3.	Tea and coffee	13,256	20,090
4.	Tobacco	35,129	76,366
5.	Salt	15,173	15,361
6.	Petrol	16,353	22,254
7.	Textiles	26,194	44,839
8.	Other Excise duties	13,369	20,449
		231,495	481,083

TRADE

Foreign Trade Statistics for 1925.—In Russian economic quarters it is repeatedly pointed out that any comparison with pre-war results in foreign trade with those of recent years is not admissible, because the economic development of a country must have reached a certain standard before foreign trade can begin to develop on normal lines. At the same time it is of interest to note, says the *Hamburger Fremdenblatt*, that Russian foreign trade in the economic year 1922-23 represented 11 per cent. of the 1913 turnover, while the 1924-25 result increased to about 24 per cent. It is representative of the Russian economic situation as a whole that foreign trade is far behind all other economic branches. Nevertheless considerable development has taken place, as shown in the following table (in millions of roubles according to present prices) :—

Economic Year.	Exports.	Imports.	Balance.	Turnover.
1922-23 ...	211	187	+ 24	398
1923-24 ...	523	439	+ 84	962
1924-25 ...	567	718	— 151	1,285
Calendar year 1925	551.7	736.6	— 184.9	1,228.3

The total turnover has, therefore, considerably increased in the course of the last three economic years, and this fact is made the most of in Russian quarters. Foreign trade has, however, increased much more gradually during the past year, and it is noticeable that imports have grown more rapidly than exports. The last quarter of 1925 shows a marked falling off,

both in exports and imports. The development of foreign trade during the calendar year 1925 gives the following result (in millions of roubles) :—

	Exports.	Imports.	Balance.
January ...	33.6	31.5	+ 2.1
February ...	37.5	45.3	— 7.8
March ...	32.8	54.9	— 22.1
April ...	29.7	62.8	— 33.1
May ...	38.5	87.8	— 49.3
June ...	50.7	60.9	— 10.2
July ...	36.1	66.6	— 30.5
August ...	51.3	45.7	+ 5.6
September ...	69.1	76.3	— 7.2
October ...	76.0	82.5	— 6.5
November ...	54.0	66.4	— 12.4
December ...	42.4	55.9	— 13.5
	551.7	736.6	— 184.9

This failure to balance between imports and exports⁵ during 1925, so contrary to the expectations of the Soviet Government, is undoubtedly due to the failure of the grain export scheme. At first the grain export rose from 9.7 millions in August to 25.9 millions in September and to 30 millions in October. November brought a decrease to 14.2 millions, and in December the grain export sank to 6 millions. As a result of the splendid harvest, Russia realised only Rbl.85.8 on the total 1925 grain export. During the economic year 1924-1925 only Rbl.51.3 million worth of grain was exported as against 145.3 millions in the economic year 1923-24. This shortage could not be made good by the increase of exports in other goods, though some notable results were achieved, such as 66 millions of timber as against 63.9 millions in 1923-24, 62.7 millions of naphtha products as against 44 millions, and so on.

The second reason for the failure of the foreign trade scheme may be found in the unavoidable necessity of imports in every direction. Russian industry is entirely dependent on the import of raw materials and semi-manufactured goods. Thus in the economic year 1924-25 Rbl.122.2 million worth of cotton (as against 53 mill. in the previous year), 39.2 millions of wool, and 18.6 millions of dyestuffs were imported. In addition to these are items rendered necessary by the incompleteness of Russian economic organisation, for instance the imports of dressed and undressed hides to the extent of Rbl.29 million. During the first ten months of 1924-25 43.5 per cent. of the total imports fell to raw materials and semi-manufactured goods. The most important group for the gigantic agrarian districts is of course that of finished manufactures. This group represented in 1924-25 29.3 per cent. of the total imports, and included industrial machines, ploughs, tractors and tools. Although according to Russian statistics the import of agricultural machines has increased five-fold in 1924-25, there is no attempt to deny that the quantity imported is far behind the needs of the population. An astonishingly large proportion of the total imports fell to food-stuffs and animals, with 27.2 per cent. The import of grain products alone amounted in 1924-25 to 77.9 millions (as compared with a grain export of 31.3 millions). This heavy burden can only be accounted for by the failure of the 1924 harvest.

It is an accepted fact in the present Russian economy that it is impossible for industry to maintain even the present level of output unless an extraordinary amount of capital is spent on reconstruction. For this purpose an inland reconstruction loan of Rbl.300 million had been decided upon for 1925-26, but the difficult financial situation has caused this plan to be indefinitely postponed. The suggested German R.Mk.300 million credit for long-term financing of Russian reconstruction is therefore of enhanced importance. Russian contracts to the stipulated amount are to be taken up by German industry, while a German bank syndicate is to take over the financing of the deliveries to German firms, and the Reich is to provide the guarantees. The new credit scheme has been brought forward just when the Berlin Soviet Trade Representative has covered, according to agreement, one-half of the credit taken

up under the Russo-German Trade Agreement. The second half is due for cover on February 28. The credit in question was for Mk.100 million, but only led

to contracts amounting to Mk.80 million and a credit on the part of the Deutsche Bank of 52 millions. The new Mk.300 mill. loan will, however, extend over four years.

SPECIAL ARTICLES

(Whilst the Editor of "The Economic Review" welcomes in these columns the expression of all shades of opinion on matters of economic controversy, he is not necessarily identified with any particular opinion expressed.)

THE STANDARD OF CURRENCY: THE ROOT PROBLEM FOR THE PROSPECTIVE ECONOMIC WORLD CONFERENCE.

By Dr. ERNST DICK.

(Continued.)

2. HOW TAXATION AFFECTS INTERNATIONAL TRADE.

In the first part of my essay I tried to show why and how measures to reduce the public debts disturb the stability of the currency and are detrimental to the exigencies of international trade. The effect produced by debt redemption is to enhance the purchasing power of money, in other words: deflation. In the present part I shall undertake, in the first place, to demonstrate how and why the taxation necessary to repay debts has the contrary effect, forcing up prices and so diminishing the purchasing power of money, which means inflation. If my contention holds good it signifies that the means employed are contrary to the end pursued, so that mighty energies are wasted in the attempt to achieve the impossible. What are we to think of a policy that sets out on a course which necessitates only such steps as tend in the opposite direction, so that the action and the counteraction just paralyse each other? There is nothing so apt to destroy hope and kill enterprise as a sense of wasted effort, and there is nothing more humiliating for governments than to have scheme after scheme frustrated. The political tendencies away from democracy are largely due to the failure of governments to be as good as their word, and the spirit of Fascism will rapidly spread unless sounder, more consistent and more realisable policies are inaugurated. If the scornors of a real solution would only consider the practical results of their theories they might be chastened into some amount of willingness to consider new suggestions, however strange these may at first appear.

A government which sets out to pay off debts is forced to augment its revenue, unless it can manage to retrench on its expenditure. The latter course, which implies wage cuts more than anything else, has clearly a deflationary effect, seeing that wages and salaries are prices; the former course implies the creation of new taxes or the increasing of existing ones, which cannot but tend to raise prices, seeing that taxes are prices and an element of price. Thus the idea of debt redemption is proved to be inherently contradictory.

