CAN GERMANY'S UNEMPLOYMENT PROBLEM BE SOLVED?

THE

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AND

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COMMENTS

Although the agreement signed by Mr. Churchill and M. Caillaux does not contain the much talked about "safeguard" clause, letters have been exchanged between the two Ministers in which it is somewhat vaguely laid down that France has a right to ask for a revision of the agreement. Thus M. Caillaux is putting before his fellow countrymen an agreement which should prove entirely satisfactory to them, and it is to be hoped that France will appreciate the generosity of this country. The French like to say that the franc is falling thanks to some infernal Anglo-American machinations, and that Great Britain profits by France's financial troubles. Needless to say there could hardly be a more unwarranted accusation and nothing is more contrary to the facts. By signing the agreement Mr. Churchill has just given the French people one more proof that what this country really desires is their economic recovery and the stability of the franc.

The latest information from Brussels indicates that the Government is considering drastic measures in order to terminate the currency crisis. The Council of Ministers have, during the week, given much of their time to a consideration of a proposal put forward to establish a gold bank. Baron Houtart, the Minister of Finance, has been in consultation with representatives of the Banque Nationale and a number of private banks with a view to the adoption at once of joint measures to stay the fall of the franc. A permanent committee is being called into being, and through it an effort will be made to tighten up control over the exchange market. A number of other measures making for stabilisation have been debated. It is suggested that serious steps should be taken to reduce further the consumption of luxuries, and it is proposed that the transport rates for merchandise on the railways be increased by 10 per cent. The Government have also decided to transfer the telegraph and telephone services, now operated by the State, to a national company, as is being done with the railways. The capital value of the two systems is estimated to be Fr.1,800,000,000. The new company will issue Fr.3,000,000 Preference shares of Fr.500 each. The ordinary shares are to remain in the possession of the State. Thirty per cent. of the capital raised by the issue of preference shares will be handed to the company for telephone extension. The Treasury Committee which has been meeting under the presidency of Baron Houtart has suggested reductions amounting to Fr.98,000,000 in the credits destined to cover the first expenses of the railway, postal, and telegraph administrations. The Government have also submitted to Parliament a Bill which will confer upon the King for six months the necessary powers for the regulation of the note circulation, loans, service of sinking funds, and supplies. The manufacture of bread is to be controlled, and, as a result of a conference between the Ministers of Industry and Finance and those interested, pure white bread will no longer be permitted. Flour is to be reduced to an 82 per cent. pure mixture in order to bring in an estimated daily saving of Fr.500,000 on wheat imports.

Information from the German Bourse reports that the monthly and half-yearly settlements have been effected without any difficulties being experienced. In fact, in certain departments a renewed turn upwards was noticeable, particularly in shares, which have been in demand during the past few weeks. The shares of all the companies participating in the new Steel Trust have been strongly in demand. This is considered to be due to the successful conclusion of the recent loan, and to the belief that the Steel Trust shares will shortly be introduced on the Berlin Stock Exchange. During the first week of this month heavier selling was detectable. This was partly due to preparations for the issue of the German portion of the Steel Trust Loan. The latter, it may be remarked, was largely over-subscribed within a few minutes from the opening of the lists. Moreover, the Money Market unexpectedly stiffened a little, private discount rates rising to 4⅝ per cent. for short and 4½ per cent. for long bills. The undertone of the Money Market may, however, be regarded as easy—a condition which will no doubt remain for some time to come. The official discount rate has just been lowered from 6½ per cent. to 6 per cent. Since the former rate came into operation on June 7, the situation of the Reichsbank has remained unchanged. The demand on its resources has only slightly increased, mainly on account of half-yearly settlements. As against the end of May, bills, cheques, and advances on securities have increased by approximately Rmk.101 million, the increase on bills of exchange being only Rmk.44 million. The temporary stiffening of the Money Market at the end of June scarcely affected the status of the Central Note Institution. It is hoped that the advantages of a lower discount rate will further relieve the conditions of German business at large, and, in particular, ease the situation on the Labour Market.

On the occasion of the first anniversary of his appointment as Minister of Finance Count Volpi has written to Signor Mussolini giving an account of his stewardship. It is an interesting document and in the course of it the Minister of Finance declares that the results of the past financial year entitle them to look forward with confidence to the future. The Budget surplus for the year 1925–26 exceeded 1,200,000,000 lire. This was a great improvement on the preceding financial year, in spite of the heavy expenditure of the past year. Many important problems were solved, including that of the debts to Great Britain and America, the terms of settlement of which were admittedly better than those obtained by Italy's other allies. Count Volpi considered it a great relief to have removed the terrible threat of unsettled debts, amounting to more than 130 milliards of lire. Moreover, Italy had been able to conclude the financial year by restricting the right of note issue to the Banca d'Italia, at the same time strengthening the Banco di Napoli and the Banco de Sicilia so as to enable them to grant assistance for development in the southern provinces and the islands. The Banca d'Italia could thus easily be made the supreme regulator of value and credit on the principles embodied in the banking laws drawn up in the interest of public and private finance, to be submitted by Count Volpi to Signor Mussolini. The latter has said that the Bank should always have the greatest possible freedom and power in order to allow the Treasury to limit its activities to its normal sphere—a procedure adopted in all the great countries which are most advanced in this field. Count Volpi proceeds to say that the condition of the Italian Treasury is most satisfactory, owing chiefly to the healthy state of the Budget. The great problems which remain to be solved are the balance of trade and the state of the exchange. To both of them Count Volpi is giving much serious attention in the hope of producing some remedial measures in the near future. It must, however, be remembered that these problems cannot be solved quickly by Government action alone, but rather gradually under the influence of discipline, order, and method, undeterred by inevitable vicissitudes. Nevertheless, he considered it cause for satisfaction to be able to say that the lira was respected in the realm of world finance, and has stood firm amid the great tempest which has overwhelmed the currencies of Eastern Europe.

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THE Government's scheme for credit insurance on the export of goods manufactured or produced in the United Kingdom came into force last Monday, when regulations were issued giving clear and concise particulars for the benefit of exporters. The present scheme is based on a report made by a Committee which examined the whole subject and published its findings in March last. It is hoped that the scheme will afford assistance to those exporters whose transactions involve long credits, and its operation is limited to three years. At the end of that time it is anticipated that the insurance companies and banks, influenced by this preliminary effort on the part of the Department of Overseas Trade, will undertake this sort of insurance. Guarantees are offered under the Export Credits Act, and, while every application will be examined by an advisory committee, assurances are offered that absolute secrecy will be observed and that traders availing themselves of this service need have no fear of their affairs being disclosed to competitors. Not all applications received will be approved, and premiums in approved cases will vary according to the circumstances of each case. The Credit Insurance Committee were agreed that the export trade of this country would benefit from some additional methods of insuring against bad debts, and this scheme seeks to provide reasonable facilities. The regulations issued on Monday divide the facilities into three groups. The first comprises those of an insurance character, by which guarantees are given without recourse to the exporter. The guarantees in these cases, however, may not exceed 75 per cent. of the amount of the credit granted to the importer. In the second group a guarantee for the full amount of the credit may be obtained with the provision of full recourse to the exporter ultimately in the event of default. The third group provides facilities of an intermediate character, by which the guarantee is given for the whole or part of the credit either without recourse to the exporter or with such recourse as may be agreed upon. In these cases the guarantee may not exceed 75 per cent. of the credit unless an approved security is provided.

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THE Government's guarantee will be given either in the shape of an endorsement of the bill or in the form of a letter of guarantee. The Department of Overseas Trade undertakes to make good its guarantee immediately its liability accrues, provided the bill is held at its disposal. Guarantees may be given in respect of certain specific transactions, or they may be obtained for a fixed amount in respect of transactions with a number of importers in a particular country or countries. It is not necessary for the names of the importers to be submitted, but in the event of these being withheld the Department of Overseas Trade will need to be satisfied concerning the exporter's previous experience of trading in that particular country. Such guarantees are intended for credits not exceeding six months. Guarantees on specific transactions may also be granted to approved banks, bankers, credit associations, or companies providing credit insurance. All applications must be submitted through a bank, thus indicating that the proposed form of insurance is one which cannot be effected through ordinary channels. Proposals will be considered and the decisions, on principle, of the Department of Overseas Trade will be made known before orders are received or tenders submitted, if the traders so desire. It was also announced on Monday that the following will constitute the advisory committee, and it will be their task to consider all applications received: Colonel, the Hon. Sidney Peel (chairman), Mr. John Caulcott (deputy chairman), Sir Edward Crowe, Mr. G. M. Gillett, M.P., Mr. F. Goldsmith, Major J. Hills, M.P., Sir William Larke, Mr. W. E. Preston, Mr. E. R. Pulbrook, Mr. Charles D. Seligman, and Mr. G. C. Vyle. Applications for forms or information should be made to the Export Credits Guarantee Department, 31, King Street, London, E.C.2.

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CERTAIN conditions are imposed by the new regulations from which the following may be cited as of particular importance. No application will be entertained in respect of munitions of war or of goods already shipped or of transactions on open account. Normally, applications will not be considered in respect of goods shipped on consignment, but applications in respect of definite sales from stocks which have been shipped on consignment with the Department of Overseas Trade approval may be submitted for consideration. No guarantees will be given for the present to shipments for Russia. Guarantees will only be given for shipments to India, Ceylon, Straits Settlements, Hong-Kong, or China of goods for which long credits are usually required. In cases where the Department of Overseas Trade retains recourse to the exporter, this recourse will be for an agreed percentage of the amount of the bill, and the exporter shall, in the event of the importer's default, pay on demand this percentage to the Department. The exporter shall also pay to the Department on demand the same percentage of all costs, charges, or expenses incurred or authorised by the Department. Interest at 1 per cent. above the Bank Rate shall run against the exporter on all sums due by him to the Department. Unless otherwise provided for in advance, all sums received by the Department or the exporter after default on the bill from the importer or from the realisation of any security or from the re-sale of goods or from any other source shall be apportioned between the Department and the exporter on the basis of their respective risks on the bill. In special cases, however, the Department may require that all such sums up to a percentage to be agreed upon in advance shall be for the credit of the Department, the exporter being entitled only to any balance remaining over. The exporter must always undertake to pursue such steps as the Department of Overseas Trade may require to enforce payment by the importer or to realise any security. Mr. A. M. Samuel, Parliamentary Secretary to the Department of Overseas Trade, when explaining his scheme to the House of Commons, pointed out that these guarantees would be discounted by the banks at the same rate as Treasury Bills. He also added what all well-wishers of his work anticipate, namely, that, in the long run, the scheme might lead to an increase of the country's "invisible exports," since it might develop a form of insurance business of which foreigners would be glad to avail themselves.

SPECIAL ARTICLES

CAN GERMANY'S UNEMPLOYMENT PROBLEM BE SOLVED?

By Professor Dr. Julius Hirsch.

For over six months we have seen two million German citizens, who are willing and able to work, exposed to the misery of unemployment. It is strange how little public attention this excites in Germany. Even if the privations of those affected concern others but little, there is still another question which must weigh rather more with them: Are we, then, so wealthy that we can easily stand the losses and increasing expenditure involved?

It seems almost as if a state of permanent unemployment were developing. Two million unemployed cost at the present rates of maintenance—acknowledged to be often too low—some 1,300 million marks annually in public funds. The provinces and communes will certainly not be able to support this additional burden much longer. In that case how will the Minister of Finance manage his budget? How will he be at all able to keep on reducing taxation? To the economist, however, it is a much graver fact that two million people, if at work, would create fresh wealth to the value of at least 4 or 4½ milliards of marks per annum. Through our unemployed, therefore, we suffer a loss in national income of at least 4 milliards—double the amount we shall have to pay in reparations annually two years hence. Nearly a twelfth of our national income—over a third of our necessary national savings—is therefore lost if we continue to look on and do nothing.

We hear so much of the great importance of internal economies. But the purchasing power of the unemployed is also lost; and, after all, it is of much greater importance than our whole overseas export trade!

Even were it impossible to do anything against unemployment in the mass, the lack of interest on the part of the public, and until recently on the part of the legislatures, would be astonishing. The laborious work of the Government in putting the Russian business through may be expressly admitted. But, for the rest, the worst stoppage in production really appears to be the stoppage in the production of economic ideas.

What, then, can be done? We will not at present deal with the causes of German unemployment. We will merely inquire: What means have we available now for combatting unemployment?

The plan of campaign against German unemployment must be based upon something like the following fundamental ideas: Unemployment compensation is necessary, as well as reasonable maintenance for the "lapsed" from unemployment relief—that is those who, from the long duration of their unemployment, are excluded from such relief. Much more important, however, than the mitigation of the consequences of actual unemployment is the employment of organised means for the mitigation of the economic crisis itself. Here, whatever one's attitude may be towards capitalism as an economic conception, one will, under a capitalistic system, make use in the first place of the natural resources of such a system. After all, before the world war a capitalistic economic machine which worked tolerably well used to absorb year after year in Germany half a million fresh industrial workers, providing them with labour, markets for their products and an ever-rising standard of living. Even if it is true, then, that to-day there are in German industry three to four million more workers than before the war, of whom only one million and a half are now required for the same work as a result of detrimental territorial changes, it is nevertheless a false conclusion that on that account there must be two million of unemployed permanently. An economic system working normally develops of itself forces which from an increasing number of workers derives an increased product of labour, and therefore increased possibilities of consumption and increased possibilities of employment for all. How far this is generally applicable, to what extent a reserve army may be necessary to the existence of capitalism—this we really do not require to discuss in Germany! The absurdity of our position is altogether too glaring: We have over two million workers idle; we have an enormous uncovered demand; and we have a plentiful supply of raw materials. Apparently we have even too much capital—the connecting link between labour and consumption which is so often lacking. Only they do not meet!

There is really no lack of permanent labour of the requisite kind. There is the electrification of the railways, a "nationalisation" undertaking which would mean a far-reaching improvement in our industrial system for decades. House-building, which is solely dependent upon home raw materials, is lamentably deficient; yet tens of thousands of skilled workers in this industry are idle. Canal works, river regulation, dam construction and the utilisation of water power—these would absorb tens of thousands more and transform their labour into resources of permanent value to Germany. We have the hands and the tools, but meanwhile the money goes abroad as occasion offers. Then there are three million hectares of waste land which, for the most part, we could make cultivable, but instead of doing so we import several million marks' worth of foreign food stuffs.

Yet with all this we have capital in abundance for speculative purposes, and day-to-day loans are often cheaper than in London and New York. The free capital available for Germany frequently goes abroad, furnishing employment in other countries. We shall no doubt be told yet again that all these things are "the normal accompaniments of every crisis." We will argue about all such theoretical questions another time. National distress now demands practical work. A policy which passively tolerates such things is unworthy the name of an economic policy.