Prices are composed of a number of elements, such as wages, interest charges, taxes, which in their turn must also be considered as prices. Whatever enlarges any one of these constituents will necessarily increase the final price. It does not require an elaborate argument to show that the forcing up of taxes must have an inflationary effect. However, all economists, theoretical and practical, seem to hold the contrary opinion. While manifestly benefited by inflation, business men are as a rule violently opposed to taxation. At the present moment in all the countries afflicted with the fever of debt redemption there is from the camp of business one chorus of protest against what is called the exorbitancy of the taxes. Trade is poor, and it is natural that the drain of imposts should be resented. But the notion that trade would revive if taxes were eased is an illusion. One of the English critics of my book imagines having dealt the final blow to my theory by ridiculing the contention that a reduction of taxes

would hamper business. We are here discussing the means for restoring business to a better state of health; so it is not out of place to examine the question.

My argument takes its cue from the theory of a German currency reformer, Silvio Gesell, which is to the effect that the raising of the taxes diminishes the purchasing power of the public and therefore should be used as a means to curb inflation—and vice versa. This theorist, then, who prides himself on his heresies, holds the current view that high taxes hamper business. Yet at the same time he utters a warning that Customs duties, i.e. indirect taxes, should not be included in measures to influence price through taxation, because the effect of raising the tariff would be to raise prices, when it is desired to depress them, and vice versa. Let us try to fathom the case. Taxes, it is argued, constitute an item in the cost of living and the cost of production. They lessen the means of purchasers, who are forced to buy the less until prices have been adapted to their reduced purchasing power, that is to say, reduced. The argument seems plausible; but the semblance deceives. If indirect taxation is admitted to produce the contrary effect, there is no reason why direct taxation should not. It is with taxes as with interest: they are not paid once or twice a year, but every day; they are contained in every price that is asked and conceded. If, therefore, taxes are reduced (or increased), an element is subtracted from (or added to) every price. May I be allowed to quote a paragraph from my own book (p. 182):—

"We have to look at the matter not only from the purchaser's point of view, but also from the point of view of the seller. The manufacturer of an article may resist the pull on prices while he has to pay full taxes, but yield when his taxes are lessened for him; he may resist the temptation to raise his prices while taxes are moderate, while the raising of his taxes will furnish him a welcome pretext for giving the screw a turn upwards. Gesell again and again stresses the idea that the *expectations* of the business world and the general public are the decisive factor in the movements of prices. What expectations does the reduction of taxes create? When prices tend to fall it is because the public wants them to fall, and is exasperated that they refuse to fall. Now the easing of the tax-levy will put it into every head that prices ought to yield, that the producers and merchants have no valid grounds for resisting. The consuming public will not rush out to spend what they save on their taxes; they will wait until the shopkeeper has surrendered his share in the general bounty. There cannot be the slightest doubt but that the measure, if applied in the circumstances here assumed, must produce the contrary effect of the one contemplated. Suppose now it is applied when prices are tending to rise: lower taxes when Gesell would have them raised. The consuming public are opposed to this price movement, and at strain for some good reason for resisting it. The reduction of taxes will furnish this reason: every buyer argues that the producer, who has had the cost of production reduced for him, has no justification in further raising his prices; he expects that the rising movement will be stopped, and so he defers his purchases, which means a slower circulation of his money and a curb on prices."

I have very little to add to this. The truth of the contention is beautifully borne out by what is happening in France these weeks and months of the financial crisis. Successive Governments have added taxes to taxes in order to stop inflation, with the result that inflation has proceeded all the more merrily.

If the decline of prices does embarrass business—and there is innumerable evidence to prove this point (see, for instance, the publications of the League of Nations' Labour Office)—and if it is true that taxes are an element of price: there is no other conclusion possible but that additional taxes will rather benefit than damage business, at least temporarily. And vice versa. More generally speaking, it must be admitted

that the fluctuations of taxes always move in the same direction as the fluctuations of the price level.

It is not, then, the amount of taxation that crushes enterprise, but merely the way in which the revenue is spent. The money paid out in taxes would be recovered in the form of better prices if the taxes went to the payment of higher wages and salaries, to the creation of public works (not necessarily warships); but it cannot be recovered if it is held up on its way by a policy of debt sinking. In the long run, to be sure, it will move on and return to the producers. But there is time lost in the process, and time *is* money. The losing of time actually destroys money, because the intervening fall of prices destroys money capital and inevitably leads to a restriction of the volume of money issued.

The effect of taxes on the price movement has been misinterpreted, because the counteracting influence of other measures has been overlooked. To me the sorriest sight of all is the contrivers of schemes to stabilise the currencies championing the old error. Mr. J. M. Keynes advocates the Capital Levy to check inflation: the increase of taxation, i.e. prices, with a view to checking the rise of prices. Silvio Gesell and his disciples clamoured for a capital levy during the inflation period in Germany, and at the present moment (December 1925), when France is passing through one of her inflationary phases, they again recommend their panacea. But practical statesmen are infected with the same error, as witness the bungling efforts of the French Governments already mentioned.

My theory says: it is impossible to overtake inflation—by which term I would designate any course making for the rising of prices, the depreciation of money—through the raising of taxes, because higher taxes in themselves constitute a factor of money depreciation. And likewise the lowering of taxes cannot counteract the fall of prices and so remove the handicap on enterprise, because to lower taxes is to remove one of the main props of the price level. In the first part of my article I concluded that the stabilisation of the currencies implies the stabilisation of the public debts. Here now we are led to conclude that it also implies the stabilisation of the taxes. Of course this is really saying the same thing. For what could necessitate an increase or a decrease of the State's revenue if the Debt is to be left unaltered?

Enough has been said, I should think, to make it understood that direct taxation exercises a most powerful influence on the economic forces. An economic world conference, therefore, cannot ignore this problem and ought to lay down rules to enforce a policy making for the stabilisation of taxes.

It is a matter of fairly general knowledge that *Customs duties* influence international trade. Again and again it is painfully demonstrated to producers and consumers alike how the action of some foreign government may encroach upon their economic interests. When the so-called McKenna Duties were restored by the present British Government, several Swiss industries, for example, were disastrously affected. But everything properly considered there is no real difference between these indirect taxes and the direct ones. To me the problem of free trade is merged in the all-including problem of currency.

Economic history, so far as I know, records no instance of the institution of new protective tariffs except in periods of deflation (of falling prices). If at the present moment one country after another attempts to raise its Customs barrier, it is because their prices have fallen or are falling. There is a curious contradiction involved in this, one of those baffling inconsistencies which make men seek the evil in a place where it is not to be found, and apply remedies that can do no lasting good. How is it that countries with falling prices are threatened by an excess of imports? Do not goods tend to go to those markets where prices are high? Assuredly so. The fall of prices, then, enhances prices, since we see goods rush to the countries where prices

go down? Assuredly so. The fall of prices enhances *the value of money*, by which the importer profits because the rate of exchange translates a smaller sum as expressed in the buyer's currency into a bigger sum as expressed in the producer's currency. That is one of the truths which, though proved up to the hilt, and in countless instances, is persistently missed by those who ought least to miss it.

However, the raising of the Customs duties actually does result in what is required: it stops the fall of prices. But it is a roundabout method and therefore an expensive procedure attended by many offensive complications. The sooner it is discarded, the better. All that is needed to dispense with it is stability of the currency, which quite automatically includes stability of the balance of trade and, concurrently, in so far as other countries preserve a stable currency, stability of the rates of exchange. Of course I do not mean to deny that certain interests will keep up an agitation for protection; but I am confident that they will be defeated.

Some free traders propose to abolish Customs duties entirely and at one fell swoop. But that is madness. It cannot be done either suddenly or gradually. Although import duties were primarily instituted as a fiscal measure, i.e. with a view to obtaining government revenues, the mechanism which they have necessitated has assumed functions which cannot now be ignored or stopped, and while the mechanism is needed, there is nothing to be gained by relieving it of the function of collecting the import tax, which is as legitimate as any other. International trade relations have evolved so as to adapt themselves to the existing duties. They are forced to re-adapt themselves continually as tariffs change, and this re-adaptation is a waste of energies, while the possible degree of perfection is never reached. Hence what is wanted in the interest of international trade is neither the abolition nor the reduction of the tariffs, but their stabilisation. If some industries appear to be less well protected than others the re-adjustment of the balance will come about in a very short time and much more naturally than by way of new legislation. The sheltered trades will absorb capital and labour from the exposed ones, with the result that profits and wages are levelled, which is justice and the last word.

Customs tariffs are arrived at through treaties between the trading nations. Such treaties are grave matters, and to tamper with them, whether wittingly or unwittingly, is a breach of faith. Now I maintain that any alteration of the value of a currency is in effect a breach of the Customs treaties. Consider, for instance, the case of two countries such as France and Denmark during the year 1925. I suppose there is between them a treaty regulating the duty on the various imports. The French currency during 1925 was depreciated by some 50 per cent., the Danish appreciated by some 40 per cent. Suppose that the French duty on Danish butter is fixed at two francs a kilo, a kilo costing 20 francs at the beginning of the year, but 30 francs at the end of the year. From one-tenth of the price the duty was thus reduced to one-fifteenth of the price. The Danish duty on French wine is fixed, say, at one crown a bottle, a bottle costing five crowns at the beginning of the year and three crowns at the end. From one-fifth of the price the duty was thus increased to one-third of the price. That is how solemn international engagements are kept when currencies are not stable. What wonder that the morals of international trade should have degenerated? What wonder that confidence should be shattered and the mechanism of trade dislocated? What would happen if a government presumed to raise the duty on imports by some 60 per cent. without first bargaining for a new contract? What are we to think of the husbandry of a State which allows its revenue on an important article of consumption to dwindle by some 40 per cent. within a year? That is what happened with the French duty on Danish butter in the latter case, and with the Danish duty on

French wine in the former case, all in consequence of inflation in France, of deflation in Denmark. Switzerland, a neighbour of France, has a fairly stiff protective tariff; yet all through the year of French inflation the Swiss shopkeepers in the border localities complained loudly about the unfairness of the competition waged against them by the French dealers across the boundary. What better proof than this that tariff treaties are scraps of paper and tariff barriers crazy defences when the currencies go crazy?

To alter the tariff rates is an attack on the stability of the currency; to let the currency depreciate or appreciate is an attack on the tariff rates. Of course stable tariff rates do not suffice to stabilise the currency; but they are a necessary condition to achieve this end. And indeed, when the idea of stability of money value has once been grasped in all its bearings and firmly established in practice, tariff policies will have an end and efforts to revive them will be discredited.

An international economic conference cannot evade this portentous issue. It will miss its purpose if it fails to provide an agreement, solemnly pledged by all participants, *to refrain from any alteration of the existing tariffs*.

In the last days of 1925, just while I was writing this essay, the newspapers reported that a certain amount of animosity was afoot in the United States against those countries which were *protecting their exports* by some system or other. It was hinted that America was prepared for a rubber war against England. Obviously such a situation presents a problem which an economic world conference should take up and solve. Let us see how it resolves itself when viewed under the light of my theory of currency.

Mr. Hoover's charge against England is that the price of rubber of which the United States is the greatest consumer, while England controls its output in a monopolistic way, is unduly raised by the British policy of limiting the output. In other words, it is supposed that the British producers of rubber are overpaid and receive more than the cost of production would justify. Supposing this to be the case, the consequence must be that more money pours into the exporting country than out of it, so that money may be expected to accumulate in it. This state of things cannot endure long, because accumulations of money become a burden and have to be disbursed and dispersed, sooner or later. When this takes place more money is supplied, and the inevitable result is a general rise of prices: the standard of currency is upset. Rising prices mean a lower rate of exchange, and this in its turn signifies that exports are cheapened, while imports are rendered more expensive. Thus it appears that the natural process of adaptation may be counted on to restore the balance, so that acts of retaliation need not be resorted to. However, the fact that so shrewd and fair-minded a statesman as Mr. Hoover should be roused to protest by the interference of the British Government proves the unsoundness of the action—its ultimate futility being proved by the results just shown. An economic conference must lay down strict rules to stop such attempts.

I have expressed the opinion that a country selling above cost of production price accumulates money. When money has accumulated in a country it is because this country has made unfair profits on its exports. I hope to publish this article also in America; but I will not shrink from pointing to our American friends as those that have sinned in this respect. The accumulation of gold in the United States betrays the evil deed. It will not do to object that the gold is the fruit of thrift and wisdom. The war, which occasioned it all, may have been folly and wickedness; but it was a fatality also. The peoples of Europe who passed through the ordeal should not have been exploited, and what exploitation has taken place should be atoned for as speedily as possible. I refer the reader to the chapter of my book which is entitled "The American Hoard of Gold."

The idea that has been more and more insistently impressed upon me as I threaded the maze of the currency tangle is that the currency is the great arbiter of justice. It will visit on the offender any sin of commission or omission, it will bring wrongs home to roost. But why should there be wrongdoing, injustice; why depend on the chastening cure rather than on the chance of prevention? It is possible to establish a system which will keep the value of money tolerably stable. My article is mainly concerned with showing what should be avoided by governments in the interest of stability. To recapitulate: (1) Avoid attempts to alter the magnitude of the public debt; (2) avoid attempts to alter the national revenue in its relation to expenditure; (3) avoid attempts to alter the degree of fiscal protection afforded to the various industries. I have tried to explain the interdependence between these factors and the currency. Indeed, they are so closely related that they should be considered as one and the same thing, only viewed under varying aspects. Stabilisation cannot be confined to one or the other as those stabilisers of currencies who have had a hearing so far believe, but must be extended to every phenomenon bearing on price. Such all-round stability will greatly narrow the field of politics. It will not narrow the field of human endeavour, though it cannot fail to relieve mankind of much that we have come to resent as its more sordid cares. I therefore will stress once more the opinion that an economic world conference can have no other task to fulfil than the devising of the best ways and means for enabling the nations of the world to secure at long length the great boon of stability.

NEW TRADING METHOD.*

(Continued.)