Nor must the provision of employment as described above be regarded by any means as the decisive factor. Even the normal organisation of consumption is far from having reached its greatest possible development. Export trade is depressed by mistaken commercial policy, and home trade and industry by the credit policy which we have frequently criticised. Let at least the employment-giving capabilities of our present economic system be liberated—capabilities which are suppressed by private restrictive control in relation to credit and goods. We therefore submit the following proposals to the Government of the Reich for the systematic elimination of unemployment:—

1. *The elimination of private restrictive credit control.*—In December last year the Reichsbank relaxed the limits of its credit quota and was prepared to place at the disposal of industry a larger amount by way of credit than formerly. An additional credit of one milliard marks would have meant employment for some 400,000 more workers. The Reichsbank's intention, however, was not realised; on the contrary, the demands on the Reichsbank for credit declined. We are convinced that the margin between loan and deposit rates, and particularly the policy of the banks in regard to advances on pledged securities, is one of the reasons why the intention to extend industrial credits came to nothing, as it is practically only through the banks that the Reichsbank can be reached. Before the war the pledging of securities was almost unknown in Germany. Herein lies one of the additional, and unnecessary, causes of unemployment. With a less rigorous handling of the credit conditions of our banks, which have lately led to similar measures, actually humorous in their operation on the part of the suppliers of goods, many tens of thousands of unemployed would have found

work and been the creators of wealth. We therefore ask—

(*a*) That all banks charging a higher margin between debit and credit interest, inclusive of all direct and indirect credit commissions, than before the war—namely 2 per cent.—shall charge a maximum of 3 per cent. during the short transition period necessary for the reduction of expenditure, shall be prevented from re-discounting with the Reichsbank, and shall even have their deposit rights opposed according to the exigencies of the particular case;

(*b*) That for the present the Reichsbank shall also accept bills bearing only two good signatures. It should announce publicly that until further notice it is ceasing in principle to accept bank signatures.

These measures would increase the turnover of the banks and, therefore, also force the abolition of the pledging policy.

2. *The stoppage of foreign credits*, in so far as it has been imposed with regard to public corporations, diminishes the possibilities of employment in German industry. It hampers the municipalities in carrying out works directly or indirectly productive; in addition it makes it impossible for German industry to grant, with the aid of such foreign credits, the extended credit which is requisite in the export trade. Let the Government of the Reich order forthwith that the purposes for which loans may be issued by public corporations, whether at home or abroad, shall be examined most stringently by the competent supervising authorities. The question, however, whether such purposes shall be met by foreign loans, home loans or taxation, shall in accordance with the laws of the Reich be subject to no further examination of any kind.

3. To ease the German economic situation *deliveries in kind for Reparation purposes* are nearly always better than the transfer of foreign bills. Let the Government therefore provide that deliveries in kind shall be secured to the extent of the transfer considered possible, even over long periods ahead.

4. The funds for the above-mentioned works intended for the continuous prevention of unemployment on a large scale should be raised by *a system of home, and at first also foreign, loans, if necessary with the insertion of public and legal guarantees with regard to interest and redemption.* The funds for "productive unemployment relief" should in the undertakings in question, which are to be carried out on commercial principles, provide only interest and redemption, but not the capital itself. This would be obtained in the form of loans at home and abroad. Such loans should be applied mainly to the electrification of the railways and similar long-term productive undertakings.

5. In regard to house-building the proceeds from the rent tax permit of only inadequate contracts being given. This tax should be made useful to a greater extent, as follows: The rent tax is practicable for only a limited number of years longer. It is necessary to build in that time such a plentiful supply of houses that rent restriction and other measures of control may be abolished without the risk of house rents rising greatly. Consequently *the further returns from the rent tax should be employed as an interest and redemption guarantee in a great public loan for housing*, which, being secured by public and legal guarantee, would thereby be obtained on easier terms.

6. The great development of American industry is partly due to the fact that demand is stimulated by *the widespread granting of credit to the retail trade, and by the retailer to the ultimate consumer*, provided he appears at all trustworthy. Only by the system of credit, given to the consumer in every form, has the rapid spread of individual ownership in houses, bicycles, motor cars, sewing machines and other implements become possible in this the wealthiest country in the world. The *financing of the ultimate consumer should be introduced into Germany also at once*, so far as is economically possible. The abundant resources of short-term credit should also be directed to that purpose. As the private banking system in Germany plainly has not yet the necessary elasticity for this purpose, the Government of the Reich should as soon as possible encourage and energetically support a far-reaching scheme of this nature in connection with all private undertakings which are prepared to carry it out.

7. Compared with the pre-war period our foreign trade still shows a deficit of at least three milliards. For every additional milliard we recover in foreign trade as a result of *a reasonable commercial policy*, we provide work for 300,000 to 400,000 unemployed. Is not this an incentive for the immediate revision of our commercial policy in the direction of greater freedom of exchange?

8. The best stimulus to consumption even at home is low prices. The possible lowering of costs in production and distribution is most seriously checked by *small kartells in industry and trade and* by their *exclusive contracts*, and sometimes also by the big kartells. For its original intention to act quickly the Government has apparently substituted fresh and apparently tedious enquiries. Is it actually hoped that the kartell interests will intervene to their own detriment? Here, too, the Reichstag can and ought to take action quickly. *Freedom in the home market means more employment at home.*

This approximately is the relief programme. It can be carried out immediately point by point. The unemployment emergency is in the truest sense of the word above party. If the Reichstag disperses without having obtained from the Government binding declarations regarding each one of these proposals, then it will do a wrong to every elector. The Reichstag, however, should not rest satisfied with Government declarations alone. While mass unemployment continues it ought to meet at least once a month and demand an account of what has been done. If this is not done by the Reichstag, it ought at least to be done by the competent committee. This, at any rate, might really be productive labour. And meanwhile the deputies and all other responsible persons should daily be assailed with the cry: "Help for the unemployed!"

THE FLOATING DEBT AND MONETARY REFORM IN FRANCE.

By M. M. GRINBERG.

For some years past the question of the monetary difficulties of France never arises but mention is made of the floating debt problem. In fact both problems are closely interrelated and this connection is of far more than local interest.

Under the common heading of "floating debt" French public accounts include different items, the principal of which are (1) advances made by the Bank of France (some 36 milliard francs) and (2) Treasury bills (some 48 milliards according to a recent statement made by the Minister of Finance). Bank of France advances principally mean note issue for Government needs; as this is pure inflation we do not propose to deal with it here.

Treasury bills existed in France long before the war and used to be issued for the purpose of covering temporary Treasury deficits. The total of outstanding Treasury bills on December 31, 1913, was 410 million francs, with a Budget of 5,066 millions. On December 31, 1925, the total of outstanding Treasury bills amounted to some 48 milliards, the Budget for that year figuring at about 34 milliards (both ordinary and extraordinary), so that the floating debt actually overtops the Budget by 41.1 per cent. The corresponding item in Great Britain on December 31, 1925, stood at about £600 million as compared with a Budget of some £800 million, the floating debt there representing only 75 per cent. of the Budget.

During the war, under M. Ribot, Treasury bills under the name of National Defence Bills began to play a considerable part in the financing of war expenditure. M. Ribot's idea was to issue small bills calculated to attract the small investor, instead of ordinary Treasury bills of large denominations, which are absorbed by banks, insurance companies, etc. The National Defence Bills proved to be a success, and at the end of the war they reached a total of about 22 milliards, notwithstanding the fact that a great number of them had been refunded or converted into Treasury Bonds during the war. After the war all the expense of reconstruction and payments for damage of every kind were included in a special Budget called the Budget of Recoverable Expenditure, resources for which were to be provided by German payments. But the receipts from Germany reached a comparatively small amount, and France was obliged to cover the deficit by other means, among which note and Treasury bill issues played a prominent part.

The National Defence Bills are drawn up in amounts from 100 to 1,000,000 francs; they are issued for one, three, six and twelve months, and bear respectively from 3 to 5 per cent. interest, free of tax. The Bank of France is not legally obliged to discount them, but in practice bills with no more than three months to run can at any moment be discounted there; the longer bills can be used as collateral security for advances. Certain legal advantages attaching to these bills also contributed to their success.

The effect of the enormous increase in National Defence Bills was twofold: (1) The Treasury became the country's banker, because a very large part of the individual cash reserves has been deposited with it against bills issued, thus representing a fixed deposit. But the Government did not follow the usual lines of banking policy and invested the money thus deposited either in long term operations (reconstruction of devastated areas) or in unproductive expenditure (army, navy, civil service, pensions, etc.). Considered in the light of a balance-sheet, French public accounts showed assets totally inappropriate to the nature of the liabilities. As these assets could not be mobilised, the Treasury when confronted with the repayment of bills was left with only one resource—a fresh note issue.

(2) While the Government was spending the money thus deposited, the holders of the bills—whether banks or individuals—considered them as a second-line cash reserve or as "cash at one remove" (according to Mr. Keynes' definition), because they could ask, if need be, for their repayment at the earliest maturity date or discount them with a bank. Holders of bills in making their plans for business or expenditure considered them almost as hoarded cash. Moreover, the bills are often reported as being used for direct payment in certain transactions.

The general post-war boom was accompanied in France, as in many other countries, by Government and credit inflation. Enormous amounts of money piled up during the war by the population (mostly rural) also went to the money market seeking for employment, greatly to the benefit of the Treasury. (The amount of bills outstanding rose from 22 milliards on December 31, 1918, to 48 milliards on December 31, 1919; the note circulation during the same period showed a much smaller increase—from 30 to 37 milliards.) The amount of bills outstanding showed a further increase after the severe collapse of business in 1920–21. The decreasing commercial turnover and the falling prices set large amounts of money free, because, as usual in times of depression, people would not commit themselves to new business. The Treasury therefore received many new subscriptions for bills. The Banks, which could not find enough commercial paper to discount, contributed largely to this demand. It is reported (Prof. Germain-Martin) that the item of "bills discounted" consisted in many banks up to as much as 90 per cent. of Treasury bills. In that way the situation of the Treasury became simply brilliant (bills outstanding on December 31, 1921, 65 milliards). Therefore, notwithstanding the enormous Budget deficit, the Treasury was able to repay 2 milliards to the Bank of France.

As a result of different influences the revival of trade in France began as early as 1922, and people started taking their "deposits" out of the Treasury, i.e. asking for the repayment of their bills, in order to use their money in business. The volume of trade rose as well as prices, and more cash was needed by the country. The banks found more commercial paper to discount, and the proportion of Treasury bills in their possession gradually fell.

	National Defence Bills.	Ordinary Treasury Bills.	Bank-note circulation.
	(In millions of francs.)		
Dec. 31, 1921 ...	65,420	1,942	36,487
Dec. 31, 1922 ...	56,431	2,639	36,359
Dec. 31, 1923 ...	54,423	2,997	37,905
July 31, 1924 ...	56,287	5,213	40,324
Dec. 31, 1924 ...	54,538	1,870	40,603
Dec. 31, 1925 ...	45,735	2,394	49,993

The amount of outstanding bills of both categories declined during 1922, 1923 and 1924, but the fall was particularly severe in 1925 (some 9 milliards). About 5 milliards of these bills were refunded by means of the Four per cent. Loan floated under M. Caillaux, but the remainder (some 4 milliards) was certainly withdrawn from the Treasury. This decrease will appear still more important if we consider that it occurred while some 7 milliards of Treasury Bonds were being repaid in cash in 1925 and that a large part of this fresh money has probably been employed by the public in Treasury bill subscriptions.

Fears provoked in 1925 by certain threats (compulsory consolidation, moratorium) influenced not only the amount of bills stimulating the demand for repayment, but also their character. The proportion of longer term bills diminished while that of very short term bills increased, thus making the floating debt more liquid for holders and more dangerous for the Treasury.

National Defence Bills (in millions of francs).

	January 1925.	December 1925.
1 month bills	2,715 or 5%	4,877 or 10.7%
3 ,, ,,	2,523 or 4.6%	3,544 or 7.5%
6 ,, ,,	8,685 or 15.7%	3,704 or 8.1%
12 ,, ,,	40,963 or 74.7%	33,610 or 73.7%
	54,886 or 100%	45,735 or 100%

The floating debt thus became still more sensitive to all psychological (panics) and economic (rising prices) influences; therefore it can more than ever be considered as the holders' cash reserve (especially for banks). This state of things is very well illustrated by the figures of bills rediscounted at the Bank of France (see THE ECONOMIC REVIEW, April 30, on Banking Conditions in France):—

Bills rediscounted (in millions of francs).

Dec. 26, 1924.	Dec. 24, 1925.	Jan. 28, 1926.	Feb. 25, 1926.	Mar. 25, 1926.
4,900	3,693	3,393	3,372	3,313

These figures are at first sight surprising, because the sharp rise in prices which occurred in 1925 (the wholesale index number having moved from 586 to 731) should have provoked a demand for more money. The explanation lies in all probability in the circumstance that cash was provided by the banks not by means of rediscounting commercial bills, but by presentation of Treasury bills for repayment. As to the commercial bills, banks preferred to hold them. Besides, increased cash reserves with bankers and individuals made rediscounting less necessary.

The working of the system of Treasury bills in France was described by a financial writer, M. Maroni, as representing an automatically closed circuit (*circuit fermé*) tied up with the currency circulation. He said the amount of bills subscribed is just equal to the part of currency circulation the country does not need. Only this excess goes to the Treasury. If business conditions do not change, every increase in currency circulation is absorbed by the Treasury. In case of rising prices or of an increased volume of trade, the shortage of money will be taken from it. Every time money is needed in large amounts (month-ends, tax payments, etc.) the Treasury must provide it. The latent form of purchasing power which the bills represent since their issue (see above) is closely connected with the current form of purchasing power—the bank-notes. *

Therefore the difficulties the monetary reform will meet with are greater. The first difficulty which already exists is the insufficient power of the Bank of France over the money market. The outstanding notes and deposits represent together some 56 milliards. If the Bank desired to reduce this amount it would meet with difficulties, because its principal asset, the Government debt (about 36 milliards), cannot be reduced at will; as to discounts and advances they amount only to some 7 milliards. The gold reserve available represents at the actual rate some 30 milliards, but it is very doubtful whether it will be used for the purpose of monetary contraction.

But even were the Bank to try to reduce the monetary plethora by contraction of its commercial assets—discounts and advances—people in need of money would fall back on their Treasury bills and ask the Treasury for repayment. (Bankers would then find more commercial paper to discount.) The Treasury would require new advances from the Bank and thus the volume of money and credit would not be reduced. The only change would be a fall in discounts and advances in the Bank of France balance-sheet and an increase in "advances to Government." Thus only the asset which is the less liquid would be increased.

It is also urged that not only will monetary contraction be impossible (even if the foreign exchanges be stabilised), but even fresh note issues will be necessary because of the rise in prices. It is pointed out that in terms of gold currencies the actual retail price index number in France works out (with the £ at 150) at 87, whereas the corresponding index number in other countries (the United Kingdom, the United States, Germany, etc.) is about 150. The wholesale index number in terms of gold is 117, which is also lower than the world level of prices. Prices therefore must move upwards. The rise of retail prices will provoke a rise in wages and will create a new demand for notes in proportion to this rise. In a recent article by M. Piétri, the necessary increase in note circulation was estimated at some 33 milliards. It is very difficult to say whether this figure is correct; in any case it cannot be discussed here. But it is clear that large new note issues will be necessary when the purchasing power parity of the franc with foreign currencies will correspond approximately to the exchange rate. It is already quite clear how this increase will take place; if the Bank will not increase the figure of its discounts, the repayment of Treasury bills will make up for it.

Thus, stabilisation of the exchanges at the actual level will provoke fresh note issues principally by way of repayment of Treasury bills or increased discounts at the Bank of France. In any case there will be a certain stage at which the Bank will be obliged to follow the requirements of the money market. A certain amount of Treasury bills will after that period certainly remain with the public for normal purposes of temporary investment; how large that amount will be it is very difficult to say, because too much depends on political and psychological factors. But it is clear *that only when the limit in question has been reached will it be possible for the Bank of France to start any definite monetary and credit policy.* †

Perhaps the tendency of prices to rise will continue even after that moment (under the influence of the usual "bullish" psychology created by inflation). It can be supported for a certain period by an increase in what is commonly called "velocity of circulation," or more intensive utilisation of credit. But if then the Bank will pursue a policy of restriction in regard to discounts and advances, the money market will inevitably begin to feel the effect.

THE GOLD RESERVE AND THE GOLD EXCHANGE STANDARD.

By Oskar Lange.

Last year's history of the Polish currency is not only of practical significance, but important also from a theoretical point of view, as it throws a good deal of light upon the question of the purpose for which there must be a gold reserve, and of the amount at which this reserve should be maintained. Existing views on this subject are drawn from the experience obtained under a real gold standard, and therefore cannot apply to a gold exchange standard. It is of the essence of the gold standard that the bank-notes in circulation should at any moment be changeable into gold, and vice versa. This explains the function of the gold reserve of an issuing establishment under the gold standard. The house of issue must have a reserve sufficient to meet the demand for the exchange of notes into gold. If this demand cannot be met we have an agio on gold (or rather a disagio on bank-notes), but as long as the issuing institution meets the demand the value of the bank-note must be equal to its face gold value. Also, as long as the demand for the exchange of notes into gold is met, there can be no greater fluctuations in foreign exchanges, for those fluctuations are limited to the cost of the transfer of gold and to the difference between the price of gold at home and abroad. The gold standard therefore is self-regulating in character, for it always has a tendency to restore automatically the disturbed equilibrium. For this purpose the gold reserve of the house of issue must be sufficient to guarantee the possibility of exchanging the note currency into gold. Theoretically this reserve must be equal to the amount of bank-notes in circulation, for only then can such a reserve be regarded as a real guarantee in the case of a run. This is the point of view of the currency theory, which is still applied in Argentina. But in practice it has been demonstrated that a reserve of about 30 per cent. is sufficient, provided this proportion is always maintained. Such is the standpoint of banking theory as now applied in most civilised countries, where the 30 per cent. ratio has even been established by law.

The function of the gold reserve as set forth above is characteristic of the gold standard, but generally speaking the same view is taken, quite incorrectly, of the gold exchange standard. The history of the Polish zloty currency aptly illustrates the point. When at the beginning of 1924 the zloty currency was introduced and the Bank of Poland founded, its charter stipulated that the notes issued by the Bank should be covered to the extent of 30 per cent. by gold in foreign currencies. Thus there was established a legal cover which the Bank was obliged to maintain. Everyone thought that the maintenance of this legal cover of 30 per cent. would have the effect of maintaining the zloty at its gold parity, and so it would have had the zloty notes been convertible into gold. But the introduction of the zloty currency did not mean the introduction of the gold standard, for the zloty notes are not convertible into gold. In Poland there is only a gold exchange

* M. Caillaux's famous suggestion, the *plafond unique* (fixing a maximum amount for both Treasury bills and bank-notes), seems to be a recognition of this fact.

† It must not be forgotten, too, that the Treasury will have to meet during the next years the following maturing Treasury Bonds: about 7 milliards in 1927 and about 6 milliards in 1928. But this may be regarded as a difficulty of comparatively minor importance: even in 1925, which was a year of panic, no more than one-third of the bonds maturing were repaid in cash.

standard, and therefore the maintenance of the legal cover of 30 per cent. could not maintain the gold parity of the zloty. Though the legal cover is still maintained the zloty dropped, first at the end of July 1925, then in November and again in December. Actually the zloty is about 50 per cent. below gold parity, in spite of the fact that the legal cover of 30 per cent. is still maintained. This shows that the general view of the gold reserve cannot be applied to the gold exchange standard.

The fundamental function of the gold reserve is the same in the gold exchange standard as in the gold standard, but the means by which the function is fulfilled are different. Under the gold standard this function is fulfilled by the exchange of bank-notes into gold, the issuing institution being under the obligation imposed upon it by law to exchange its notes. Under the gold exchange standard the house of issue is not bound to exchange its notes into gold and can refuse to do so. Therefore the gold exchange standard has not the self-regulating character of the real gold standard. Under the gold standard every fresh demand for gold must lead to a reduction of the amount of notes in circulation in order to maintain the normal cover and the gold parity of the notes. It is different under the gold exchange standard. Here the issuing institution is not compelled to reduce the amount of notes in circulation, for it can maintain the legal cover of the notes by refusing to sell gold (or foreign currencies). If applicants (mainly importers) are able to obtain gold or foreign currencies elsewhere the increased demand for gold has little influence upon the gold parity of the notes; but if they are unable to do so, or if the price of gold at those other sources is higher, it must result in a disagio of the bank-notes. This is what has recently happened in Poland, where the Bank was unable to meet the increased demand for foreign currencies caused by the huge deficit in the balance of foreign trade. Importers were therefore obliged to buy foreign bills and currencies outside the Bank, and as the demand in the money market greatly exceeded the supply the zloty dropped, notwithstanding the fact that the full legal cover of 30 per cent. was still in existence. Hence it is obvious that under the gold exchange standard the legal cover is not sufficient to maintain the currency at gold parity.

The problem now arises, What must be the amount of the gold reserve to assure the maintenance of the notes at gold parity? Under a real gold standard the answer is clear. The reserve must be great enough to ensure the convertibility of the bank-note currency into gold, for as long as this condition exists there can be no agio on gold, owing to the self-regulating character of the gold standard. Experience teaches us that a cover of 30 per cent. is ample to guarantee the convertibility of the notes and therefore the gold parity of the paper currency. Under the gold standard therefore the main purpose of currency policy must be to assure a gold reserve sufficient to maintain a ratio of gold to notes of 30 per cent. This ratio may be regarded as a criterion as to whether the gold reserve is sufficient or not. Under a gold exchange standard the problem is much more difficult, for, as we have seen, the maintenance of a cover of 30 per cent. does not assure the gold parity of the notes. Here we can only say that the gold reserve should be sufficient to meet the demand for gold and foreign currencies. As this demand is variable and cannot be estimated, the reserve must be somewhat higher. Any indications as to the amount of reserve needed can only show the balance of foreign payments and the direction in which it is developing. It must also be pointed out that the amount of the required reserve can only be determined in precise figures, and not relatively to the amount of notes in circulation, as under the gold standard. If the amount of notes in circulation is great, a reserve of 20 per cent. may even prove sufficient, while if the amount is small even a reserve of 50 per cent. and over may not suffice to maintain the notes at gold parity, as has recently happened in Poland. Under the gold exchange standard there is no direct connection between the gold reserve required to maintain the notes at gold parity and the amount of notes in circulation, but only a connection between this reserve and the balance of foreign payments. A fixed legal cover of the notes does not assure their gold parity and must be regarded only as a safeguard against inflation.

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.]

ESTONIA

FINANCE

Conditions in the Banking World.—The Government at its last sitting ratified the 1925 report of the Eesti Bank, which showed a profit of Emk.217.2 million, at the same time laying down certain regulations governing its future activities, chiefly affecting the granting of credit, in regard to which a strict reserve is to be observed. The free resources of the bank are not to be exclusively employed in the provision of credit, but every means is to be used to increase the supplies of gold and foreign currencies. Credits are only to be granted for undoubted and lucrative purposes, primarily the promotion of agriculture and the smaller industries. Loans to agriculture through private banks must not involve too heavy rates of interest. In future a detailed review of the bank's activities furnished with statistical data must be submitted to the Government together with the annual report and some account of the general economic and financial developments of the year.

There are in Estonia a total of 24 banking companies, most of which with a system of branches and agencies throughout the country. The greater number of the branches have been formed with the idea of attracting the inactive money of the provinces in order to employ it in the service of general development. As the tale of 24 independent banks is doubtless too large for Estonia, keen competition has been going on for some time past, which has become all the sharper with the multiplication of branches. There has recently been a slight reduction in the number of branches, owing, no doubt, to the discrepancy between costs and profits. The chief of the activities of these banks lies in advance transactions, and it is particularly this class of business which, thanks to increasing competition, has ceased to grow. The reason for this is the steady increase of co-operative banks and savings banks, which offer many advantages. The latter number already over 140, with deposits amounting to Emk.1 million. These banks have succeeded in accumulating so large a sum of money in consequence of the heavy rate of interest they offer. The rates of interest of these banks are invariably higher than those of the banking companies, and their discount rate is also correspondingly higher. There are co-operative credit institutions which pay as much as 16 per cent. for deposits when the engagement is for five years. The highest rate of interest for loans fixed by the Banks' Council in Reval is 15 to 18 per cent. It is clear, therefore, that the credit rates in the provinces must be much higher. The price of credit depends, like every other price, on the relation of supply to demand, and the best means of securing a decrease in the rate of interest is a binding agreement between all the credit institutions of the country. It must, however, be a case of equal rights for all, including credit institutions of a private or co-operative character. Common action to bring about uniformity in the debit and credit rates of interest in the credit institutions, in which the Eesti Bank should take an active part, is highly desirable. (*Revaler Bote*, No. 129.)

The Budget for 1926-27.—The Estonian State Budget shows revenue and expenditure estimated to balance at Emk.7,848,441,500, ordinary revenue amounting to Emk.7,579,557,700 and extraordinary revenue to Emk. 268,883,800. The expenditure is distributed between the different Government Departments as follows :—

	Emk.
Parliament	47,305,900
Chief of State and State Chancellory ...	26,636,800
State Control	33,479,600
Ministry of Finance	468,532,000
Ministry of Trade and Industry	16,454,600
Ministry of Education	608,799,400
Ministry of Justice	288,988,600
Ministry of the Interior	380,101,400
Ministry of Defence	1,539,875,700
Ministry of Agriculture	350,426,000
Ministry of Ways and Communications ...	1,725,754,500
Ministry of Foreign Affairs	101,115,300
Ministry of Works and Public Welfare ...	386,936,200
National Debt	351,984,500
Extraordinary expenditure	1,522,051,000
Total	7,848,441,500

(*Estonian Consul-General's Fortnightly Bulletin*, No. 62.)

The British Loan.—On May 13, 1926, the Estonian Government realised a loan in London under the auspices of the Trade Facilities Act to the amount of £130,000 for a period of ten years, to be repaid in equal annual instalments. The price of issue is 98¼, with interest at the rate of 5 per cent. per annum. The proceeds of this loan will be utilised for the acquisition of permanent way materials such as light and heavy rails, fishplates, spikes, etc., for the rebuilding of a part of the Reval to Pernau line, which is at present in hand. By means of this loan the Estonian Government has been able to place orders for the above materials with two British firms, William Beardmore and Co. and Becos Traders, Ltd., though other quotations received from competing countries, who were, however, unable to extend similar credits, were lower. No material securities, such as a mortgage on the railway receipts, have been required on the part of Great Britain. The sum realised has been at once placed to the account of the Estonian Government with the Royal Bank of Scotland.

Though the loan is comparatively small, it is noteworthy as the first transaction of its kind with any of the Baltic States. It must be borne in mind that the Estonian Government is proceeding very cautiously with its development schemes and is endeavouring to carry them out gradually in accordance with the increasing resources of the country, and within limits which will not jeopardise the equilibrium of the State Budget. The arrangement of such a credit for Estonia can be taken as a sign of confidence in her financial stability and a natural result of the settlement of all her foreign obligations. It may be recalled that last summer Estonia arranged for the funding of her debt with Great Britain and concluded a similar agreement with respect to her debt to the United States. (See THE ECONOMIC REVIEW, Feb. 26.) (*Estonian Consul-General's Fortnightly Bulletin*, No. 65 ; *Frankfurter Zeitung*, June 2.)

TRADE

Development of Foreign Trade.—Five years ago on June 19, when the first Industrial and Commercial Exhibition was opened in Reval, the country was in the course of rapid economic development, which was mainly promoted by good business relations with the European continent. These favourable relations were the natural result of the termination of the war and more particularly of the peace treaty with Soviet Russia. The international exchange of goods was beginning to function again after years of stagnation, and the competitive struggle set in with such keenness as to necessitate the concentration of all forces.

During the first few years Estonia was naturally a consuming country in the first place, as its demand for machinery and goods of all kinds was great on account of the country having been completely cut off from Western European markets for a period of several years. Exports consisted chiefly of raw materials, and later, when industry had been remodelled according to the requirements of the world markets and agriculture had concentrated on the production of butter, of manufactured goods and agricultural produce. The years 1921 and 1922 were of particular importance to the development of Estonia, as Russia's commercial activity in regard to Western Europe declined, and Estonia as a transit country was able to profit greatly in consequence.

Although the economic crisis had already begun to make itself felt in 1922, the following year was its real starting-point. The shortage of capital under which the country is still suffering became more acute at that date, and with it the great stagnation of trade which led to so many disasters. The banks, in particular the Eesti Bank, had over-estimated the capacity of expansion of the country, and had allowed their limited means to become too deeply involved. The large credits granted to industry and commerce became frozen in, and a shortage of liquid capital ensued, while the steady growth of imports robbed it of its natural basis, supplies of gold and foreign currency. No practical reduction of credits could be effected without endangering the productive economic branches, and any throttling of imports by means of increased import duties might easily lead to a further increase in the cost of living. Happily it proved that the capital invested during the period of flotation began to bear fruit in various directions, and resulted in a steady increase of exports. The general purchasing power was reduced by the bad harvest in 1923, which reflected itself in a decrease of imports in 1924. Exports on the other hand continued to increase, and in 1925 they exceeded imports in value.

The following table shows the development of Estonian foreign trade during the past five years (in millions of Emk.) :—

	Exports.	Imports.	Difference.
1921 ...	2,286	4,482	— 2,196
1922 ...	4,811	5,589	— 778
1923 ...	5,712	9,332	— 3,620
1924 ...	7,866	8,204	— 338
1925 ...	9,665	9,655	+ 10

Thanks to the increase of exports the rate of the Estmark, which particularly in 1924 was subject to many vicissitudes, was stabilised at the end of this year, thus affording a firm basis for further economic development.

If Estonian exports are examined according to the various groups of commodities, it will be seen that, after agriculture, industry contributed most to the success achieved. This fact is all the more remarkable in that the difficulties of competition with the great industrial powers were particularly great in the period following immediately upon the war, as there was a dearth of markets all over Europe.