"We have," Rosenstein says further, "many examples of this daily trade practice which abundantly illustrate the crooked chain of producing goods. Very often we meet with cases of goods on the way from the trust to the wholesale merchant going through two and more hands (e.g. co-operative society, bank, etc.), which adds to the price of the goods by 7 per cent. The consignment of cotton goods with other fabrics that are less in demand—a thing that has long been practised—has now taken, in connection with the great lack of manufactured goods, a still sharper turn, and appears to us to be a factor in throttling private initiative. This overloading of goods received by the traders under compulsion causes them to sell the goods at a loss, which sometimes amounts to 50 per cent. of the cost price, and they have to put this loss on to the price of their cotton goods."

"The most striking case in the above practice happened a few days ago when one of the big trusts compelled a trader when delivering the goods through a bank to accept their customers' protested bills for 4,000 roubles on each waggon-load of manufactured goods, and the trader in question was made to pay up the full amount in roubles in spite of the overloading of the deal in this way. Nevertheless, a disgraceful act like that being insisted on, it is carried out to the letter, and in fact forms a hidden increase in price to the customer of 13 per cent."

"It is not to be wondered at, therefore, that the prices of cotton goods charged by the small wholesalers on the private market are dearer than the price lists by from 20 to 30 per cent., and that capital decides to take part in the exchange of goods with the greatest caution owing to the danger it involves."

The same Rosenstein, in an interview printed in *Economicheskaya Jizn* (*Economic Life*) for July 5, again confirms "that the direct connection of State industry with private trading capital is being arranged very slowly," and "that the process of the introduction of private capital into the trade turnover is also proceeding slowly."

* Reproduced from *The Russian Economic Miscellany*, Vol. IV. (Prague 1926), edited by Prof. S. Procopovitz.

The President of the Moscow Mutual Credit Company, Chegodayeff, also speaks in the issue of *Econom. Jizn* of July 25 of the continued refusal of State industry to deal direct with private capital.

The matter of the taxation of private trade is in no better position, and observation shows that it is rather in a worse state. For instance, in No. 117 of *Econom. Jizn*, dated May 24, 1925, we find the following summary of local reports on the position of this question :—

“It turns out that, as the amount of the taxes has not yet been gone into, the number of private firms continues to decrease ; and the number of permits taken out in the several towns for the half-year April to October 1925 has diminished very considerably.

“Local taxation organs, and especially the Communist Provincial Departments, have raised the taxes of private traders considerably under all the heads of taxation.

“The rent for hire of business premises has increased by 150 and 300 per cent., and more especially for retail traders in petty goods of Category II., bakers, pork butchers, and others. The Government Education Authority has also played no small part in the exodus of the traders from the market : according to correspondence from Penza the raising of the original (basic) price of educating the tradesmen’s children, plus the introduction of the 100 per cent. increase for the additional payment for the education of their children in the secondary schools, is undoubtedly beyond their means. Writing from Gommel, we are told that tradesmen are waiting for the removal of their worst difficulty, viz. the non-introduction of instructions as to how much they are expected to pay in taxation in one or other quarter, and the regulation of the arbitrary way of charging penalties, which so often upsets all the calculations of the petty shopkeepers. In the same correspondence one comes across a concrete account of actual cases of the imposition of fines, which one regrets to say is evidently true. Further, third, fourth, and fifth correspondents bring forward further concrete examples of what can only be described as topsy-turvy local rates.”

In particular, in the sphere of rents charged for premises occupied by private traders, the position is characterised by the following facts supplied by the Council of the Exchange Trade Congress, which we take from *Econom. Jizn* of June 3, 1925 :—

“According to information received to date from the Council of the Trade Congress, the rent amounts on an average to half of all the charges for taxation. In many places the rent charges reach the amount of the industrial and income taxes.

“In comparison with the cost of the patent trading rights the rent also represents a considerable amount ; for instance, in Poltava the rent of private premises exceeds the cost of the permit by four times. Compared to the net income the rent charges vary from 14 to 40 per cent. The trade in manufactured and petty goods attains the highest percentage compared to the net profit.”

Striking examples of the burden of rent for private traders can be met with also in the correspondence under “Rent charges of private traders” printed in *Econom. Jizn* of September 22.

Finally we can show that matters have not changed at all as regards private trading in the sphere of so-called administrative pressure from the time of the publication of “the new trade method.” So much will be gathered from the information given below emanating from local districts represented at the Conference of Trade Exchanges held on May 18 (see *Econom. Jizn* May 20, 1925). It is interesting also from the point of view of the general characteristics of the position of private trade for the eight or nine months since “the new method of trading” was adopted. Noting a certain but insignificant liveliness of private trade in certain districts, the representatives of the local exchanges practically unanimously point to the absence of changes in the conditions of working it. For instance, the representative of the Harkoff Exchange gave the information that “In Harkoff up to now one can observe

the absence of the necessary confidence on the part of private traders to the new course in commerce, and they still keep to their waiting policy. *In the different localities the pressure brought to bear on the private trader is conducted on the former system, and he is still compelled to hide underground.* (Italics as in *Econom. Jizn*.)

The representative of the Odessa Exchange notes that “the new method of trading has not yet been explained sufficiently. The taxation and credit systems of private trading have not yet been regulated.” The representative of the Kieff Exchange says that “on looking into private trading by the Kieff Exchange it was shown that an amelioration of the position of private trade cannot be noted.” In the province of Riazan, again, according to the representative of the Riazan Exchange, “an influx of private trading and exchange of goods is not noticeable.” On the contrary, what can be noticed is the diminished number of private traders, more especially on the market. What prompts this lessening trade is chiefly the weak buying capacity of the peasant population and the methods adopted by the financial inspectors.” Moreover, in the province of Vologda “the new method of trading has had no effect whatever on the position of private trade ; in the local districts of the province all private trading has been done away with, and no other trading apparatus has taken its place. The policy of the provincial financial department continues as before to be unsteady. As regards the organisation of credit for private trading no steps have been taken as yet.” “There has been no change either as regards private trading in the province of Smolensk.” “The situation with regard to taxation in the province of Rostoff-on-the-Don, according to their exchange representative, has scarcely changed at all, in spite of the ‘new method of trading.’” “So far as trade activities in Turkestan are concerned, the position of private trade has scarcely changed, and trading methods remain as before.”