Particulars of the increase of exports in the individual groups are shown in the following table (in millions of Estmarks) :—

	1923.	1925.
Hides and leather	82	168
Wood goods	1,397	1,688
Paper goods	590	1,136
Textile manufactures	1,065	1,822
Stones and earth (cement)	97	270
Chemicals (matches)	58	136
	3,290	5,220

Even though all the goods in this group cannot be classified as industrial products, and the imports of industrial raw materials have also increased, the above figures nevertheless testify to the capacity of Estonian industry and to the position it holds in the economic development of the country. The industrial concerns which work with home-produced raw material are naturally of primary importance to the country. Timber and timber-working industries, the paper industry, and the leather, cement and match industries have not only increased their output, but also improved the quality of their goods to a standard that enables them to compete in Western European and overseas markets and to extend their sales area from year to year. Among industries working up imported raw material, the textile industry achieves the most important results in the field of export. The capital invested in the revival and modernisation of this industry has borne good fruit, and provided employment for thousands of workers. The paper industry has shown a notably large increase in exports which, owing to the determined enterprise of the manufacturers, have found markets not only in Russia, but in Western Europe and overseas.

The development of agriculture has been in the direction of a change from grain cultivation to cattle breeding, dairy farming constituting the chief point of interest.

The export of butter has risen in the past five years as follows :—

	Tons.
1921	218
1922	999
1923	2,347
1924	3,187
1925	6,445

Thanks to this development, which has continued during the current year, butter has become one of the most important articles of export in Estonia, and together with flax forms the farmer's most important source of income. The flax export trade developed as follows :—

	Tons.
1921	5,227
1922	9,659
1923	9,327
1924	10,433
1925	7,574

The export of meat has increased and also that of eggs, while the large grain export of the first few years has given place to an increased import.

After a decrease in 1924, the import of goods in 1925 achieved a record from the point of view of values. This increase is chiefly due to the activity of industry. Thus the import of cotton, metals and oils has risen considerably. Owing to the conversion of industry to the use of shale fuel, the import of coal has decreased. During the past five years agriculture has bought from abroad large quantities of machinery and implements, the import of which, however, declined during 1925 owing to the market being overstocked. There was on the other hand a great increase in the import of fertilisers and fodder.

The rapid growth of the import of bread-grain and flour is of economic importance. The development during the past five years is shown in the following table (in thousands of tons) :—

	Rye.	Wheat.	Wheaten flour.
1921	2.5	—	11.6
1922	10.0	0.1	14.4
1923	25.4	16.4	13.4
1924	38.0	7.8	9.5
1925	47.7	12.8	10.5

The above developments and the growing exports of butter plainly reflect the change from grain cultivation to cattle breeding.

The expansion of Estonian foreign trade during the past five years and also in 1926 shows that the inflation crisis has been overcome and that the stabilisation process is functioning satisfactorily, expressing itself in the accommodation of home production to the demand for goods. (*Revaler Bote*, June 19.)

Foreign Trade Returns for April.—The balance of trade in April shows an import surplus of Emk.77 million. The value of the imported goods amounted to Emk.864 million and that of exports to Emk.787 million. Imports as compared with March (Emk.643 million) show a heavy increase, which is chiefly due to larger imports of grain and flour (Emk.222 mill. as compared with Emk.187 mill.), textiles (Emk.91 mill. as compared with Emk.187 mill.), metals, machinery and artificial manures. The import of coal has dropped a little, while that of cotton has risen (Emk.116 mill. as compared with Emk.81 mill.).

Exports have risen from Emk.683 mill. in March to Emk.787 mill., including increases in dairy produce (from Emk.135 mill. to Emk.163 mill.), in wood goods (from Emk.50 mill. to Emk.105 mill.), in flax (from Emk.171 mill. to Emk.234 mill.), and in leather goods (from Emk.29 mill. to Emk.73 mill.). Paper exports amounted to Emk.80 mill. (in March Emk.137 mill.) and the export of textile goods to Emk.103 mill. (in March Emk.137 mill.).

The balance of trade for the first four months of 1925 and 1926 is as follows (in millions of Estmarks) :—

	1926.	1925.	Difference.
Imports... ...	2,802	3,006	—204
Exports... ...	2,801	2,679	+122
Balance ...	—1	—327	

(*Revaler Bote*, No. 115.)

COMMUNICATIONS

The Port of Reval in May.—The easterly gales which prevailed at the end of April blew the ice from the Estonian coast out into the open Baltic ; conditions changed almost overnight, and on May 1 the Port of Reval was free of ice at least as far as the western passage was concerned. Between May 5 and 6 the Sound and the Bay of Riga were opened to shipping without the help of ice-breakers, and Pernau followed a little later. The lighthouses were lit, lightbuoys and the more important marks of navigation were towed out, and the lightships took up their positions. By May 10 the summer navigation period might be considered as opened both in the Port of Reval and on the eastern coast, while shipping in Petrograd only began on May 26. There was, however, but little traffic in the Port of Reval in May, chiefly owing to the strike in England. Only two coal steamers arrived, both from Rotterdam, but the regular services to Stockholm, Helsingfors and the eastern points of the Estonian coast were started.

The chief imports, apart from coal, in the month of May were fertilisers, cement, chalk, petroleum, tar, iron and steel, agricultural machinery and implements, grain, grass seed, earthenware, cellulose and paper. Flax, timber, live stock, frozen meat and fish, butter and eggs, veneer, paper, made-up doors and potatoes were exported. Many ships left Reval empty, intending to load up at Port Kunda with cement for abroad, while Reval imported foreign cement. The greater part of the traffic, apart from the Estonian ports, was with Stettin, Hamburg, Bremen, Lubeck, Danzig, Helsingfors, Viborg, Stockholm and Gothenburg. Then came London, Hull, Fowey, Rotterdam, Amsterdam and Bordeaux. Riga only came into consideration as a transit port for part cargoes.

Ships coming into the port were chiefly of German nationality, Estonia taking second place. The positions were reversed in the case of ships sailing from Reval, Finland taking third place in each case. Only four ships flying the British flag came into the Port of Reval during May in consequence of the strike. A total of 110 vessels with a total of 43,216 n.r.t. entered the port in May, as compared with 179 vessels with a total of 71,570 n.r.t. in March and 164 vessels with a total of 67,671 n.r.t. in May 1925. Large exports of corn are expected via Reval after the harvest in Soviet Russia, and later on a considerable export of pork and mutton from that country. (*Revaler Bote*, June 10.)

The statistics for the Port of Reval for the first three months of 1926 as compared with the figures for the corresponding period of 1925 are shown in the following table :—

	Arrivals.		Sailings.	
	Number.	Net reg. tons.	Number.	Net reg. tons.
First quarter 1926	153	114,609	138	103,393
First quarter 1925	232	121,895	250	125,295

The activity of the Port has declined as compared with the same period of 1925. The total tonnage of vessels arrived in the present year is 94 per cent. of that for the first quarter of 1925, and the tonnage of outgoing vessels 82.5 per cent. of that for the first quarter of 1925. The movement of the port was quiet during March, when the ice conditions in the Baltic were particularly severe. The tonnage of arrivals in January and of clearances in February were higher than during the same months of 1925. This was partly due to the freezing of the eastern part of the Gulf of Finland, which closed the way to Petrograd, forcing many ships bound to the latter port to unload at Reval. (*Estonian Consul-General's Fortnightly Bulletin*, No. 65.)

FRANCE

POLITICAL AND FINANCIAL

The Expert's Report.—Although the material and data upon which the Experts' conclusions are based have not yet been published, the Report itself is already available. In it they state that now that all delusions have been dissipated, the real elements of the financial problem can be given: German payments will not supply much more than is to be paid to the Allies. Therefore, the reconstruction of devastated areas and all payments due to the victims of the war are to be definitely provided for by France itself, instead of these expenses being covered by Germany, as was expected. The financial problem is to be settled on that basis. The principal factors of the problem are set out as follows :—

1. *The Balance of payments*, which was favourable to France in pre-war times (France being a large exporter of capital), has become adverse since the war. But in the opinion of the Experts, it could have been balanced during the last three years but for the large sales of francs by foreigners and the flight of capital. But when energetic steps are taken to effect stabilisation, French capital abroad will have a tendency to come back and in that way contribute to the work of stabilisation. The Committee of Experts, therefore, does not think that the state of the balance of payments will prove an obstacle to stabilisation.

2. *The Budget* for 1926 has been balanced, with a slight surplus. But the estimates of expenditure for the second half of the year will probably be exceeded, because of the higher salaries of State officials and the expenses in Syria and Morocco. The Committee makes various recommendations with a view to the introduction of economies and for the better organisation of budgetary operations. In their opinion, however, the most important thing to do in order to secure real equilibrium, is to provide for a sufficient proportion of revenue which increases as the franc depreciates, as opposed to the expenditure, which depends on prices and the rate of exchange.

The Experts roughly evaluate variable expenditure at 25 milliards per annum (including all subsidiary budgets—Posts, Railways, etc.), while evaluating variable revenue in the same way at only 20 milliards. The insufficiency of the revenue is more clearly seen if one remembers that a part of the variable receipts can increase only from one year to another (income tax proceeds), whereas expenditure increases with rising prices all through the year. The gap created by the shortage of variable revenue must be filled, according to the Experts, by different means but principally by reorganising many of the taxes and by raising the rates of indirect taxation. The Committee holds to the opinion that indirect taxation is actually much lower than it was before the war (as compared with prices), and that on the other hand it is much more sensitive to rising prices. Therefore, in so far at least as there has not been a return of normal conditions, a system mainly based on direct taxation will not be equal to maintaining a real equilibrium of the Budget. (M. Jèze, it may be noted, was the only member of the Committee who did not endorse this view.) The Committee proposes (*a*) to reduce to a certain extent the general income tax (the super-tax) and the taxes on income from capital investment; (*b*) to introduce effective control of income by means of various administrative measures and by abolishing certain other means of control which have proved ineffective; it also proposes to revise the basic evaluations of the land tax; (*c*) to raise certain consumption taxes which are comparatively still much lower than in pre-war times (for instance, the sugar excise, which was 25 francs before the war and amounts actually to 50 francs, is to be raised to 100 francs); (*d*) to revise as soon as possible the Customs tariffs which represent now, in proportion to the actual prices, less than 50 per cent. of the pre-war rates, and to organise them in such a way that they will adjust themselves automatically to the level of prices (on the ad valorem principle). This last measure is expected not only to double the actual yield of the Customs (some 2½ milliards), but also to supply the Government with important trump cards in its negotiation of commercial treaties with foreign countries; (*e*) to introduce a single rate for the general turnover tax (2 per cent.) instead of the different rates existing now for necessaries, non-necessaries, for wholesale and semi-wholesale dealers, etc.; (*f*) the actual French railway tariffs reckoned in foreign moneys being by 50 per cent. lower than the most moderate foreign tariffs, they must be raised to a certain extent with a view to balancing the budgets of the State and private railways; besides a tax on transport (say, 15 per cent.) is to be introduced, the yield of which is expected to amount to 1.8 milliard; (*g*) the Tobacco Monopoly is to be organised as an autonomous enterprise on a commercial basis; the Committee recommends that the Minister of Finance should be given the right to raise tobacco prices.

The Committee after a careful study of the Budget has come to the conclusion that fresh revenue must be provided for the Treasury in order that definite equilibrium may be attained (and so as to cover increased expenditure). The supplementary revenue must amount to 2.5 milliards for the second half of this year and to 5 milliards next year.

3. *The Treasury Situation* is seriously complicated by the excess of repayments over new subscriptions of Treasury Bills (National Defence Bills). Whatever the cause (fears with regard to forced consolidation, or increased need for cash), excessive repayments create a very unstable state of things. In the opinion of the Experts, the National Defence Bills and the Ordinary Treasury Bills (liabilities the term of which does not exceed one year) should be given an autonomous organisation. A special *Caisse de Gestion* (Fund for the Management of Treasury Bills) is to be charged with repayment, conversion, and all other necessary operations in connection with these Bills. The resources of this fund will consist in an annual budgetary allocation of 500 millions and of a special capital to be taken out of the proceeds of the first foreign loan. The proceeds of this loan in foreign money will be taken over by the Bank of France and the value of this foreign money in francs will be handed over to the *Caisse de Gestion* to the extent of 4 milliards. The Experts consider that at least 50 per cent. of the proceeds of foreign credit operations must in the same way be given to the *Caisse* until its cash reserve amounts to 20 per cent. of the outstanding bills. A very important feature of the Experts' plan is their proposal to assign the revenue of the Tobacco Office as a pledge for temporary advances to be granted by bankers to the *Caisse* in case of need.

As for the ordinary Treasury turnover and the temporary deficits, inevitable because of the non-coincidence of receipts and expenses, the Treasury must, according to the Experts, be given power to issue Treasury Bills up to 5 milliards, as well as "a margin" of some 3 milliards of fresh advances at the Bank of France, to be taken also out of the proceeds of foreign loans to be concluded.

All the measures recommended by the Committee must, in their opinion, lead up to the stabilisation of the franc. It may be seen that foreign credits play a prominent part in the Experts' plan, the necessity of having recourse to such credits compels them, notwithstanding any arguments that may be adduced against them, to insist unanimously upon the necessity of ratifying the Washington debt agreement. Stabilisation is to be effected, according to the Committee, by three principal stages—(1) *the preliminary stage* (prestabilisation): fixing of the limit of advances to the Government by the Bank of France, abolition of the fixed maximum of note circulation in order to permit the Bank to strengthen by purchases its stock of foreign currencies and gold; (2) the *period of realised stability* of the exchange due to the policy of the Bank; (3) the establishment of a new legal rate of exchange. The Committee admit that they clearly foresee the crisis which will inevitably follow stabilisation. They recommend different measures to be taken by industry (commercial and industrial organisation) with the view of mitigating the severity of the crisis; among others they suggest a more "liberal" application of the Eight Hours Act.

It must be noted that M. Caillaux, in the important speech he delivered in the Chamber, laid stress on the fact that he agreed with the Experts as to all their main proposals, but he pointed out that, in his opinion, many capital expenditures (railway construction, etc.) should not be included in the Budget, as they are now. The resources for such expenditure should normally be provided by loans, and only the impossibility of floating loans in the actual market conditions prevents them from doing so immediately. But, in his opinion, the State Railway Direction and the private companies must themselves see to the financing of their extension schemes. The amount therefore of new resources to be provided for in 1927 amounts, according to M. Caillaux, to only 3 milliards of francs (instead of 5 milliards as proposed by the Experts).

INDUSTRY

The Coal Output in May.—The May output of coal for the whole country was 3,942,128 tons for 23 working days, as compared with 4,200,222 tons for 25 working days in April. The average daily output shows a slight increase, whereas the number of hands employed is declining:—

		Daily output. Tons.	Number of hands.
Average	1913	136,147	203,208
January	1923	121,064	242,568
,,	1924	144,680	286,804
,,	1925	160,445	311,991
,,	1926	170,048	315,204
April	1926	168,009	312,587
May	1926	171,396	310,568

In the three principal coal mining districts of France the movement of the daily output was as follows (in tons):—

	April 1926.	May 1926.	Difference.
Midland and Southern mines...	47,957	47,758	— 199
Nord and Pas-de-Calais ...	103,303	105,638	+ 2,335
Pre-war area of France ...	151,260	153,396	+ 2,136
Lorraine mines...	16,753	18,000	+ 1,247
	168,013	171,396	+ 3,383

There was a decrease, therefore, in the Midland and Southern mines, but an increase in the other regions.

The output of metallurgic coke during the month of May from French furnaces was 311,416 tons.

It may be seen that, on the whole, the activities of the French mines still show steady and continued progress.

TRADE

The Movement of Prices.—The General Statistical Office has already published last month's index numbers of wholesale and retail prices. The rise in wholesale prices is quite unprecedented. The movement is similar with regard to both foodstuffs and industrial products:—

	General index number.	Foodstuffs.	Industrial products.
January	647	531	748
February	649	535	749
March	645	537	740
April	664	561	753
May	702	597	794
June	754	646	848

From the above figures it will be seen that the difference from one month to another is becoming increasingly larger.

Retail prices show a very considerable advance, though smaller than in the case of the wholesale prices:—

January ...	480	April ...	503
February ...	495	May ...	522
March ...	497	June ...	544

GERMANY

POLITICAL AND GENERAL

Commercial Policy of the Government.—The political situation in Germany, the dissentient nature of which was brought to light by the handling of the compromise over the Royal Houses in the Law Committee of the Reichstag, has confronted the Government with the necessity of seeking support from the various parties, in return for which, according to the custom in Germany, counter-claims of a widely different nature are liable to be made by the parties in question. In this particular case the German Nationalist Party demands compensation in regard to commercial policy in return for their support of the Royal Houses compromise.

The matter has taken tangible form in consequence of the discussion in the Reichstag of the Swedish-German Trade and Shipping Agreement. The development of the German policy in regard to Customs duties has for some time been open to criticism. Since the introduction of the law of August 17, 1925, the rates have been too high and quite out of keeping with the general economic interests of the country. The Government stated at the time that the rates would soon be modified by means of trade agreements. This promise was merely a matter of confidence, and a Government which had placed the Ministry of Economics and the Ministry of Finance in the hands of Nationalists did not merit such confidence without qualification. Doubts in regard to its fulfilment were likely to be justified in cases where a trade treaty had to be declined owing to inadequate concessions. A case in point has occurred in regard to the German-Swedish Trade Agreement which incorporates agrarian duties. As Sweden is not in the least interested in these duties, the action of the Government in including them in this agreement is open to question. According to the wording of the Customs Act, increased duties come into force automatically on August 1, 1926, but the Agrarian Enquiry Committee has issued a serious caution against allowing them to take effect without further examination into the necessity for further increases. Even the former Food Minister, Count Kanitz, told the Commercial-Political Committee that he did not believe it possible for the German Minister of Agriculture to be in a position by August 1, 1926, to reckon on a further increase in the duties. The inclusion of the agrarian duties in the German-Swedish treaty was simply an effort of the Luther Government to avoid a discussion on the coming into force of the automatic increase.

This discussion has nevertheless been called for, for it is generally felt that any addition to the burden imposed by last year's rates would be insupportable. The rates fixed by means of an agreement between the Government and the Nationalist party in the German–Swedish Trade Agreement involve a five-fold multiplication of the barley duty and the doubling of the rye, oats and wheat duties. At the same time they increase the duties on table fats and margarine, and the rates for flour and milled products follow suit. The Opposition has now proposed the extension of the Law of August 17, 1925. The danger of a considerable increase in Customs duties would thus be temporarily avoided, and in this connection it should be pointed out that it is impossible in these economically critical days to provoke an increase in the cost of living of the masses, particularly as the Government must be anxious to avoid any rise in prices, the results of which will be only wage struggles and party strife. (*Hamburger Fremdenblatt*, June 26.)

FINANCE

The Steel Trust Loans.—The *Hamburger Fremdenblatt* (June 27) learns from New York that the 30 million dollar 6½ per cent. loan of the Vereinigte Stahlwerke was over-subscribed fifteen minutes after the subscription lists were opened. It has been stated that this is the greatest success yet achieved in the New York market by the shares of any foreign company. The issue took the form of forty-five year gold bonds issued at 96 per cent., the quotation in the open market being already 96¼ per cent. A fund of $600,000 has been provided for the purpose of annual amortisation up to December 1938, and after that amortisation will be at the rate of $1.8 million yearly. In addition to the 30 million dollar American section of the loan, a Mark section to the value of Rmk.126 million will also be issued.

A group consisting of all the great German banks under the leadership of the Darmstadter National Bank will issue the Reichsmark section of the loan at 7 per cent. interest, redeemable at 102 per cent. between the sixth and twenty-fifth years. There is an option of Rmk.3,000 of shares in the Vereinigte Stahlwerke at 125 per cent. on every Rmk.1,000 subscribed, valid until December 31, 1929. The entire loans, including the outstanding loans of the Rhine–Elbe Union and the Thyssen Concerns, have been mortgaged to the extent of about 100 million dollars. The National City Bank of New York and the Darmstadter National Bank are the trustees for the total loans. It is probable that between Rmk.20 and 30 million of the Reichsmark loan will be issued abroad, Holland, Switzerland and Sweden being the countries chosen. In comparing the diverse rates of interest for Europe (7 per cent.) and America (6½ per cent.) it should be remembered that the 10 per cent. interest on capital tax to which German subscribers are subject has been taken into account, so that the real rate for Germany is 6.3 per cent.

TRADE

Trade Agreements with Japan and Latvia.—For many years negotiations have been pending with Japan with a view to the conclusion of a trade agreement on mutual most favoured nation terms. These negotiations were opened in Berlin and were later carried on in Tokyo. At the present moment, in the absence of any agreement, Japan is able to maintain a system of prohibitions against the German dye export trade, which she is unable to apply to other exporting countries such as Switzerland and the United States on account of the trade agreements existing between herself and them. The chief obstacle to the conclusion of an agreement lies in Japan's wish to maintain her protective policy against German dyes in order to develop her own dye industry, which was built up during the war.

A general understanding has at length been arrived at. The Japanese dye import prohibition is to be removed, but the Japanese and German dye industries are to come to a mutual agreement as to which dyes may be imported and which are to be produced in the country itself.

Apart from the treatment of aniline dyes, the absence of agreement has not had, until recently, any greatly prejudicial effect upon German exports, but the increased duties lately imposed by Japan constitute a heavy handicap for German trade, as they apply only to Germany and not to other exporting countries which have contracted trade agreements. This is particularly the case with regard to the export of worsted, one of Germany's chief export articles. Since the introduction of the new tariff, German worsteds have to pay a much higher duty than French worsteds. Now that the chief obstacle has been overcome, the remaining difficulties can be settled and the conclusion of the agreement may be confidently expected.

Trade relations with Japan, despite the absence of agreement, have made satisfactory progress during the last few years. Exports have been as follows (in millions of Reichsmarks):—

1913.	1923.	1924.	1925.
122.6	163.4	143.9	178.5

German exports to Japan are thus far in excess of the pre-war figure. Imports from Japan show the following development (in millions of Reichsmarks):—

1913.	1923.	1924.	1925.
57.9	13.1	17.6	28.9

German exports include, in addition to worsted, electro-technical products, sulphuric acid, ammonia, and other chemical and pharmaceutical products. The export of all these products has experienced a considerable increase since the war. The dye export has fallen off slightly, and so has the export of iron goods. Japan further imports from Germany manufactured goods of the most varied nature. Imports from Japan consist of vegetable and animal fats, raw silk, habutai, menthol, and a few Japanese manufactured goods such as lacquer ware and fine copper goods.

With Latvia there exists merely a "temporary agreement with regard to the resumption of relations" dating from July 15, 1920. The carrying into effect of most favoured nation treatment, which is provided for in this agreement, met with obstacles, as Latvia at the moment of the conclusion of the agreement lodged a claim for reparations for damages sustained during the period of occupation. The German Government has been endeavouring for some years to settle this matter, and the negotiations in regard to the trade agreement and the reparations claim are now approaching a conclusion. Before the signatures could be affixed a Cabinet crisis occurred in Latvia, so that the matter was still in suspense.

It is now reported from Riga that the Foreign Minister, Ulmanis, and the German Ambassador, Dr. Koester, have signed the Latvian–German trade agreement, together with the act of ratification for the resumption of relations between Latvia and Germany of July 15, 1920. The trade treaty secures most favoured nation terms and the agreement for resumption of relations settles all reparation claims. (*Deutsche Allgemeine Zeitung*, June 30.)

INDUSTRY

Position of the Superphosphate Industry.—At the last international conference of superphosphate producers in Paris, at which German requirements were considered, the endeavours towards concentration, the difficult question of export and Customs duties, and the suggested reduction of prices to a level about 9 per cent. in excess of that of 1913 came up for discussion, together with the problem of raw phosphates.

The German superphosphate industry, which before the war produced 1,845,000 tons yearly and was able to export 282,553 tons, or 17 per cent. of the output, now produces only 600,000 tons per annum, about 100,000 tons of which are likely to be exported during the current year, according to the results recorded hitherto. The ratio of export to output remains the same, but the capacity of output is at least three times as great as the actual production. In pre-war times the number of competent firms engaged in the manufacture of superphosphates on a sulphuric acid basis numbered about 60. The number of firms is nominally the same, but many are small or have amalgamated with other branches of the chemical industry. The market has dwindled on account of the loss of the large agricultural districts in the east, which formerly consumed large quantities of P_2O_5, but now, owing to the prohibitive Polish duty of one gold zloty per 100 kilogrammes, are unable to draw their supplies from Germany. Czechoslovakia's duty of 7 kronen is certainly not small, and most of the other consuming countries have fixed prohibitive duties. After urgent representations on the part of the German industry a rate of Pf.50 has been put into force for Germany, although from the official standpoint raw materials should be as little as possible subject to duty. Any assistance which might have resulted to the German producer in competing in the home market has, however, been nullified by the conclusion of the German–Belgian trade agreement, which provides most favoured nation terms.

There are at least fifteen highly competent countries which rival Germany in the world market, and it is only in the Scandinavian–Baltic countries that she has been able to gain any lasting foothold. Even there competition renders the conditions very difficult, as foreign countries, such as Belgium, Holland, France and England, offer lower prices, though the percentage of content is generally lower than that of the German product, which maintains a standard of acid content of about 18 per cent. as compared with 14 to 16 per cent. in the foreign products. The German producers advance the more favourable conditions of supply of raw materials of their foreign competitors as the reason for their own higher prices. The French and Italian producers have easy access to the vast resources of Northern Africa, Lybia and Egypt, and the pits in Morocco from which Spain and Holland also draw supplies are estimated to contain not less than 15 milliard tons (as compared with 6 milliard tons in Florida). The war in Morocco was carried on for so long chiefly on account of the wealth of raw phosphates in the Riff, and even last year the phosphate output from the French sphere of influence in North Africa was a million tons in excess of that of the United States (4 million as compared with 3 million tons ; total world production 7½ million tons).

On all these grounds the German superphosphate industry is at a very important crisis. If it can succeed, by reducing the cost of its process, in converting home agriculture to an increased use of superphosphates instead of Thomas meal and bringing P_2O_5 fertilisers again into favour, the present crisis will be overcome ; otherwise the outlook is none too favourable. For this reason every endeavour is being made to facilitate the process of rationalisation by amalgamation and closing down, and to improve the conditions offered to purchasers. (*Hamburger Fremdenblatt*, June 24.)

COMMUNICATIONS

Effects of the British Strike on Rhine Shipping.—The British strike has now lasted for well over a month and the great hopes which the shipping companies and private shippers placed on its effects upon freights have only been fulfilled to a limited extent. At the beginning of the strike it appeared that its effect on Rhine freights, particularly between the Ruhr and the ports of Rotterdam and Antwerp, would be far-reaching. There was then an immediate heavy demand for fixed contracts. Clippers and cranes were hardly able to deal with the large quantities of coal in the Ruhr ports, and freights rose within a few days from Mk.0.60 to Mk.1.30 per ton exclusive of tug fees from the Ruhr to Rotterdam, and to Mk.1.90 to Antwerp inclusive of tug fees. These rates held good till May 15. With the cessation of the general strike in England there came a falling off in the demand which resulted in slackened loading. Purchasers were of opinion that the breaking off of the general strike would involve a simultaneous or speedy end of the miners' strike, and the freights which had taken so hopeful a turn gradually dropped again. Prices took the following course :—

May 15 to 17, to Rotterdam Mk.1.20, to Antwerp Mk.1.80.
May 19 to 22, to Rotterdam Mk.1, to Antwerp Mk.1.60.
May 25 to June 3, to Rotterdam Mk.0.80, to Antwerp Mk.1.40

From this point there was a gradual steady improvement in quantities shipped and also in freights. The following rates were paid :—

June 4 to 6, to Rotterdam Mk.1, to Antwerp Mk.1.60.
June 7, to Rotterdam Mk.1.20, to Antwerp Mk.1.90.
June 9, to Rotterdam Mk. 1.40, to Antwerp Mk.2.10.

All loading apparatus is again in use to the maximum extent of its capacity. To give a general idea of business in June it need only be stated that in a single day on June 7 75 large barges belonging to private shippers were taken on in the shipping Bourse of Duisburg–Ruhrort. In addition to this there are the ships chartered for coal loading in other ports and those of the shipping companies. Consignments intended for export increased, in spite of a temporary falling off, by 120 per cent. during the first four weeks of the strike, and the very considerable increase in consignments to Holland and Belgium, estimated at about 15 per cent. of the normal quantity despatched, is not included in this figure.

In spite of this considerable increase in quantities Rhine shipping has up to the present been able to deal with transport without the least difficulty. At the moment of the temporary slackening there was such an assemblage of empty lighters that not only the docks along the Rhine, but the Ruhr right up to the Ruhr bridge, was full of idle craft. The fact is that Rhine shipping is capable of dealing with half as much again as the normal traffic, which throws a searching light on the conditions in the trade before, and probably also after, the British strike. It shows with unpleasant distinctness the great excess of Rhine craft as compared with the possibilities of finding employment for it. It is nevertheless hoped that while the strike in England lasts, and perhaps for some while after it is over, consignments will be maintained at their present level, or even increased, especially as the demand for bunkering sea-going ships is increasing.

It must be mentioned that in spite of the long duration of the strike there has been no great reduction in stocks at the mines. It is chiefly high quality coal that is in request. Customers in many countries are so exclusively dependent on the use of English coal for firing, etc., that they cannot adapt themselves to the use of German coal without some difficulty. (*Deutsche Allgemeine Zeitung*, June 19.)