At the Conference no mention was made of any serious amelioration of conditions of the working of private capital in trade. Under such conditions it is not to be wondered at that the participation of private capital in trade for the period under observation still lingers, even though it has slightly increased when compared with the economic year 1923–24. As further confirmation of this we can bring forward figures in addition to the specific information supplied as above by the local districts. Thus, in the syndicated cotton industry, the share taken by private capital in the realisation of produce during 1923–24 fell from 30 to 35 per cent. to 3 to 5 per cent. ; in the first half of the economic year 1924–25 its participation was as follows (see *Econom. Obozrenié* (*The Economic Review*), May and August 1925) :—

Per cent.			
October ...	2.4	March ...	1.7
November... ..	1.3	April ...	1.6
December ...	1.8	May ...	3.4
January ...	1.5	June ...	1.4
February ...	0.9		

The share of private capital in the turnover of the Moscow Trade Exchange during 1923–24 fell, in respect of purchases, from 20 per cent. in October 1923 to 6.7 per cent. in September 1924 ; and in respect of sales, from 12.2 per cent. to 6.6 per cent. During the year 1924–25 its share was as follows (*ibid.*, September 1925) :—

		Purchases.	Sales.
		Per cent.	Per cent.
1924	October ...	4.5	3.2
	November ...	6.0	3.5
	December ...	4.5	4.2
1925	January ...	5.0	3.4
	February ...	5.8	3.8
	March ...	8.0	4.9
	April ...	7.3	3.3
	May ...	10.7	4.2
	June ...	7.5	4.5
	July ...	5.3	2.8
	August ...	6.9	4.5
	September ...	5.3	2.8

The position is slightly better on the Provincial

Exchanges. Thus, the share of private capital in the turnover of 70 Provincial Exchanges works out as follows (*ibid.*):—

	Purchases. Per cent.	Sales. Per cent.
1923 October	17.3	13.5
1924 September	7.3	6.3
1924-25 October	7.5	4.9
November	8.1	5.6
December	7.7	5.3
January	9.1	5.0
February	9.3	5.2
March	10.7	5.2
April	10.7	4.5
May	12.8	5.1
June	12.6	4.2
July	11.7	4.4
August	11.1	4.7

But here also the fall in 1923-24 in purchases is only reckoned less than one-half, while in sales the whole amount is reckoned.

What was the result of bringing into being only a part of the programme initiated by the autumn decision? by the brake put on credit to be issued to the co-operative societies and the State trading organisations without accomplishing the other part of the same programme, viz. the increasing of the means of the co-operatives by their own efforts and the attraction of private capital? The result was what the Soviet Press calls "an over-pressure on the capital of the country for the production of goods," and in particular financial difficulties for the co-operative societies and the State trading organisations, which made the normal progress of goods to the consumer impossible, which is so necessary in a period of widening production and industry. These difficulties were most in evidence this spring. We append herewith what the Editor of *Econom. Jizn*, Krumin, wrote in March 1925 in connection with the practice of cutting down credits for the co-operative societies and the State trading organisations:—

"At any rate we have undoubtedly secured one of our aims by the adoption of this method, viz. to ensure the further development of produce and industry on the financial side. But at present it cannot be denied that the introduction of the autumn decisions has been one-sided, and it has resulted in 'the over-pressure on the canals of the country for the production of goods.' This one-sidedness has appeared as the result of the non-production of the second half of the programme, i.e. the attraction of private capital in a large measure to finance production and industry." (See the article in *Econom. Obozrenië* for March 1925 already quoted.)

As we have seen above, in a very short time increased credits had to be supplied to the co-operatives and State commerce owing to their difficult financial position. Thus even the first part of the scheme mentioned by Krumin turned out not to have been attained in the end, and the authorities were left to face the same unsolved problem which confronted them at the end of the year 1924.

As a result attention was again directed to the accomplishment of the second half of the scheme during the spring of this year. At the party conference of the All-Russian Congress of Soviets held in April and May much time was allotted to the solution of this question. Most attention was given to that part of the programme dealing with the attracting of private capital, for the reason that, as explained before, there was very little hope of the co-operative societies being in a position to find capital themselves (i.e. through deposits paid in by their co-operative members locally).

However, nothing new in principle as to obtaining private capital resulted from these discussions; it was merely decided that all the measures previously resolved on must be put into operation. But that in fact no real progress in the matter was made after these debates in the spring is evident, judging by the figures and facts quoted above dealing with the months of July and occasionally September.

So far as the prospects in view in this matter are

concerned, the relevant question can be asked, Is there any capital to be attracted? Is there capital to be found which could be brought in to any large extent? We do not find that there is any unanimity in Soviet circles about this, but one notices a distinctly sceptical opinion about it among the majority; and this point of view is evidently nearer to the truth. The accumulation of private capital even in the first years since the New Economic Policy was introduced was small enough, and after the pressure brought to bear on it in the economic year 1923-24 there is grave reason to doubt if much of the savings remains. At any rate the picture of the ruin of private commerce in 1923-24 given us in the material published in *Econom. Jizn* tends only to strengthen scepticism in this connection.*

Consequently the problem presents itself, not so much how best to make use of the private capital to hand, but rather how to stimulate the accumulation of private capital afresh. But this, of course, is a very complicated problem, and one that goes to the root of the Soviet's economic and juridical bases.

To settle it satisfactorily it will not be sufficient to lighten the conditions of the delivery of goods to private persons, as well as the diminution of taxation. In fact these measures are not enough for either the use or the attraction of the slender private capital to hand into trade channels.

But to induce private capital into trade one must presuppose the abolition of that feeling of unsafety arising from the deprivation of all rights and the complete dependence on administrative lawlessness—a feeling which has been greatly strengthened in the mind of every private industrialist as a result of his experience of the pressure exercised on private trade.

To enable this feeling to disappear, firm and well-defined and legal conditions for the existence of private capital should be framed, founded on the acknowledgment of the importance of its economic functions. This simple and obvious solution, but considered most revolutionary from the point of view of "those at present in authority," was as a matter of fact brought forward on more than one occasion during last year (it is true in a somewhat surreptitious way) by several official Soviet representatives who deal with trade. For instance, in an interview with a reporter of *Econom. Jizn* on March 8 a member of the Board of the Ural Metal Syndicate, Gulayeff, remarked as follows in connection with the question of the introduction of private capital into the metal industry: "In order to get private capital introduced in the metal industry it is absolutely necessary to have the taxation of the small dealers regulated on a proper basis. At the same time it will be necessary to arrange for a general State line of the mutual conditions between State industry and State trading on the one side and the private trader on the other, and it is only by keeping these basic conditions in view that one can secure the introduction of the private trader to the metal trade, and thus guarantee to the metal industry the possibility of rapid delivery of metals to the consumer."

Analogous to this we find the following pronouncement about "Credit for private undertakings" in an article by A. Blum in *Econom. Jizn* of June 7, 1925, that among the measures "for mobilising private capital—the first place is, very naturally, taken by the general improvement of the social and legal status of the private trader. It can be said, further, that without such improvement, and the introduction of legal methods into strict limits—if only in the matter of taxation of private capital—the whole problem of the organisation of credit for private enterprises can only be looked upon as utopian."

* Cf. for instance the interview given by the Chairman of the Board of the Moscow Mutual Credit Society, Chegodayeff, in No. 47 of *Econom. Jizn*, 1925. The Soviet of the Trade Exchange Congress also refers to it pessimistically, and comes to the conclusion that in the near future no hope can be held out of the influx of private capital to any great extent. (*Econom. Jizn*, May 19, 1925.)

The necessity for laying down a law to enable private capital to have a stable status has also been emphasised in leading articles in the official *Econom. Jizn*.

For instance, in the leading article of February 20 under the heading "Realism and Stability in Trade Policy" we read: "The whole point is to establish all over—for a long period—some definite line of conduct on the part of the State and local official organs in their dealings with private capital. It is high time to cease swinging from one extreme to the other. *The principal problem now is realism and stability.* Hesitation in the introduction of a fundamental line of action of our trade policy only tends towards a waiting attitude on the part of private capital and prevents its coming to a kinetic state."*

Finally we come to the speeches of several of the Soviet leaders at the last party conference (held in April), at which suggestions were made by them as to the necessity of introducing more legality in their dealings with private capital (e.g. the report of Rickoff's speech in *Pravda* of April 30).