HUNGARY

POLITICAL AND GENERAL

Twenty-fourth Report of the Commissioner General. —Mr. Jeremiah Smith's twenty-fourth Report, covering the month of April 1926, has been submitted to the League of Nations Council. The Commissioner General states that the Government's Budget for the financial year ending June 30, 1927, corresponds in every essential respect with the draft budget drawn up by the League of Nations in December 1925 in accordance with the Reconstruction Programme. The Budget submitted to the National Assembly embraces, however, the gross revenue and expenditure of the State undertakings, which items do not occur in the League of Nations' budget plan. The revenue and expenditure items are consequently much higher in the Government's Budget than in the League of Nations' estimates. To avoid confusion in comparing the two budgets this fact should not be overlooked. The following figures show in percentages the relation of the estimated receipts from the various sources of revenue to the entire national income, the items of the State undertakings that issue a separate budget not being included (in percentages): Direct taxes: land duty, 6.46; house duty, 4.91; corporation tax, 1.78; income and property tax, 8.62; various receipts, 0.23; total direct taxes, 22.0. Tobacco monopoly receipts (gross), 18.94; turnover tax, 16.73; Customs, 9.33; consumption tax, 9.14; fees and dues, 8.72; salt monopoly receipts (net), 1.95; freight fees, 1.66; departmental receipts, 11.53; total, 100.00. Classified according to the purposes the various items of expenditure show the following relation to the total of national expenditure, excluding, as above, the figures of the different State undertakings (in percentages): Salaries and wages of State employees, 32.32; general Government expenditure, 27.99; national debt and burdens arising from the Peace Treaty, 13.91; pensions, 12.78; military staff, 6.96; national defence, 4.10; public works, 1.94; total expenditure, 100.00. Classified departmentally the total expenditure is distributed as follows (in percentages):—

Ministry of Finance	18.17
Ministry of Public Instruction..	15.55
National Defence	15.47
National debt and burdens arising from the Peace Treaty	13.91
Ministry of the Interior	13.09
Ministry of Social Welfare	8.00
Ministry of Justice	6.60
Ministry of Agriculture...	3.59
Ministry of Commerce	2.98
Ministry of Foreign Affairs	1.18
National Assembly	0.56
Cabinet	0.33
High Courts	0.33
Regency	0.22
Total	100.00

The distribution of revenue and expenditure as shown above differs to some extent from the corresponding classification in the Reconstruction Budget.

The sums received in April from the revenue pledged as security for the Reconstruction Loan, in comparison with those received from the same sources in March 1926 and April 1925, were as follows (in millions of paper kronen):—

	March 1926.	April 1926.	April 1925.
Customs	147,488	125,077	134,583
Tobacco monopoly ...	130,952	133,142	118,148
Sugar duty	25,019	28,987	37,076
Salt monopoly ...	13,014	11,504	10,106
Total	316,473	298,710	299,913

With the multiplicator at 14,500, the April pledged receipts represent Kr.20.6 mill. (gold), as against Kr.21.8 mill. (gold) in March 1926 and Kr.20.5 mill. (gold) in April 1925. In addition to this amount Customs also received sums corresponding to a total of Kr.2.11 mill. (gold). For sales effected abroad the tobacco monopoly received payments to the extent of 3.8 milliards of paper kronen.

The total gross receipts from all sources in April, in comparison with those of April 1925, were as follows (in milliards of paper kronen):—

	April 1926.	April 1925.	Difference.
Pledged receipts ...	298.7	299.9	— 1.2
Other receipts	344.0	369.6	—25.6
Total	642.7	669.5	—26.8

Converted into gold the April gross receipts would figure at Kr.44.3 mill. (gold), as against Kr.45.8 mill. (gold) in the preceding April. Taking into consideration the reduction made during the year in several taxes the receipts last April compare favourably with those of April 1925, although they are Kr.4.3 mill. (gold) below the estimated figure for the month, with the result that the month of April closed with a deficit of Kr.4 mill. (gold) instead of realising the estimated surplus of Kr.300,000 (gold). April is, however, usually a deficit month.

The preliminary estimates for the month of May provide for gross expenditure at Kr.54,431,401 (gold) and gross revenue at Kr.57,851,823 (gold), showing therefore a surplus of Kr.3,420,422 (gold). Comparing the net figures for May with those of the monthly average of the Reconstruction Programme we obtain the following result (in gold kronen):—

	May estimates.	Monthly average of Reconstruction Plan.	Difference.
Net expenditure	47,818,555	34,125,000	+13,693,555
Net revenue ...	51,223,977	30,825,000	+20,413,977
Surplus ...	3,430,422	—	+ 6,720,422
Deficit ...	—	3,300,000	—

The programme of capital investment, as published in the Sixteenth and the Twenty-first Reports of the Commissioner General, has since been somewhat modified. According to the Sixteenth Report the sum of Kr.20 mill. (gold) was granted to meet the investment requirements of the State railways. The position of the railways has, however, improved to such a degree that, of this sum, Kr.17.2 mill. (gold) have been covered out of the actual railway receipts. Certain sums were therefore available for other investment purposes, including credit for the building of dwelling houses, the construction of country roads, the erection of schools, the renovation of hospitals, and for numerous other smaller works.

The total amount of credit already granted for investment purposes does not exhaust the surplus of the financial year 1924–25. This situation has enabled the request of the Minister of Commerce for several small loans for investment purposes to be granted. The credit of Kr.10 mill. (gold) approved for granting short-dated loans to agriculture has been distributed as follows: 50 per cent. to the small farmers owning not more than 100 joch of land, 17 per cent. to farmers owning between 100 and 1,000 joch, and 33 per cent. to farmers possessing more than 1,000 joch. The term of the loans ranges from one to five years, according to the purpose for which the application was made. The main object of these loans is to purchase artificial manures, live-stock and agricultural machinery, and to meet the costs of necessary repairs. The loans have been made in pengö currency at 7.5 per cent. interest with a further 1.5 per cent. for administrative costs.

In referring to the financial situation the Commissioner General draws attention to the fact that the weekly statement of the National Bank issued on April 30 last shows far greater changes than any other previous statement. The gold stock increased by 50 milliard of paper kronen, but the influx of foreign bills was so strong during the month that the decrease in the foreign bills caused by the gold purchases was considerably less than the value of the acquired gold. The metal stock of the Bank, which had been declining every week since the beginning of February, rose again during the last two weeks of April. But the ratio of cover fell to 54.7 per cent. on account of the decided increase in the note circulation. The effective note circulation rose to the highest point yet touched, since the bills portfolio for the first time exceeded 2,000 milliards of kronen as a result of an augmentation of 350 milliards. This extension of credits had several causes. In the first place, the complete centralisation of State monies in the National Bank was carried out in this month. This centralisation compelled the National Bank to draw money from the money market and occasioned a scarcity of cash for loan purposes. A second cause may be found in the fact that many important general meetings were held within a short period (on account of the necessity to issue the pengö balances by the end of April), thus making a heavy call upon the credit market in order to meet the distribution of dividends. In addition to these circumstances came the usual quarterly increase in the money requirements. The note circulation increased by 890 milliards in the last week of April, as against an augmentation of 650 milliards in the last week of April 1925. This rise may be regarded as of purely transitory character and gives no cause for modifying the view that, apart from seasonal fluctuations, the circulation has become stabilised at about 5,000 milliards.

The decrease of the national debt at the Bank by over 28 milliards as on April 30 deserves special attention. In order to effect this decrease an agreement was arrived at between the Government and the National Bank. At the time of the establishing of the National Bank the debt stood at approximately 2,000 milliards, for which the State had annually to pay 2.5 per cent. interest and 0.5 per cent. amortisation. The State's share of the profits has been applied towards the settlement of the debt. When the Bank purchased the new note printing press the shares in possession of the State were also applied towards a diminution of the debt. In this manner the State debt was reduced by over 50 milliard kronen during the first eighteen months of the Bank's activities. The new agreement aims at a further diminution of the debt by 1,000 milliards within a certain number of years, that is a half of the original amount, by means of reimbursements. It is expected that 310 milliards will be refunded within two years by the application of the State profits of the Mint to this purpose; 220 milliards within a short period through the arrangement made in connection with the liquidation of the Austrian-Hungarian Bank; 260 milliards by December 31, 1929, through the arrangement made in respect to the liquidation of the State note institute; and 160 milliards spread over ten years as from July 1, 1927, through the agreement arrived at regarding the manipulation of bills of exchange. From now on the State will pay only 1 per cent. interest per annum instead of the former 2.5 per cent. The present agreement between the Government and the National Bank may be welcomed as a further step towards the regulation of the currency; it brings the moment nearer when the national debt will be reduced to Kr.30 mill. and when the Bank may accordingly resort again to "cash payments."

A long-term agricultural loan was issued in April in New York to the extent of 5 mill. dollars at 7.5 per cent. interest, maturing February 1, 1961. The service of this loan demands 407,101 dollars, including the yearly amortisation quota. This loan brings the total of long-dated loans granted to Hungarian agriculture since the beginning of the year to about 10 mill. dollars.

The provisional returns of foreign trade during the first quarter of the present year, in comparison with the figures for the first three months last year, are as follows (in millions of gold kronen):—

	1925.			1926.		
	Imports.	Exports.	Difference.	Imports.	Exports.	Difference.
January	63.4	35.2	—28.2	53.3	53.4	+ 0.1
February	58.8	29.9	—28.9	62.7	50.3	—12.4
March	57.7	52.2	— 5.5	70.5	49.1	—21.4
Total	179.9	127.3	—52.6	186.5	152.8	—33.7

The heavy imports in March this year are surprising. During the past twenty-seven months there have been only five in which imports were higher than in March, and those months fell in the autumn when imports invariably rise. The most important items of importation were cotton and woollen cloth, cotton yarn and thread, timber and worked wood, and coal. Flour, which normally forms one of the main articles of exportation, fell off in March and was lower than in any month during the past two years. Eggs, on the other hand, showed up well and occupied the leading position among exports in March. There was a heavy adverse balance in this month, but the adverse balance for the quarter is a decided improvement on that of the first quarter last year. (Details of foreign trade in April are given below under "Trade.")

The prospects of this year's harvest are good, particularly in respect to autumn wheat, rye and barley. Railway and postal traffic shows a tendency to improve. The wholesale and cost of living indices have not changed of late to any appreciable extent. The number of bankruptcies and arrangements for the benefit of creditors in April was 264, against 278 in March, 347 in February and 359 in January.

FINANCE

Annual Reports of the Leading Banks.—The annual reports of the Hungarian banks reveal the fact that the banking world was affected by the general economic crisis from which Hungary suffered in common with many other countries last year. But, as M. Julius Szene points out in a recent issue of the *Pester Lloyd*, the results for the year may be regarded as relatively satisfactory.

The gross profits of ten of the leading banks of Budapest amounted to 45.21 mill. pengoes; the net profits to 12.49 millions. The ratio of the net to the gross profits fluctuated between 12.8 per cent. and 32.2 per cent. and gave an average of 21.6 per cent., the remaining 78.4 per cent. being written down to administrative costs, of which two-thirds were required for salaries and wages and one-third for charges and taxes, etc. This is a better result than that of the German banks, for which the average ratio of net to gross profits was only 12.2 per cent.

A further examination of the reports of the ten leading banks of Budapest shows that the aggregate home capital amounted to 222.48 mill. pengoes ; foreign capital to 522.09 mill. pengoes ; that is, the ratio of home capital to foreign capital was 30 : 70. The net profits represented 1.7 per cent. of the total and 5.6 per cent. of the home capital. The participation of home capital in Hungarian banking is relatively greater than the participation of German capital in the chief German banks. The comparatively favourable results of Hungarian banking are largely due to policy adopted by the respective managements in avoiding all possible risks and in following a programme of the strictest retrenchment in regard to general expenses, etc.

The following table, with the respective figures expressed in gold kronen, enables a comparison to be made between the various items in 1925 and 1913 (in millions of gold kronen) :—

The ten leading Budapest banks.	1913.	1925.
Home capital	722.51	186.88
Foreign capital	1,814.04	438.56
Gross profits	101.42	37.98
Net profits	70.59	10.50
Portion of 1913 property transferred = 25.87 per cent.		
	(In percentages.)	
Ratio of net to gross profits	69.6	21.6
Ratio of net profits to total capital...	2.8	1.7
Ratio of net profits to home capital	9.8	5.6

Industrial Credit.—A project has been launched for the founding of an issuing Institute for the purpose of assisting Hungarian industry by cheap and long-term credit. An arrangement is being made for the issue of 50 mill. pengö obligations, chiefly in New York and London. The capital of this Institute will amount to 10 mill. pengoes and will be half subscribed by the Hungarian central banks and half by various foreign financial groups. The different industries will be granted loans to the extent of 30 per cent. of their respective property. The rate of interest will be from 7½ per cent. to 8 per cent. The loan will be secured on the entire estate and property of the Institute, redeemable at any time by the re-purchase of the bonds. (*Neue Zürcher Zeitung*, June 14.)

TRADE

Foreign Trade Returns for April.—According to the statement issued by the Central Statistical Bureau the value of goods imported into Hungary during the month of April last amounted to Kr.61.9 mill. (gold), whilst that of exported goods was Kr.43.6 mill. (gold). The adverse balance of foreign trade in April was therefore Kr.18.3 mill. (gold), bringing the adverse balance for the first four months of the present year to Kr.51.9 mill. (gold), as compared with Kr.58.6 mill. (gold) for the corresponding period of 1925. The commercial exchanges during the present year thus show a slight improvement on those of the earlier part of last year. The main articles of import and export in April are shown hereby :—

Imports.

	Quantity in metric cwts.	Value in thousands of gold kronen.	Percentage of total.
Cotton fabrics	8,253	7,144.2	11.55
Trunks and worked wood	1,400,847	5,661.3	9.15
Woollen fabrics	1,459	3,414.1	5.52
Raw tobacco	6,257	3,003.4	4.85
Coal	673,789	2,859.1	4.62
Cotton yarn and thread	5,142	2,711.7	4.38
Paper and paper goods	46,418	2,408.0	3.89
Machinery and tools	9,116	2,082.2	3.37
Raw metals	11,446	1,538.6	2.49
Mineral oils	103,816	1,331.2	2.15
Leather	884	1,177.8	1.90
Silk and half-silk	164	1,172.1	1.80
Woven goods and cotton	334	1,116.2	1.80
Ironmongery	6,435	1,100.4	1.78

Exports.

	Quantity in metric cwts.	Value in thousands of gold kronen.	Percentage of total.
Slaughter and draught cattle (head)	25,146	8,248.2	18.94
Wheat	232,421	6,982.6	16.01
Eggs	21,485	2,900.5	6.66
Flour	44,527	2,097.6	4.82
Rye	96,725	1,837.8	4.22
Pork fat and bacon	8,591	1,604.4	3.68
Maize	96,969	1,357.6	3.12
Electrical machinery and apparatus	3,470	1,174.6	2.70
Fresh and prepared meat, sausages, etc....	4,813	1,025.8	2.36
Machinery and tools	6,262	912.3	2.10
Ironmongery	11,308	844.8	1.94
Oats	38,646	695.6	1.60

(*Pester Lloyd*, June 6.)