Now to what extent can one count on this stable line for trade policy being introduced and a stable and legal status being granted to private trading capital? For there is ample scope for scepticism in this also. In this question of private trade and private capital one has in miniature the cardinal problem and the contradictions of the New Economic Policy, i.e. the psychological and political impossibility for the Soviet authorities to take a stable line in the introduction of several fundamentals of "bourgeois" economic conditions and legal standing—the necessary introduction, which is dictated by considerations for the economic revival of the country. Already there is no lack of symptoms pointing to the fact that in this question of private capital for trade further doubts and shuffling are impending.

Judging from several interviews with leading members of the State trading syndicates and trusts, which were published in *Econom. Jizn* during the year, we see that in the majority of cases these persons do not look on the increase of strength of private capital in the matter of the output of their products with benevolent eyes, and do not expect much to come of it.† And if there are Soviet representatives who insist on "the over-taxation of private trading capital," there are also others (and many of them) who look on this matter as evidently a passing phase, as a necessary evil, which can only be countenanced within specified narrow limits—and there are also, it appears, groups (not only in the centre but also in local districts) who think it entirely unnecessary to make any change whatever in the policy to be adopted in dealing with private trade. Thus, in a leading article in *Econom. Jizn* of May 24, it is pointed out that "we regret to note that even in the centre not everyone has grasped the fact that it is no longer possible to go in for the previous method of administrative pressure."

It is worthy of note that even so moderate a Soviet leader as Kameneff, in mentioning this question, adopts a tone giving little encouragement to private capital. Take, for instance, the following extract from his speech in a full quorum of the Moscow Soviet. (see *Econom. Jizn*, No. 58, dated March 11). Kameneff thus formulated his position to private trading and the co-operative societies: "We must continue the development of the co-operatives by squeezing out private capital only up to the measure of strengthening co-operative societies." His speech goes on to speak of the squeezing out of private capital, but with the proviso that this process of pressure should be carried on parallel with the strengthening of the co-operative organisations. Such a prospect is scarcely likely to give the private trader a feeling of particular stability or to help on the flow of any private means

he may have into trade, or to the saving of money for new capital ‡

It is characteristic that even *Econom. Jizn*, which in the spring advised an improvement in the conditions for the work of the private trader, and for the introduction of normal conditions of capital, found it necessary in the summer, just when private capital commenced to function, to give a warning against too liberal a policy towards private capital, which—in view of the trade famine—appears as an unwelcome competitor of State trade and the co-operative societies.

In particular, in connection with credits for private capital, the journal states that "the whole position points to the necessity of giving it the full possibility of working, but *within the limits* of its own means (italics of *Econom. Jizn*), and thus not inflating them artificially by means of any advantages of credit (?) by which savings would be the outcome, and therefore particular privileges must not be extended to private capital."

‡ Since the publication of this article on October 30, there appeared an Order of the President of the Union of People's Economy (Dzerjinsky) to all subsidiary merchants and institutions, calling them to a determined conflict with "speculators and speculation, as middlemen between State industry and the mass of consumers." This order was the outcome of prices having been increased in the retail trade for the last few months. *Inter alia* the order was given "to all trusts, syndicates and markets, to follow the movement of their goods and their prices in all their stages till the goods reached the actual consumers, so as to take the necessary steps including even the breaking of contracts and to the organisation of their own wholesale and retail organs in cases of speculation or excessive prices, thus bringing the prices within reach of the consumers." At the same time Dzerjinsky, in his capacity as president of the "O.G.P.U." (= late "Cheka") gave all his subordinates in the "O.G.P.U." the order to assist all the officials and organs of the Union of People's Economy to their utmost in carrying out this circular." (*Vide Torgovaya Prom. Gazette (Trade and Industry Gazette, No. 249.)* It is quite possible that this circular will act as a prelude to the new period of increased "administrative pressure" on private trade capital.

[In the first instalment of this article "BCHX" was mistakenly explained to represent "the Pan-agricultural People's Economy." Literally the rendering is "the Supreme Council of National Economy," generally spoken of as "the Supreme Economic Council."—ED.]

THE ECONOMIST'S BOOKSHELF.

SHORT NOTICES.

Alfred Marshall, 1842-1924. Memoir by W. R. SCOTT. (London: Humphrey Milford, Oxford University Press. Price, 1s. net.) Mr. Scott's excellent memoir of Alfred Marshall is taken from the Proceedings of the British Academy, and, brief though it is, it treats sympathetically some of the leading traits in the character and mind of a truly great man. To the younger generation of students, none of whom can afford to avoid Marshall's work, Mr. Scott's impression will help them to an appreciation of the master's worth as a man. There is, and will be, no dearth of tribute to Marshall as an economist, and that, of course, must constitute his final claim upon the attention of posterity. However, it is permissible for some of us to regret that other things must recede into the background of recollection. If Veblen is proved to be right, economists of the future will be forced to concentrate either upon problems of price or the technique of business. The prediction may be true, it may be desirable, and it may not be fraught with the drawbacks we suspect, but we doubt the strength of the appeal to men whose social sympathies are of wide calibre, and whose efforts are propelled by a profound conviction of "the increasing urgency of economic studies as a means to human well-being." Mr. Scott records that Marshall is reputed to have said that no economist of the first rank had ever become an economist without having been first in the broadest sense a philanthropist. Not a few students of economics will find that dictum hard to believe. But Mr. Scott is enabled to go still farther in this brief appraisal of Marshall's life. "The idea of the improvement of man," Mr. Scott writes, "led him to Metaphysics, then on to Ethics and Psychology, and finally to Economics as the most direct road towards the ultimate though distant goal where 'the opportunities of a noble life may be accessible to all.'" From the consequences of that conviction he never receded, a fact made clear in Mr. Scott's Memoir, and, bearing it in mind, it must still give pleasure to some to remember that he was chosen in 1883 to succeed Arnold Toynbee in Oxford.

* Vide also leading article "Cannot we get on without?" in No. 54 of the *Econom. Jizn*.

† Vide *Econom. Jizn*, Nos. 50, 52, 54, 1925.

STATISTICAL SECTION

THE TRADE BAROMETER

Our weekly index is composed of quotations for the ten following commodities :—

1. Pig iron.

2. Tin.

3. Coal.

4. Linseed Oil.

5. Cotton.

6. Wool.

7. Hides.

8. Wheat.

9. Bacon.

10. Sugar.

Table I. shows the movements of our ten commodities in the aggregate, and Table II. the movements of each of them in relation to the others. We have chosen December 30, 1921, as our base, the price of each commodity on that day being represented by 100 (at a time when the index in Table I. stood at 150). For a full explanation of our index number see THE ECONOMIC REVIEW, Aug. 29, 1924, page 194.

TABLE I.