It is now more than a year since the autonomous Customs tariff came into force which, it was supposed, would have the effect of entirely checking textile imports into Hungary, states the *Central European Observer* of June 4. According to statistics now published it is seen that the tariff has not had the anticipated effect. On the contrary, there has been an all-round increase. The comparative figures are (in millions of gold kronen) :—

	1924.	1925.
Raw materials	196.5	220.8
Semi-manufactured goods	157.3	154.9
Finished goods	349.0	364.0

COMMUNICATIONS

Railway Returns and New Tariff.—The Hungarian State Railways have published a statement of the results of the traffic on the railways for the nine-month period from July 1, 1925, to March 31, 1926. The total expenditure for this period amounted to Kr. 2,342,226,829,000, excluding the outlay of Kr. 137,117,149,000 for purposes of capital investment. The receipts from all sources totalled Kr.2,672,686,367,000. The volume of goods transported amounted in all to 1,263,896 truckloads, which represents an increase of 1.1 per cent. on the returns for the preceding financial year. Transports for this period represented 1,800,316,654 ton-kilometres, or an increase of 6 per cent. on the result of the preceding year.

The receipts of the Hungarian section of the Danube-Save-Adriatic Railway rose to Kr.203,261,000,000, against an expenditure of Kr.169,818,000,000. The goods traffic amounted to 125,749 truckloads, or 88,905,394 ton-kilometres, which figures represent respectively increases of 19.4 per cent. and 10.4 per cent. on the returns for the corresponding period of the preceding year. The payment of 2,343,750 gold francs in three equal instalments to the holders of Bonds of this railway is not included under the expenditure item. (*Neue Freie Presse.*)

As from July 1 of the present year the new railway rates for passenger and goods traffic come into force, the tariff being based on the pengö denomination. The freight charges for goods to be transported up to 100 kilometres have been modified to such a degree that they are practically on a level with the pre-war rates. The freight abatements have been graduated so that they are smaller with increased distances till they disappear entirely for a distance of 100 kilometres. The abatements are as follows : up to 8 kilometres, 20 per cent. to 46.7 per cent. ; for 25 kilometres, 14.3 per cent. to 28.2 per cent. ; for 50 kilometres, 5.3 per cent. to 15.9 per cent. ; for 75 kilometres, 3 per cent. to 5.7 per cent. These general freight modifications do not apply to the transport of foreign coal. But in order to ease the critical situation of the home coal and lignite industry and trade special reductions have been granted for the transport of home products over any distance. The reductions in this respect work out at the following averages : for 25 kilometres, 5 per cent. ; for 45 kilometres, 7 per cent. ; for 65 kilometres, 8 per cent. ;

or 85 kilometres, 9 per cent.; for 100 kilometres, 10 per cent.; for 125 kilometres, 12 per cent.; for 150 kilometres, 14 per cent.; for 200 kilometres, 15 per cent.; for 300 kilometres, 20 per cent.; for 500 kilometres, 25 per cent. The minimum transport distance has been altered from 8 to 5 kilometres. The transition to the pengö tariff offered an opportunity for the thorough revision of the passenger rates, with the result that the fares for travelling with the slow trains are now below the pre-war rates, while the fares for travelling per express train are slightly higher. (*Mitteleuropäische Wirtschaft*, June 19.)

YUGO-SLAVIA

POLITICAL AND GENERAL

The Economic Situation.—The Ministerial replies to certain questions asked in the Skupshtina on June 11 contained some interesting matter respecting the measures for alleviating the economic crisis in Yugo-Slavia. M. Ivan Poutzelj, Minister of Agriculture and Waterways, explained how the international situation and the financial movements had reacted upon the Yugo-Slav agricultural industry. During the past year there had been a general increase in the world agricultural production and an augmentation of the aggregate area under cultivation. The natural fall in the prices of wheat and maize had been accentuated in the case of Yugo-Slavia by the rise in the value of the dinar, which on the eve of the export campaign of 1924 stood at 6.50 at Zurich but which had risen to 9.05 by July 1925. The agricultural situation of Yugo-Slavia was rendered more difficult by the high prices of industrial materials required by agriculture. The farmers maintained that a plough which was worth two quintals of wheat before the war was now equivalent to four and a half quintals. The situation demanded an active agricultural policy and the Government was already giving its serious attention to the more urgent measures. The law on agricultural credit which was passed last year had not yet been integrally applied since the Budget for the financial year 1926–27 had not provided sufficient means for the establishment of all the institutions as set out by that law. These means had been assured only by later amendments, the application of which would shortly commence. He hoped that the present measures would materially assist the producers and diminish the costs of production. The Customs tariff on tools and agricultural accessories had been reduced, but so far no decision had been made in respect to agricultural machinery. The Tariff Committee had to date reduced the tariffs for wheat, maize and artificial manures by 15 per cent.

Dr. Ninko Perich, Minister of Finance, referred to the measures already taken to encourage production and to facilitate exports. These measures could be efficacious only if an agreement could be reached during the course of the commercial negotiations with foreign countries for the diminution of the Customs tariff for industrial articles and particularly for agricultural implements, so as to obtain in exchange facilities for exporting Yugo-Slav wheat. The majority of foreign countries had adopted a policy of agricultural protection. The commercial treaties with Italy and Austria led the way for improved trade by providing for considerable diminutions in the import duties on tools and agricultural accessories. The seriousness of the general situation was reflected in the course that had to be adopted in respect to the sugar industry. In order to satisfy the beet-growers and to absorb production during the 1924–25 sugar campaign the refineries manufactured 12,300 truckloads of sugar without regard to the question as to whether such production would pay. Exportation could, it was found, only be made at a loss. The refineries were compelled to form a trust and the two State refineries were obliged to join this combination. During the 1925–26 campaign the production of sugar amounted to 5,698 truckloads, but 3,100 truckloads of this total represented stocks on hand from the preceding year. An agreement had been reached in respect to selling prices, and by May 7, 1926, the consumption for the present period totalled 5,163. Should it be found that the operations of the trust were to the detriment of the general public the Government would take measures to remedy the evil.

In regard to railway tariffs, Dr. V. Yovanovich, Minister of Communications, admitted that the rates did not sufficiently take into account the present situation. He also mentioned that considerable efforts had to be made to reconstruct the general system. The Ministry of Communications was an autonomous body from a financial point of view and should itself find cover for all its requirements. With the funds of the Blair loan and the proceeds of the national loan of 7 per cent. it had been possible to construct 764 kilometres of new lines.

Questions were hereupon asked by certain members of the Skupshtina relative to the matter of the dissolution of the trusts. Dr. Krayach, Minister of Commerce and Industry, replied that his department was drafting a bill for the supervision of the trusts and this would soon be submitted to the Cabinet. (*Politika*, June 12.)

Several of the recent reports on the economic situation in Yugo-Slavia have been couched in rather pessimistic terms. The Laibach Chamber of Commerce, for instance, issued a report in the middle of June (published in the *Mitteleuropäische Wirtschaft*, *Neue Freie Presse*, June 26), the main conclusion of which is that, despite the favourable harvest prospects in Yugo-Slavia, there can scarcely be any hope of improvement in industry and commerce while the present conditions continue.

Taking a wider view of things and having a due regard for all the circumstances it seems to us that the situation may not be so serious as many would suppose. In judging the present state of affairs the fact is often ignored that Yugo-Slavia has passed through a period that may legitimately be regarded as abnormally favourable. The year 1920 marked the beginning of a period of unusual industrial prosperity and this was followed two years later by an agricultural boom. Such extraordinary favourable conditions as then existed could not be expected to last. The present situation, which is commonly termed a crisis, is really a movement towards more normal conditions and the task of the country is now to adjust itself to this normal state of affairs.

FINANCE

Agricultural Credit.—A thorough examination and explanation of agricultural credit as operating in Yugo-Slavia appears in the *Belgrade Economic and Financial Review*, Vol. III., No. 4, 1926, contributed by Dr. Lludevit Prohaska, Secretary of the Federation of Yugo-Slav Co-operative Unions. We submit hereby the main features of Dr. Prohaska's contribution.

The many years of effort on the part of public workers to obtain State credit for agriculture were crowned with success by the Agricultural Credit Act of June 12, 1925. This act was modelled on the French system of crediting agriculture by means of State assistance to co-operative societies. When agriculture lost its seemingly good "war conditions" there ensued crisis after crisis in the industry. First of all there returned the main agricultural crisis, which even before the war had become an almost constant feature. This was a crisis of cereal production, the grower not being able by the sale of his corn to cover the costs of production. The only way to have eased the situation would have been the establishment of co-operative corn warehouses, which would have done away with the middlemen and also have increased the value of the corn by better sorting and classifying. The foundation of these co-operative warehouses proved impossible because the co-operatives did and still do not possess sufficient liquid capital for investment. Foreseeing the cessation of war conditions and the likelihood of the appearance of a crisis of unprofitable corn production, the growers sought a solution in the production of industrial plants, especially of sugar beet and hemp. In 1924 there was a crisis in the sugar-growing industry and another crisis in hemp-growing in the following year. The growers were unable to assist themselves by erecting their own factories, since most of them are still in what is known as the investment period of their ownership, that is, the period of preparing their property for intensive production. During this period of most intensive capital expenditure agriculture has need of State credit assistance, chiefly for setting up the necessary co-operative warehouses and producing societies.

The new Agricultural Credit Act creates both direct and indirect connections with the State for the needs of co-operative agricultural production. The indirect method grants short and medium term credits to landowners who form themselves into co-operatives under the new Agricultural Credit Act. The peasant is thus assisted in the working of his land and is enabled the sooner to save money for investment in co-operative warehouses and producing societies. By the direct method mortgage loans are given not only to members of co-operatives but also to co-operative federations which existed before the Act was passed. The application of the direct method has been postponed for the time being. The State Mortgage Bank at Belgrade, which was originally intended for the supply of mortgage credit to agriculture, has developed its work in such a way that it serves almost exclusively for the supply of mortgage loans to town citizens and non-agricultural industries. Because of this, a regulation has been included in the new Agricultural Credit Act that funds derived from agricultural sources shall be gradually transferred to the Agricultural Credit Management, which will supply agriculture with mortgage loans under the new Credit Act. In the time intervening until the transfer is accomplished this capital shall serve solely for the supply of credit to agriculture and shall be included every year in the State Budget. As things are at present it is expected that the existing Co-operative Union will get at the most 15 per cent. of the credit at the disposal of the Agricultural Credit Management.

Position of Yugo-Slav Banks.—The *Revue Economique et Financière de Belgrade* has published a special supplement with its June issue (Vol. III., No. 5–6) containing the numerous individual items of all the Yugo-Slav banks that have their central office at Belgrade, as at December 31, 1924. We content ourselves with reproducing below the total sum of the various items. The number of banks that come under this survey is sixty; they were founded between 1870 and 1924.

Assets.	Dinars.
Cash: liquid...	84,330,357
transferred to the National Bank	12,664,510
Bills of exchange discount	588,882,060
Loans on securities ...	51,746,589
Current accounts	1,083,963,199
Real estate ...	236,764,867
Industrial enterprises	54,987,720
Stock in trade	6,946,573
Bonds, securities, etc.	183,082,388
Liquidation bank ...	1,932,041
Miscellaneous assets...	105,178,987

Liabilities.	Dinars.
Paid-up capital	480,357,296
Reserve fund	69,184,896
Other reserves	71,491,762
Deposits ...	408,307,710
Current accounts	1,129,956,102
Acceptances	12,711,343
Re-discounts	111,684,056
Miscellaneous liabilities	90,052,978

General Account.	Dinars.
Receipts	224,132,648
Expenditure	164,360,062
Profits	62,073,145

The dividends paid ranged from 60 per cent. to 5 per cent. Five concerns made no profits and twenty-one paid no dividends. The average rate of dividend for all the sixty banks was 9.35 per cent.

The annual report of the Federation of Banks in Yugo-Slavia, published in *Wirtschaftliche Nachrichten* under date June 25, contains among much other matter some information as to the situation of the home banks throughout the whole of the Kingdom. The profits of the banks were much the same as in 1924 and the average dividend paid was 10 per cent. Fifteen banks increased their capital during the year; nine establishments went into liquidation; and there were six new foundations with an aggregate capital of 7.5 mill. dinars. Three banks became insolvent. In the aggregate the home capital showed but a slight increase on that of the preceding year. The business in foreign bills was relatively quieter, being for the most part restricted to the requirements of the import and export trade. The mortgage business was very slack, since the credit conditions did not permit the granting of long term credits. Foreign capital still showed a certain reserve in respect to investments in Yugo-Slavia. Deposits, however, increased fairly considerably. The following figures are given respecting the situation of the banks in the different districts (in dinars):—

	Number of banks.	Cash.	Bills.	Debtors.	Share Capital.	Deposits.	Creditors and Re-discounts.	Profits.
Zagreb	32	275,228,773	715,318,323	4,001,158,504	614,368,585	2,759,208,120	2,124,191,488	97,049,808
Croatia and Slavonia	123	20,783,664	211,345,317	198,891,298	73,327,275	298,251,888	55,910,537	13,195,990
Sarajevo	18	54,192,035	210,511,353	691,737,008	160,010,000	229,592,737	585.201,268	22,851,051
Bosnia & Herzegovina	77	8,246,048	108,027,223	121,282,917	56,500,660	89,294,418	74,376,523	9,611,043
Vojvodina	93	43,375,391	408,786,190	391,385,426	100,926,511	620,974,983	145,322,626	18,252,368
Dalmatia	14	8,330,714	18,942,055	158,017,274	21,450,000	120,568,807	63,657,674	2,815,055
Slovenia	13	58,125,910	158,040,892	930,356,060	114,999,950	615,379,409	676,415,600	16,403,949

Yield of State Monopolies for the Financial Year 1925-26.—According to the figures recently issued by the Ministry of Finance and published in the *Official Journal* of June 25, the receipts obtained from the operation of the State monopolies in Yugo-Slavia during the financial year ended March 31, 1926. amounted to 2,503,019,400.52 dinars, as against the estimated sum of 2,315,600,000 dinars, the actual yield being therefore over 187.4 mill. dinars in excess of the Budget figure. The yield of the different sources of the monopoly revenue is given as follows, in comparison with the respective items in the Budget (in dinars):—

	Estimates.	Actual returns.
Tobacco ...	1,620,000,000	1,698,256,327.77
Salt	300,000,000	359,042,727.32
Petrol	130,000,000	153,152,147.88
Matches ...	162,600,000	143,546,114.20
Cigarette paper ...	100,000,000	141,288,974.65
Various ...	3,000,000	7,733,108.70
Total	2,315,600,000	2,503,019,400.52

Principal Clauses of the Washington Agreement.—The total amount of the Yugo-Slav debt to the United States, as fixed by the Washington Agreement signed on May 3, 1926, is 68,850,000 dollars, capital and interest. The rate of interest is set at 4.25 per cent. as prior to December 15, 1922, and at 3 per cent. as from that date to June 15, 1925. In order to make a round sum Yugo-Slavia has already paid 7,112.39 dollars. Yugo-Slavia agrees to remit to the United States 62 bonds representing the total amount of the debt. The maturity dates range from 1926 to 1987. The first bond of $200,000 matured on June 15 of the present year. Up to June 15, 1937, these bonds will not bear interest.