Date	10 Com- modities	Bd. of Tde Monthly Average	Date	10 Com- modities	Bd. of Tde Monthly Average	Date	10 Com- modities	Bd. of Tde Monthly Average	Date	10 Com- modities	Bd. of Tde Monthly Average
1920.			1923								
Jan. 16	367.9	296.6	Jan. 12	162.8	157.0	Apr. 18	177.5	164.7	July 17	160.3	157.5
May 14	391.2	325.5	Feb. 16	177.2	157.5	May 16	171.2	163.7	Aug. 14	158.6	157.0
July 16	418.8	316.9	Mar. 16	192.4	160.3	June 20	167.8	162.6	Sept. 18	158.3	156.0
Dec. 17	257.0	263.8	Apr. 20	198.5	162.0	July 18	167.1	162.6	Oct. 16	154.1	154.8
1921			May 18	198.1	159.8	Aug. 15	175.3	165.2	Nov. 13	153.2	153.7
Jan. 14	244.2	245.9	June 15	190.0	159.3	Sept. 19	167.9	166.9	Dec. 18	153.0	153.2
Apr. 15	202.8	204.8	July 20	177.3	156.5	Oct. 17	172.5	170.2	1926		
July 15	194.4	194.1	Aug. 17	174.6	154.5	Nov. 14	173.3	169.8	Jan. 1	152.3	
Oct. 14	170.2	180.7	Sept. 14	173.2	157.8	Dec. 12	171.7	170.1	" 8	150.8	
Dec. 16	153.2	167.9	Oct. 19	166.0	158.1	1925			" 15	151.6	151.3
Dec. 30	150.0		Nov. 16	171.7	160.8	Jan. 16	174.8	171.0	" 22	149.2	
1922			Dec. 14	177.0	163.4	Feb. 13	175.2	168.9	" 29	150.9	
Jan. 20	144.0	164.0	1924			Mar. 13	172.8	166.3	Feb. 5	149.7	
May 19	162.1	160.6	Jan. 18	178.6	165.4	Apl. 17	161.9	162.5	" 12	148.4	
July 14	165.1	160.3	Feb. 15	187.9	167.0	May 15	158.7	159.0	" 19	147.9	
Sept. 15	161.2	154.3	Mar. 14	182.1	165.4	June 19	160.6	157.6	" 26	148.0	
Dec. 15	161.2	155.8									

CHART ILLUSTRATING TABLE I.

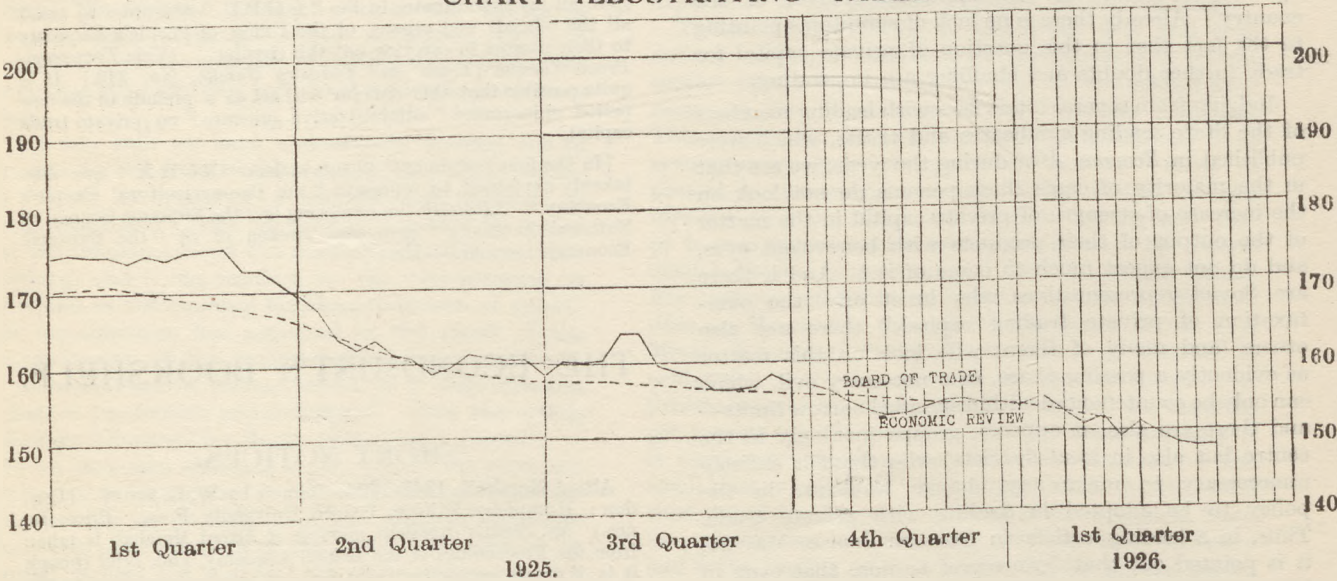


TABLE II.