The bonds will be as follows: From 1926 to 1930, $200,000; in 1934, $300,000; in 1938, $400,000; in 1943, $604,000; in 1952, $801,000. The bonds will not exceed a million dollars till the year 1962, when they will figure at $1,018,000. The augmentation will then be progressive: in 1982, $2,026,000; the final bond being in 1987 (June 15) at 2,406,000 dollars. The first twelve years are exempted from interest, which will begin to apply as from June 15, 1937, at the following rates: 0.12 per cent. per annum till June 15, 1940; 0.50 per cent. per annum till 1954; 1 per cent. per annum till 1957; 2 per cent. per annum till 1960; and 3.5 per cent. per annum till the integral amortisation of the debt. The amount of interest for the last period 1987 will be $84,210. The payments are to be effected in gold dollars; but on notice being given 30 days before maturity the payment due may be effected in any State obligation issued subsequent to April 6, 1927, which will be admitted on its nominal value. As from 1937 notice of postponement must be given at least 90 days before maturity. According to Art. 7 of the Agreement, Yugo-Slavia is obliged to convert a portion or the whole of the debt into obligations negotiable on the market, at the request of the Secretary of State of the United States Treasury. Such issues may be avoided by settlement in advance of the date of maturity. (*Vreme*, May 31.)

TRADE

Exports January to May.—Yugo-Slav exports in April last totalled 536,480 tons and 172,134 pieces to the value of 812,818,735 dinars, or 74,119,012 gold dinars, this result being an increase of 215,644 tons (67.21 per cent.) and 153,137,616 dinars or 19,158,410 gold dinars (34.86 per cent.) on the returns for April 1925. The main articles of exportation were (in dinars): maize, 282,401,878; eggs, 85,318,428; building timber, 81,280,460; wheat, 61,244,847; fresh meat, 40,780,271; horned cattle, 28,220,400; minerals, 18,874,806; and swine, 15,805,400. Other categories of exports fell below the value of 15 mill. dinars.

The May exports figured at 564,783 tons to the value of 745,674,214 dinars, or 67,939,266 gold dinars, representing an increase of 115,947 tons and a decrease in value of 156,144,719 dinars (10.32 per cent.), as compared with the results of May 1925. The fall in the value of exports in May, as against the corresponding month last year, was due in the first place to the drop in the world prices for agricultural products and particularly in the price of maize. In May 1925 the quantity of maize exported was 193,870 tons to the value of 430,392,625 dinars, whilst in May this year 230,370 tons of maize were exported, but to the value of only 324,822,997 dinars. The main articles of exportation were (in dinars): Maize, 324,822,997; building timber, 87,240,520; eggs, 64,480,716; wheat, 51,132,924; oxen, 22,408,200; crude copper, 13,449,740; and wheaten flour, 13,037,106. Other articles of exportation fell in every single instance below the value of 13 mill. dinars. (*Trgovinski Glasnik*, May 30 and June 27.)

During the first five months of the present year the value of exports was 3,326,128,809 dinars, as against 3,834,981,589 dinars for the corresponding period of 1925. Comparing quantities of exports in the two periods it is noted that 2,214,304 tons were exported from January to May (inclusive) this year, as against 1,786,640 tons over the same period last year. There was thus an increase of 427,664 tons in the exports during this year's period; but the gold value of these exports fell from 320,640,594 gold dinars in the first five months last year to 303,565,592 gold dinars in the similar period this year, that is, a drop of 16.9 per cent. The increase in the volume of exports is a good sign. The decrease in the value of exports, in addition to being a result of the drop in the international prices of agricultural products, may also be attributed to the improvement in the rate of exchange, the difference being 8.57 per cent. Maize has maintained its position as the leading article of exportation. As from the beginning of the maize export season, that is, from November 1, 1925, to the end of May 1926, the total of maize exports has been 73,470 truckloads to the value of 1,047.9 mill. dinars, as compared with 72,614 truckloads to the value of 1,553.0 mill. dinars as from November 1, 1924, to May 31, 1925. (*Morgenblatt*, Zagreb, July 1.)

FOREIGN BANK RATES.

	Per cent.		Per cent.		Per cent.
Amsterdam	3½	Dublin	6	Prague	6
Athens	10	Geneva	3½	Reval	9
Belfast	6	Helsingfors	7½	Riga	8
Belgrade	6	Kovno	7	Rome	7
Berlin	6	Lisbon	9	Sofia	7
Brussels	7	Madrid	5	Stockholm	4½
Bucharest	6	Moscow	8	Tokyo	7.3
Budapest	7	New York	3½	Vienna	7½
Copenhagen	5	Oslo	5½	Warsaw	10
Danzig	7	Paris	6		

The official discount rates of the State Bank in Moscow for bills at two months is 8 per cent., for bills at four months 9 per cent. and for bills at six months 9½ per cent.

THE ECONOMIST'S BOOKSHELF.

COMMERCE AND FINANCE.

The History of Commerce. By T. G. WILLIAMS, M.A. (London: Sir Isaac Pitman & Sons, Ltd. Price, 7s. 6d. net.)

The Finance of Foreign Trade: a Practical Guide to the Operations of Banker and Merchant. By WILLIAM F. SPALDING. (London: Sir Isaac Pitman & Sons, Ltd. Price, 7s. 6d. net.)

The commercial activities and development of industrialised nations receive too little attention from historians. It is a long step from the first exchanges among barbaric tribes to the division of the map by trusts which control sufficient of the world's supply to be able to dictate the market price. The intervening period contains numerous milestones in the progress of human achievement. Various organisations have played their part and vanished. The great nations have conceived, operated and discarded numerous commercial policies. Captivated by the lure of gold or animated by love of adventure individuals have ventured on hazardous journeys and transplanted themselves to distant lands. Commercial motives lie behind the great voyages of discovery, the migrations of the peoples, the development of transport, numerous wars of conquest and endless political manoeuvrings. The history of commerce is the history of human labour and of human life. In attempting to describe these various activities in the small compass of 320 pages Mr. T. G. Williams sets himself a task which could be accomplished satisfactorily only by judicious selection, careful arrangement and admirable composition. Marvin has demonstrated that skilful handling can reduce a gigantic subject to small proportions without conveying to the reader an inadequate impression of the magnitude of events. But Mr. Williams has been weighed down by facts. His book demonstrates that they can be wearisome as well as stubborn.

After a pleasant introduction on the nature of exchange and its dependence upon communications, law and order, and a circulating medium the book descends to an almost chronological record of the main commercial happenings since Jacob sent his sons to purchase corn. The chronicling of events unaccompanied by an account of the circumstances which gave them birth and without adequate appreciation of their significance or consequences makes an uninteresting book. History no less than law requires understanding and interpretation.

The book contains the main facts of the commercial development of the leading nations. The facts are stated clearly and accurately. The commercial and colonial policies of various periods are explained briefly.

The rise of banking, the development of credit and the Bank Charter Act are mentioned. The inventions which preceded the industrial revolution occupy a few pages. The effect of policies on commercial organisation and on trade routes are discussed in the commonplace text book manner. One feels that the book contains nothing new. The author gives expression to no novel points of view. No doubt considerable industry was expended in the collection of material. When the fascinating nature of the subject is considered one cannot but regret that the story loses so much in the telling.

William F. Spalding has already established a well deserved reputation as a writer on banking and exchange. The Finance of Foreign Trade represents a further welcome contribution from his pen. In the course of 160 pages he examines every variety of method by which payment may be made for imports and exports. As Mr. Spalding possesses the peculiar gift of brief and lucid explanation and a racy style, the book represents at the same time a guide to the trader and a mine of information for the layman. Apart from this the work is well indexed and can be used for reference purposes.

The significance of the terms of payment is appreciated fully by those who are actively engaged in marketing. The seller for export considers the time and certainty of payment before quoting a price. Loss of interest is an item which must be calculated as well as freight and insurance and other charges. The various alternate ways of collecting payments from unknown persons or firms in foreign countries are clearly set out by Mr. Spalding. Where these firms are of doubtful financial standing similar care is necessitated. In these cases the banks act as intermediaries. In such operations the bank must be careful to safeguard its own interests in cases of defaults by its clients. Mr. Spalding explains the legal position and the various methods of procedure under circumstances which commonly arise.

Apart from general methods of payment and the principles operated by those who participate in the business, Mr. Spalding devotes some interesting chapters to the special methods of financing dealings with Central and South America and also with British India. The peculiar problems which arise in exchange dealings with countries whose currency is based on silver have of course been specially studied by him in an earlier work. In times of rapidly changing currency values a further banking problem is involved. The prudent trader will cover his forward transactions and leave speculation in currencies to the exchange bankers who diminish risk by covering both ways. Apart from this the margin for forward transactions can be widened if necessary.

The handling of subjects of the kind with which Mr. Spalding deals requires a rather unique method. The author must above all write clearly. To prevent misunderstanding, intricate and complicated methods of procedure must be reduced to the simplest terms. Its explanation must be followed up with a carefully chosen illustration which will leave no doubt in the reader's mind concerning the nature of the transaction. It will be seen at once that this demands both brevity and comprehensiveness. Any omission or lack of clearness detracts greatly from the value of such a work and would of course be readily seized on by keen eyed critics. In addition the subject matters handled are not of themselves of special interest. The author's style therefore determines the extent of his audience. Few people can persevere with such a subject unless it is well written and arranged. Mr. Spalding need have no fears in this respect. The book is certain to command widespread appreciation not only in the narrow circles interested in export and import trade, but amongst that numerous band of readers who welcome an accurate and readable portrayal of transactions which from their very intricacy stimulate both interest and curiosity.

D. M. SANDRAL.

PUBLICATIONS RECEIVED.

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The Finance of Foreign Trade: a Practical Guide to the Operations of Banker and Merchant. By William F. Spalding, Fellow of the Institute of Bankers and Royal Economic Society, etc. (London: Sir Isaac Pitman & Sons, Ltd. Price, 7s. 6d. net.)

The History of Commerce. By T. G. Williams, M.A., F.R.Hist.S., F.R.Econ.S. (London: Sir Isaac Pitman & Sons, Ltd. Price, 5s. net.)

Walther Rathenau: Briefe. Vols. I. and II. (Dresden: Carl Reissner.)

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 Commodities.	Bd. of Tde. Monthly Average.	Date.	10 Commodities.	Bd. of Tde. Monthly Average.	Date.	10 Commodities.	Bd. of Tde. Monthly Average.	Date.	10 Commodities.	Bd. of Tde. Monthly Average.
1920.											
Jan. 16	367.9	296.6	1923.								
May 14	391.2	325.5	Jan. 12	162.8	157.0	Apr. 18	177.5	164.7	July 17	160.3	157.5
July 16	418.8	316.9	Feb. 16	177.2	157.5	May 16	171.2	163.7	Aug. 14	158.6	157.0
Dec. 17	257.0	263.8	Mar. 16	192.4	160.3	June 20	167.8	162.6	Sept. 18	158.3	156.0
1921.			Apr. 20	198.5	162.0	July 18	167.1	162.6	Oct. 16	154.1	154.8
Jan. 14	244.2	245.9	May 18	198.1	159.8	Aug. 15	175.3	165.2	Nov. 13	153.2	153.7
Apr. 15	202.8	204.8	June 15	190.0	159.3	Sept. 19	167.9	166.9	Dec. 18	153.0	153.2
July 15	194.4	194.1	July 20	177.3	156.5	Oct. 17	172.5	170.2	1926.		
Oct. 14	170.2	180.7	Aug. 17	174.6	154.5	Nov. 14	173.3	169.8	Jan. 15	151.6	151.3
Dec 16	153.2	167.9	Sept. 14	173.2	157.8	Dec. 12	171.7	170.1	Feb. 12	148.4	148.8
Dec. 30	150.0		Oct. 19	166.0	158.1	1925.			Mar. 12	146.1	144.4
1922.			Nov. 16	171.7	160.8	Jan. 16	174.8	171.0	April 16	148.1	143.6
Jan. 20	144.0	164.0	Dec. 14	177.0	163.4	Feb. 13	175.2	168.9	May 21	150.2	144.9
May 19	162.1	160.6	1924.			Mar. 13	172.8	166.3	June 18	151.7	
July 14	165.1	160.3	Jan. 18	178.6	165.4	April 17	161.9	162.5	,, 25	152.1	
Sept. 15	161.2	154.3	Feb. 15	187.9	167.0	May 15	158.7	159.0	July 2	150.9	
Dec. 15	161.2	155.8	Mar. 14	182.1	165.4	June 19	160.6	157.6	,, 9	152.0	

TABLE II.

Date.	Pig iron.	Tin.	Coal.	Linseed Oil.	Cotton.	Wool.	Hides.	Wheat.	Bacon.	Sugar.	Mean.	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
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
Oct. 30 ...	74.5	171.2	59.4	131.6	90.7	115.6	108.7	97.2	94.9	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
Mar. 26 ...	72.2	165.7	60.4	108.8	87.7	102.2	92.8	108.3	97.1	72.9	96.81	... Mar. 26
June 18 ...	73.6	163.6	60.4†	121.1	83.5	109.4	89.9	127.3	105.1	77.6	101.15	... June 18
,, 25 ...	75.5	164.3	60.4†	120.2	83.4	109.4	92.8	128.1	102.2	77.6	101.39	... ,, 25
July 2 ...	77.8	164.6	60.4†	120.2	81.5	100.0	94.2	128.1	100.4	78.8	100.60	... July 2
,, 9 ...	77.8	165.7	60.4†	120.2	82.1	100.0	95.7	130.4	101.5	79.4	101.32	... ,, 9

†Nominal. *Revised Quotation.

SECURITY PRICES.

The following table shows 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	Industrials.	Bonds.*	Industrials.	Gilt edged.	Week ending	Industrials.	Bonds.*	Industrials.	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	*91.1*	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*	Dec. 19	188.9	103.3	130.6	112.8
1923, Jan. 1	121.7	102.5	119.5	113.3	**1926,** Jan. 2	195.5	103.6	133.3	113.0
Mar. 17	**129.2**	98.5	129.3	117.0	,, 9	196.1	103.6	**135.1**	113.1
,, 24	127.3	*97.8*	129.0	118.1	Feb. 13	**199.9**	104.9	132.0	114.8
Apr. 28	124.1	99.3	**137.9**	122.8	Apr. 17	168.7	106.9	121.8	113.3
June 9	119.7	100.8	130.6	**123.5**	May 1	176.8	107.6	122.6	114.7
Oct. 27	*105.7*	99.7	126.5	119.7	,, 8	172.9	107.2	119.5	112.5
1924, Jan. 1	117.4	98.4	121.3	114.5	June 25	185.8	106.9	125.8	113.7
,, 19	119.1	100.1	119.1	*112.2*	July 3	190.1	106.4	125.0	**113.7**
June 21	115.3	103.3	*118.2*	118.0	,, 10	191.2	106.4	124.8	**113.7**
Nov. 8	130.1	103.7	133.7	**120.4**					

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

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