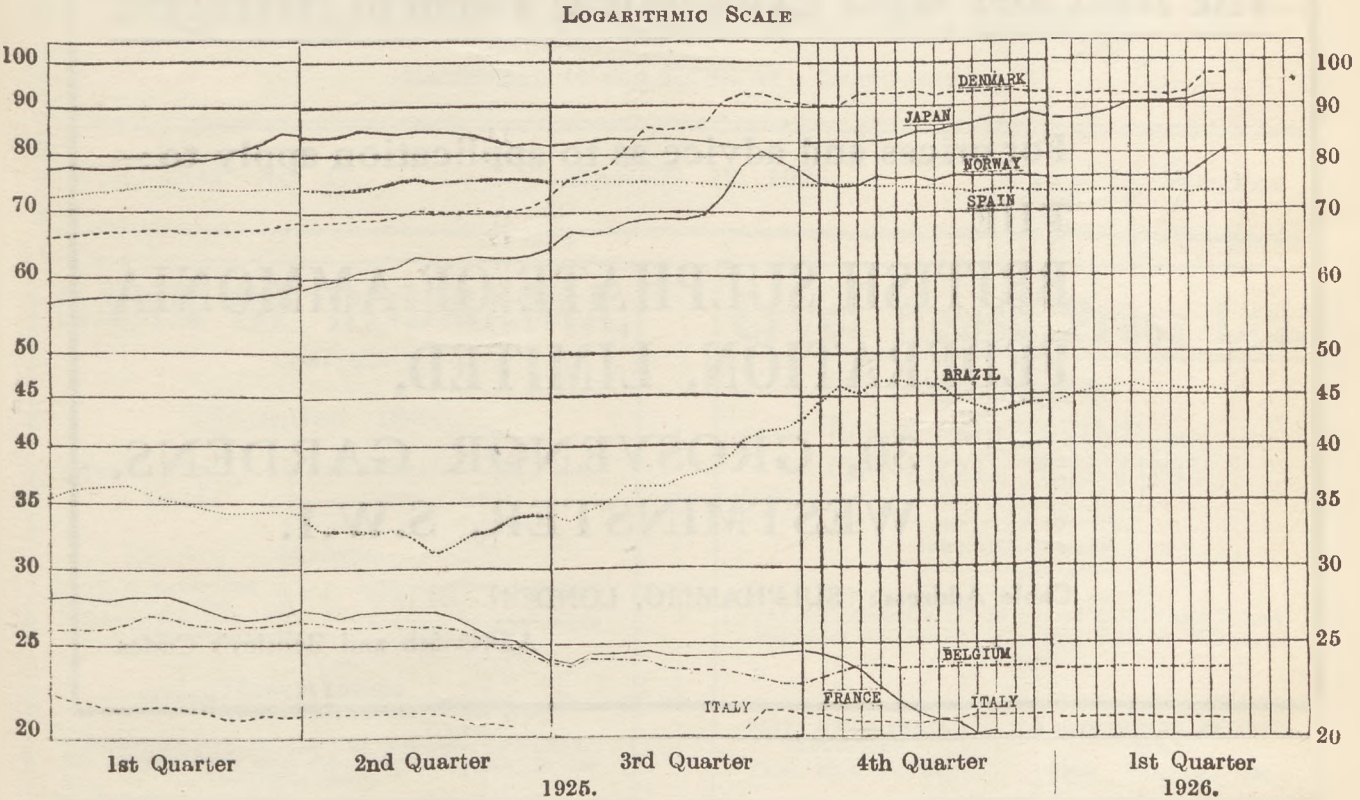
Date	Pig iron.	Tin.	Coal.	Linseed Oil.	Cotton.	Wool.	Hides.	Wheat.	Bacon.	Sugar.	Mean: 100	Date.
Dec. 30, 1921	100	100	100	100	100	100	100	100	100	100	100	Dec. 30, 1921
1922												1922
July 28 ...	92.9	94.5	97.2	157.9	110.1	111.1	97.1	119.0	116.5	119.2	111.15	... July 28
Sept. 29 ...	94.3	95.2	92.9	135.1	105.9	117.8	96.4	82.8	104.0	134.6	105.90	... Sept. 29
Nov. 3 ...	95.5	107.5	100.0	140.3	119.9	133.3	106.5	91.9	104.8	134.6	113.43	... Nov. 3
Dec. 29 ...	89.4	106.7	91.5	138.6	126.0	120.0	93.5	90.4	89.7	138.5	108.43	... Dec. 29
1923												1923
May 18 ...	110.8	117.9	128.3	166.7	120.2	137.8	102.9	102.7	91.2	242.3	132.08	... May 18
Oct. 12 ...	93.4	117.1	90.6	150.9	136.4	126.7	84.8	83.0	66.2	145.9*	109.50	... Oct. 12
Nov. 16 ...	97.2	127.4	97.2	149.1	165.8	128.9	87.0	86.2	73.5	132.7	114.50	... Nov. 16
1924												1924
Feb. 15 ...	96.7	163.4	96.2	171.9	159.6	151.1	91.3	100.4	65.8	156.1	125.25	... Feb. 15
July 11 ...	89.6	128.9	74.5	140.4	140.6	142.2	92.8	111.5	80.9	101.4	110.28	... July 11
Aug. 15 ...	87.7	148.0	78.3	145.6	158.8	151.1	94.2	124.1	84.6	96.6	116.90	... Aug. 15
Sept. 26 ...	85.8	136.6	72.6	151.8	120.6	151.1	97.1	113.8	81.6	108.1	111.91	... Sept. 26
1925												1925
Feb. 27 ...	84.0	153.8	69.8	178.9	116.0	160.0	95.7	128.9	88.6	95.3*	117.10	... Feb. 27
June 26 ...	77.8	147.9	63.2	147.4	114.7	115.6	84.1	121.7	98.2	85.9	105.65	... June 26
Oct. 30 ...	74.5	171.2	59.4	151.6	90.7	115.6	108.7	97.2	94.0	70.6	101.44	... Oct. 30
1926												1926
Feb. 5 ...	72.2	165.2	63.2	114.0	92.2	102.2	100.0	114.6	94.1	78.8	99.65	... Feb. 5
" 19 ...	72.2	167.5	62.3	109.6	91.5	102.2	95.7	112.3	96.3	76.5	98.61	... " 19
" 20 ...	72.2	169.1	60.4	113.5	92.0	102.2	94.2	112.3	94.1	76.5	98.65	... " 26

* Revised Quotation.

THE PAPER CURRENCIES.

(Percentage of Dollar Parity to Week ending February 27, 1926.)

Week Ending	Denmark.	Japan.	Norway.	Spain.	Brazil.	Belgium.	Italy.	France.
Feb. 27	97.0	92.9	80.5	73.1	45.5	23.5	20.8	18.9
„ 20	97.0	92.7	78.3	73.1	45.8	23.5	20.9	18.7



SECURITY PRICES.

The following table and chart show the course of prices for a representative number of industrial stocks and long dated railroad bonds in New York, for twenty representative industrial ordinary stocks in London, and for a selected number of long-dated British Government securities. The prices of the last-named have been averaged exclusive of accrued interest. In all cases the price at December 30, 1921, is taken as 100. Significant maximum figures are shown in heavy type and minimum figures in italics.

IN NEW YORK.			IN LONDON.		IN NEW YORK.			IN LONDON.	
Week ending	Indus-trials.	Bonds.*	Indus-trials.	Gilt edged.	Week ending.	Indus-trials.	Bonds.*	Indus-trials.	Gilt edged.
1920, Jan. 1	128.5	94.1	172.4	99.7	1925, Jan. 3	150.7	101.6	133.8	117.5
1921, Jan. 1	89.9	89.0	116.3	88.6	„ 17	151.8	101.9	137.8	117.5
„ Aug. 20	80.3	90.4	105.4	93.3	„ June 6	158.2	105.3	128.0	115.3
„ Oct. 29	91.1	92.0	91.7	94.4	„ 27	160.0	104.7	123.7	113.0
1922, Jan. 1	100.0	100.0	100.0	100.0	„ July 18	165.9	103.2	120.4	115.5
„ May 13	114.6	102.4	114.9	117.9	„ Aug. 1	165.8	101.5	122.2	115.7
„ Sept. 16	123.8	107.6	115.2	112.5	„ 22	176.2	102.5	126.3	117.3
„ Oct. 7	123.9	106.1	113.3	111.7	„ Nov. 7	195.4	102.7	134.1	114.7
1923, Jan. 1	121.7	102.5	119.5	113.3	„ Dec. 19	188.9	103.3	130.6	112.8
„ Mar. 17	129.2	98.5	129.3	117.0	1926, Jan. 2	195.5	103.6	133.3	113.0
„ 24	127.3	97.8	129.0	118.1	„ 9	196.1	101.6	135.1	113.1
„ Apr. 28	124.1	99.3	137.9	122.8	„ Feb. 6	197.3	104.7	131.7	114.7
„ June 9	119.7	100.8	130.6	123.5	„ 13	199.9	104.9	132.0	114.8
„ Oct. 27	105.7	99.7	126.5	119.7	„ 20	198.4	105.9	129.8	114.6
1924, Jan. 1	117.4	98.4	121.3	114.5	„ 27	190.4	105.6	129.1	114.3
„ 19	119.1	100.1	119.1	112.2					
„ June 21	115.3	103.3	118.2	118.0					
„ Nov. 8	130.1	103.7	133.7	120.4					

* Prices supplied by Messrs. Bernhard Scholle & Co., Ltd.

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